

**Three Springs Metropolitan District No. 4
Durango, Colorado
Financial Statements
December 31, 2023**

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Table of Contents

	Page
Independent Auditors' Report	1 – 3
Management's Discussion and Analysis	4 – 7
Fund Financial Statements / Government-wide Financial Statements	
Balance Sheet/Statement of Net Position – Governmental Funds	8
Statement of Revenues, Expenditures and Changes in Fund Balance / Statement of Activities – Governmental Funds	9
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	10
Notes to Financial Statements	11 - 20
Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service Fund	21

Independent Auditors' Report

Board of Directors
Three Springs Metropolitan District No. 4
Durango, Colorado

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund, of the Three Springs Metropolitan District No. 4 (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 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 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 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 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The 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 financial statements. The supplementary 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 financial statements or to 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 supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Tatton and Company, LLC

Cedaredge, CO
August 15, 2024

Three Springs Metropolitan District No. 4

Management's Discussion and Analysis
December 31, 2023

As management of the Three Springs Metropolitan District No. 4 (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2023.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. The District is a special-purpose government, quasi-municipal corporation, and political subdivision of the State of Colorado engaged in a single governmental program and as such the fund financial statements and the government-wide statements have been combined using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statement.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The Statement of Net Position presents information on all the District's assets, liabilities, deferred outflows of resources and deferred inflows of resources with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

The governmental activity of the District is primarily as a revenue collecting entity to collect property taxes and pay debt. The District does not operate any business-type activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District currently has a General fund and a Debt Service fund, both of which are governmental funds.

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

Overview of the Financial Statements (continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both expenditures and changes in fund balance/net position provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 11 through 20 of this report.

Supplementary Information. Supplementary information is contained on page 21 and provides additional insight into how the District's actual operations compared to the budgeted operations.

Budgetary Information. Budgetary information is included on pages 10 and 21 and provides additional insight into how the District's actual operations compared to the budgeted operations and also provides information on the District's assessed value and property taxes levied.

Government-wide Financial Analysis. The District's primary source of revenue is property taxes. Property taxes levied by the District in 2022 are payable by property owners in 2023.

The following tables show the District's condensed Statement of Net Position and Condensed Statement of Activities for 2023 with comparative numbers for 2022.

Three Springs Metropolitan District No. 4 - Net Position

	<u>2023</u>	<u>2022</u>
Assets		
Cash and investments	\$13,215	\$14,319
Other current assets	<u>186,944</u>	<u>140,300</u>
Total assets	<u><u>\$200,159</u></u>	<u><u>\$154,619</u></u>
Liabilities		
Due to Three Springs Metropolitan District No. 3	\$4,261	\$4,000
Bond interest payable	4,804	4,805
Bonds payable-2020A Bonds	<u>1,863,163</u>	<u>1,896,349</u>
Total liabilities	<u>1,872,228</u>	<u>1,905,154</u>
Deferred inflows of resources		
Deferred property taxes	<u>185,677</u>	<u>140,300</u>
Total deferred inflows of resources	<u>185,677</u>	<u>140,300</u>
Net position		
Restricted for emergencies	13	13
Restricted for debt service	6,745	10,274
Unrestricted	<u>(1,864,505)</u>	<u>(1,901,122)</u>
Total net position	<u><u>(\$1,857,747)</u></u>	<u><u>(\$1,890,835)</u></u>

Overview of the Financial Statements (continued)

Three Springs Metropolitan District No. 4 - Change in Net Position

	2023	2022
Revenues:		
General revenues		
Interest income	\$667	\$452
Property and specific ownership tax revenues	154,790	158,112
Total revenues	155,457	158,564
Expenses:		
General government	4,282	3,943
Trustee fees	7,455	9,723
Bond interest expense	57,649	57,649
Transfer to District No 3 - property taxes	11,555	13,825
Transfer to District No 3 - debt retirement	41,428	111,896
Total expenses	122,369	197,036
Change in net position	33,088	(38,472)
Net position - beginning	(1,890,835)	(1,852,363)
Net position - ending	(\$1,857,747)	(\$1,890,835)

The District's overall financial position, as measured by net position, increased by \$33,088 from 2022. In December 2020, the District issued the Limited Tax (Convertible to Unlimited Tax) General Obligation Refunding Bonds Series 2020A with an authorized principal amount of \$3,600,000. As of December 31, 2023, the District had drawn \$1,896,349. Prior to issuance of this debt, the District transferred all property tax collections to District No. 3. With the issuance of these bonds, property taxes collected for debt service will now be kept by the District to service its own debt. Property taxes collected for operations will continue to be transferred to District No. 3 leaving a net position sufficient to insure compliance with the Article X, Section 20 of the State constitution (Tabor Act) and a reserve for contingencies.

