



**PARACHUTE-BATTLEMENT MESA PARK & RECREATION DISTRICT
MANAGEMENT DISCUSSION & ANALYSIS: 2020 AUDIT**

This section of the Parachute Battlement Mesa Park & Recreation District (“PBMPRD” or the “District”) annual financial report presents our analysis of the District’s financial performance during the fiscal year ended December 31, 2020. Please read it in conjunction with the financial statements.

1. Financial Highlights

On January 1, 2016, the District assumed ownership, management, and financial control of the Battlement Mesa Golf Club (BMGC) and the Grand Valley Recreation Center (GVRC). Prior to these transfers the District provided activities and sports programs to the District.

The District has 5 Funds to comply with Governmental Accounting Standards Board for Fund reporting. These Funds consist of: (1) Community Park Fund, (2) Programs and Activities Fund, (3) Grand Valley Recreation Fund, (4) Battlement Mesa Golf Club Fund and (5) General Fund. The Board oversaw the PBM Trail Committee, whose budget was under the General Fund.

The District is *currently* in good financial health and there is no long-term debt. PBMPRD has enough in unrestricted funds to maintain operations for over one year. However, the District has aging infrastructure with the transfer of ownership of the golf course and recreation center; that in some instances has exceeded its life expectancy and will need ongoing capital replacement and improvement projects. The COVID pandemic has affected 2020 revenue due to closure of facilities for 3-4 months and reopening requirements that continue to impact revenue.

Of major concern is that oil and gas production is decreasing and may affect property tax revenue in the years ahead. The District has lost 51% of its property tax revenue since 2016 and user fees and memberships do not cover operating expenses.

The District held a TABOR election in May 2020 requesting an increase in property taxes to continue to operate and maintain the park and recreation district. The voters did not approve this tax increase of \$27 per year/per home value of \$100,000.

Since assuming operations, financial and management of BMGC and GVRC the District has spent approximately \$6,000,000 in capital expenditures & projects. In 2020 the District performed the following capital projects and/or made capital expenditures for a total of \$1,374,798:

- **BATTLEMENT MESA GOLF CLUB:** (\$1,304,369)
 - Golf Maintenance Equipment
 - Irrigation System: Front and Back Nine
- **DAISY DITCH WATER:** (\$1,662)
 - Meter and engineering
- **GRAND VALLEY RECREATION CENTER:** (\$68,767)
 - HVAC System
 - Pool Ceiling Fans
 - Grand Valley Room ceiling tile replacement

Due to the age of the facilities and equipment the District's assets continue to decrease in value due to depreciation of the assets. In 2020 the value of previous assets decreased by \$341,389 due to depreciation.

The District's net position increased by \$808,810, even with the decrease in property tax revenue. This is due to continually monitoring expenses and ensuring the District is run as efficiently as possible. Cash and Investments showed a decrease of \$232,262 due to funding for the golf course irrigation system.

Property tax revenue decreased from \$3,625,399 in 2016 to \$1,782,916 in 2020. Property taxes in 2019 were \$2,177,280 vs. \$