Financial Analysis of the District's Funds

As noted previously, the District uses governmental fund accounting to ensure and demonstrate the compliance with finance-related legal requirements.

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

The District's Debt Service fund balance decreased by \$3,529 from the prior year. This was a result of required debt service payments.

Overview of the Financial Statements (continued)

Budget Variances. There were unanticipated debt service activities requiring budget amendments during 2023.

Request for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Tim Zink, President Three Springs Metropolitan District No. 4, 65 Mercado Street, Suite 250, Durango, CO 81301, tzink@sugf.com.

**Three Springs Metropolitan District No. 4
Balance Sheet/Statement of Net Position
December 31, 2023**

	General	Debt Service	Total	Adjustments	Statement of Net Position
Asset					
Current assets					
Cash and investments	\$7,609	\$5,460	\$13,069	\$0	\$13,069
Cash with county treasurer	128	1,139	1,267	-	1,267
Restricted cash	-	146	146	-	146
Property taxes receivable	18,567	167,110	185,677	-	185,677
Total assets	<u>\$26,304</u>	<u>\$173,855</u>	<u>\$200,159</u>	<u>\$0</u>	<u>\$200,159</u>
		-			
Liabilities					
Current liabilities					
Accrued Payables	\$4,261		\$4,261	\$0	\$4,261
Bond interest payable	-	-	-	4,804	4,804
Bonds payable-current	-	-	-	37,927	37,927
Other long-term liabilities					
Bonds payable-2020A Bonds	-	-	-	1,825,236	1,825,236
Total liabilities	<u>4,261</u>	<u>-</u>	<u>4,261</u>	<u>1,867,967</u>	<u>1,872,228</u>
Deferred inflows of resources					
Deferred revenue-property taxes	18,567	167,110	185,677	-	185,677
Total deferred inflows of resources	<u>18,567</u>	<u>167,110</u>	<u>185,677</u>	<u>-</u>	<u>185,677</u>
Total liabilities and deferred inflows of resources	<u>22,828</u>	<u>167,110</u>	<u>189,938</u>	<u>1,867,967</u>	<u>2,057,905</u>
Fund balance/net position					
Reserved for					
Emergencies	13	-	13	(13)	-
Debt service	-	6,745	6,745	(6,745)	-
Unassigned	3,463	-	3,463	(3,463)	-
Total fund balances	<u>3,476</u>	<u>6,745</u>	<u>10,221</u>	<u>(10,221)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$26,304</u>	<u>\$173,855</u>	<u>\$200,159</u>		
Net position					
Restricted for					
Emergencies				13	13
Debt service				6,745	6,745
Unrestricted				(1,864,505)	(1,864,505)
Total net position				<u>(\$1,857,747)</u>	<u>(\$1,857,747)</u>

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

**Three Springs Metropolitan District No. 4
Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balances/Statement of Activities
For the year ended December 31, 2023**

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/expenses					
General government					
Bank fees	\$73	\$0	\$73	\$0	\$73
Treasurer fees	421	3,788	4,209	-	4,209
Trustee fees	-	7,455	7,455	-	7,455
Debt service					
Bond principal expense	-	33,186	33,186	(33,186)	-
Bond interest expense	-	57,649	57,649	-	57,649
Transfer to District No 3 - property taxes	11,555	-	11,555	-	11,555
	<u>12,049</u>	<u>102,078</u>	<u>114,127</u>	<u>(33,186)</u>	<u>80,941</u>
General revenues					
Interest income	-	667	667	-	667
Current Tax assesment revenue	14,030	126,270	140,300	-	140,300
Specific Ownership tax revenue	1,450	13,040	14,490	-	14,490
	<u>15,480</u>	<u>139,977</u>	<u>155,457</u>	<u>-</u>	<u>155,457</u>
	3,431	37,899	41,330	33,186	74,516
Other financing sources					
Transfer to District No 3-debt retirement	-	(41,428)	(41,428)	-	(41,428)
	<u>-</u>	<u>(41,428)</u>	<u>(41,428)</u>	<u>-</u>	<u>(41,428)</u>
	3,431	(3,529)	(98)	98	-
Change in net position					
				33,088	33,088
Fund balance/net position – beginning of year	<u>45</u>	<u>10,274</u>	<u>10,319</u>	<u>(1,901,154)</u>	<u>(1,890,835)</u>
Fund balance/net position – December 31, 2023	<u>\$3,476</u>	<u>\$6,745</u>	<u>\$10,221</u>	<u>(\$1,867,968)</u>	<u>(\$1,857,747)</u>

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

**Three Springs Metropolitan District No. 4
Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual -
General Fund
For the year ended December 31, 2023**

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes	\$14,030	\$14,030	\$0
Specific ownership taxes		1,450	1,450
Total revenues	14,030	15,480	1,450
Expenditures			
General government			
Treasurers fees	421	421	-
Other	-	73	(73)
Transfer to Three Springs Metropolitan District No 3	13,609	11,555	2,054
Total expenditures	14,030	12,049	1,981
Excess (deficiency) of revenues over expenditures	-	3,431	3,431
Fund balance - beginning of year	45	45	-
Fund balance - December 31, 2023	\$45	\$3,476	\$3,431

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

Three Springs Metropolitan District No. 4
Notes to the Financial Statements
December 31, 2023

I. Summary of Significant Accounting Policies

Three Springs Metropolitan District No. 4 (the "District") was established in 2016 as a quasi-municipal corporation and political subdivision of the State of Colorado. The District was formed primarily as a taxing district to help fund the operations of Three Springs Metropolitan District No. 3 ("District No. 3") in the City of Durango, Colorado. Per an Inter-District Financing Agreement and an Inter-District Construction and Service Agreement the District assesses property taxes in its jurisdiction to repay long term obligations and transfer a portion of those collections to District No. 3 to fund operations and maintenance and the repayment of long term obligations.

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established by GAAP used by the District are discussed below.

a. Reporting Entity

The District is governed by an elected Board of five members which is responsible for setting policy, appointing administrative personnel and adopting an annual budget in accordance with the provisions of the Colorado Special District Act.

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.

The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide special financial benefits, to, or impose specific financial burdens on the District. Consideration is also given to other organizations which are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria discussed above, the District is not financially accountable for any other entity, nor is the District a component unit of any other government.

b. Government-wide and Fund Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The District is a special-purpose government engaged in a single governmental program and as such the fund financial statements and the government-wide statements have been combined using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statement.

Three Springs Metropolitan District No. 4
Notes to the Financial Statements
December 31, 2023

i. Government-wide Financial Statements

In the government-wide Statement of Net Position, the governmental activities columns are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported in two parts; restricted net position and unrestricted net position.

The government-wide focus is on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

ii. Fund Financial Statements

The financial transactions of the District are reported in two funds in the fund financial statements. Funds are accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, restricted fund balance, fund equity, revenues and expenditures/expenses. The fund focus is on current available resources and budget compliance.

The District reports the following governmental funds:

The General Fund accounts for all financial resources collected on behalf of and transferred to District No. 3.

The Debt Service Fund is used to account for the accumulation of financial resources to be used for the payment of general long-term debt principal, interest, and other related costs.

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 and prepaids) or are legally or contractually required to be maintained intact.

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 \$13 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund represents resources restricted for servicing the District's debt. A total of \$6,745 has been restricted for debt service.

Three Springs Metropolitan District No. 4
Notes to the Financial Statements
December 31, 2023

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 authority to.

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

For the classification of Governmental Fund balances, the District considers 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 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 of 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.

c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues, expenditures, or expenses are recognized in the accounts and reported in the financial statements. Financial statement presentation refers to classification of revenues by source and expenses by function.

Three Springs Metropolitan District No. 4
Notes to the Financial Statements
December 31, 2023

i. Long-term Economic Focus and Accrual Basis

Governmental-type activities in the government-wide financial statements use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

ii. Current Financial Focus and Modified Accrual Basis

The governmental fund financial statements use the current financial focus and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

iii. Financial Statement Presentation

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

d. Financial Statement Accounts

i. Cash and Cash Equivalents

Cash and cash equivalents are defined as deposits that can be withdrawn at any time without notice or penalty and investments with maturities of three months or less.

ii. Receivables

Receivables are reported net of any allowance for uncollectible accounts. No such allowance has been established as all receivables are deemed collectable.

iii. Property Taxes

Property taxes are assessed in one year as a lien on the property, but not collected by governmental entities until the subsequent year. In accordance with generally accepted accounting principles, the assessed but uncollected property taxes have been recorded as a deferred inflow and a receivable.

iv. Payables and Accrued Liabilities

Payables and accrued liabilities are defined as obligations arising out of the current period that are anticipated to be liquidated with currently available financial resources.

Three Springs Metropolitan District No. 4
Notes to the Financial Statements
December 31, 2023

v. 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 does not have any 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*, represent 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. It is deferred property taxes. Taxes levied in the current year are not collectible until the following year and are considered receivable in the current year. Accordingly, deferred property taxes are recognized as an inflow of resources in the period that the amounts are available.

vi. Uses of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expense during the reporting period. Actual results could differ from those estimates.

II. Reconciliation of Government-wide and Fund Financial Statements

- a.** The Balance Sheet/Statement of Net Position – Governmental Funds includes an adjustments column. The adjustments have the following elements:
 - i.** Capital improvements used in government activities are not financial resources and, therefore are not reported in the funds; and
 - ii.** Long-term liabilities such as bonds payable, developer advances, accrued developer advance interest and accrued bond interest payable are not due and payable in the current period and, therefore are not in the funds.

- b.** The Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities – Governmental Funds includes an adjustments column. The adjustments have the following elements:
 - i.** Governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method in the Statement of Activities;
 - ii.** Governmental funds report long-term debt payments as expenditures; however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long-term liabilities.

Three Springs Metropolitan District No. 4
Notes to the Financial Statements
December 31, 2023

III. Stewardship, Compliance, and Accountability

a. Budgetary Information

In the fall of each year, the District's Board of Directors formally adopts a budget with appropriations by fund for the ensuing year pursuant to the Colorado Local Budget Law. The budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles ("GAAP").

As required by Colorado statutes, the District followed the following time table in approving and enacting a budget for the ensuing years:

- i.** For the 2023 budget year, prior to August 25, 2022, the County Assessor sent to the District the certified assessed valuation of all taxable property within the District's boundaries. The County Assessor may change the assessed valuation on or before December 10, only once by a single notification to the District.
- ii.** On or before October 15, 2022, the District accountant submitted to the District's Board of Directors a recommended budget which detailed the necessary property taxes needed along with other available revenues to meet the District's operating requirements.
- iii.** A public hearing on the proposed budget and capital program was held by the Board no later than 45 days prior to the close of the fiscal year.
- iv.** Prior to December 15, 2022, the District computed and certified to the Directors of Three Springs Metropolitan District No. 4 the rate of levy that derived the necessary property taxes as computed in the proposed 2023 budget.
- v.** For the 2023 budget, the final budget and appropriating resolution was adopted prior to December 31, 2022.

After adoption of the budget resolution, the District may make the following changes: 1) it may transfer appropriated monies between funds or between spending agencies within a fund, as determined by the original appropriation level; 2) supplemental appropriations to the extent of revenues in excess of the amounts estimated in the budget; 3) emergency appropriations; and 4) reduction of appropriations for which originally estimated revenues are insufficient.

Taxes levied in one year are collected in the succeeding year. Thus, taxes certified in 2022 will be collected in 2023. Taxes are due on January 1st in the year of collection; however, they may be paid in either one installment (no later than April 30th) or two equal installments (not later than February 28th and June 15th) without interest or penalty. Taxes which are not paid within the prescribed time bear interest at the rate of one percent (1%) per month until paid. Unpaid amounts and the accrued interest thereon become delinquent on June 15th.

The level of control in the budget at which expenditures exceed appropriations is at the fund level. All appropriations lapse at year end. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control.

**Three Springs Metropolitan District No. 4
Notes to the Financial Statements
December 31, 2023**

For the year ended December 31, 2023, the District amended its Debt Service Fund expenditure budget from \$139,329 to \$143,506 for additional debt retirement.

b. TABOR Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding section 20; commonly known as the Taxpayer’s Bill of Rights (“TABOR”). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments. TABOR requires, with certain exceptions, advance voter approval of any new tax, tax rate increase, mill levy above that for the prior year, extension of any expiring tax, or tax policy changes directly causing a net tax revenue gain to any local government.

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for creations of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future fiscal years.

TABOR also requires local governments to establish an emergency reserve fund to be used for declared emergencies only. The reserve is calculated at 3% of fiscal year spending. Fiscal year spending excludes bonded debt service, expenditure of bond proceeds and enterprise spending. The District has reserved \$13, which is the approximate required reserve at December 31, 2023.

The District’s management believes that it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions, including the interpretation of how to compute fiscal year spending limits, will require judicial interpretation.

IV. Detailed Notes on All Funds

a. Deposits and Investments

i. Deposits

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. The eligible collateral is determined by the PDPA. The 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 Regulatory Commissions 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.

Cash at December 31, 2023 is:

Cash	\$13,069
Restricted Cash	146
	<hr/>
	\$13,215
	<hr/> <hr/>

Three Springs Metropolitan District No. 4
Notes to the Financial Statements
December 31, 2023

At December 31, 2023, the District's cash deposits had a carrying value of \$13,069 and a bank balance of \$13,069. Deposits up to \$250,000 are covered by Federal insurance and the balance is covered by marketable securities held by the bank.

ii. Investments

Investment Valuation

Certain investments are measured at fair value within the hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's investment is not required to be categorized within the fair value hierarchy. This investment's value is calculated using the net asset value method (NAV) per share.

As of December 31, 2023, the District had the following investments.

MSILF Treasury	<u><u>\$146</u></u>
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Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments, and entities such as the District, may invest which include:

1. Obligations of the United States and certain U.S. government agency securities
2. Certain international agency securities
3. General obligation and revenue bonds of U.S. local government entities
4. Banker's acceptances of certain banks
5. Commercial paper
6. Written repurchase agreements collateralized by certain authorized securities
7. Certain money market mutual funds
8. Guaranteed investment contracts
9. Local government investment pools

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

Morgan Stanley Institutional Liquidity Fund

The Morgan Stanley Institutional Liquidity Fund ("MSILF") is rated AAAM by Standard and Poor's and the maturity is weighted under 40 days. MSILF records its investments at fair value and the District records its investment in MSILF using the net asset value method. The fund is a money market fund with each share maintaining a value of \$1. The money market fund invests in high quality debt securities issued by the U.S. Government. At December 31, 2023, the District had \$146 invested in the MSILF held by a trustee.

**Three Springs Metropolitan District No. 4
Notes to the Financial Statements
December 31, 2023**

V. Long-term Debt

Property Tax Supported General Obligation Bonds

At the organizational elections, the District received approval for the issue of indebtedness and imposition of taxes for the payment thereof, for the purposes of financing or re-financing infrastructure in an additional amount of \$3,250,000 plus the original authorized amount of \$38,000,000 for the Three Springs Metropolitan Districts No. 1 thru 4 in total. The Service Plans of the Districts limit the aggregate debt of the Districts for funding of capital costs of improvements to \$41,250,000, unless approved in writing by the City Manager of the City of Durango. As of December 31, 2023, the District had no remaining voted debt authorization.

On December 11, 2020, the District issued Limited Tax (Convertible to Unlimited Tax) General Obligation Refunding Bonds Series 2020A in an amount up to \$3,600,000. The Series 2020A Bonds were issued for the purpose of refunding debt held by District No. 3. These bonds bear interest at 3.04% subject to a rate refix adjustment on December 1, 2025 and every five years after that. Interest is payable semiannually on June 1 and December 1, commencing June 1, 2021. The bonds fully mature on December 1, 2050. Under the indenture, property taxes and specific ownership taxes collected by the District are allocated to pay the required annual debt service.

Under the bondholder agreement, the District may draw up to \$3,600,000 for thirty six months after the initial closing which was December 11, 2020. As of December 31, 2023, the District had drawn a total of \$1,896,349 including an initial draw of \$1,100,000 on December 11, 2020, a draw of \$663,052 on December 31, 2020 and a draw of \$133,297 on October 29, 2021.

Additional draws are based on changes in assessed valuations in the District and resulting increases to property taxes.

The Series 2020A Bonds shall be Limited Mill Levy Debt until the date the Debt to Assessed Ratio is 50% or less, on which date the Series 2020A Bonds shall convert to Unlimited Mill Levy Debt.

The following is an analysis of changes in long-term debt for the period ended December 31, 2023:

	Balance January 1, 2023	Deletions	Balance December 31, 2023	Current Portion
Bonds, Series 2020A	\$1,896,349	\$33,186	\$1,863,163	\$37,927

**Three Springs Metropolitan District No. 4
Notes to the Financial Statements
December 31, 2023**

The following is a summary of annual and long-term debt principal and interest requirements for the Series 2020A bonds. This assumes an interest rate adjustment to 5.25% beginning December 1, 2025:

	Principal	Interest	Total
2024	\$37,927	\$56,640	\$94,567
2025	42,668	75,656	118,324
2026	42,668	93,585	136,253
2027	47,409	91,345	138,753
2028	47,409	88,856	136,265
2029-2033	260,748	405,949	666,697
2034-2038	331,861	329,787	661,648
2039-2043	407,715	235,207	642,922
2044-2048	455,124	122,955	578,078
2049-2050	189,635	14,934	204,569
	<u>\$1,863,163</u>	<u>\$1,514,912</u>	<u>\$3,378,075</u>

VI. Other Information

a. Colorado Special Districts Property and Liability Pool

The District is exposed to various risks and loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; or injuries to employees. The District is insured for such risks as a member of the Colorado Special Districts Property and Liability Pool ("Pool"). The Pool is an organization created by intergovernmental agreement to provide property and general liability, automobile physical damage and liability, public officials liability and boiler and machinery coverage to its members. The Pool provides coverage for property claims up to the values declared and liability coverage for claims up to \$1,000,000. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pools for liability, property and public official's 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 Pool members. Any excess funds which the Pool determines are not needed for the purpose of the Pool may be returned to the members pursuant to a distribution formula.

b. Intergovernmental Agreement

The District is a party to an intergovernmental agreement with Three Springs Metropolitan District #3 (District #3). Under this agreement, property tax revenues collected by the District are pledged to assist in the operations for District #3. During the year ended December 31, 2023, the District collected \$11,555 for District 3 which was designated for operations.

The intergovernmental agreement was amended December 9, 2020 with the issuance of the District's Series 2020A bonds. Under the amended agreement, property tax revenues previously pledged to debt service for District #3 will be retained by the District to service its own debt. The pledge to District #3 for operations still remains.

**Three Springs Metropolitan District No. 4
Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual -
Debt Service Fund
For the year ended December 31, 2023**

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Interest income	\$30	\$667	\$667	\$0
Property taxes	126,270	126,270	126,270	-
Specific ownership taxes	14,030	13,040	13,040	-
Total revenues	<u>140,330</u>	<u>139,977</u>	<u>139,977</u>	<u>\$0</u>
Expenditures				
General government				
Treasurers fees	3,788	3,788	3,788	-
Bond paying agent fees	6,000	7,455	7,455	-
Debt Service				
Bond principal	33,186	33,186	33,186	-
Bond interest expense	57,649	57,649	57,649	-
Transfer to District No 3 - debt retirement	38,705	41,428	41,428	-
Total expenditures	<u>139,328</u>	<u>143,506</u>	<u>143,506</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	1,002	(3,529)	(3,529)	-
Fund balance - beginning of year	<u>5,000</u>	<u>10,274</u>	<u>10,274</u>	<u>-</u>
Fund balance - December 31, 2023	<u><u>\$6,002</u></u>	<u><u>\$6,745</u></u>	<u><u>\$6,745</u></u>	<u><u>\$0</u></u>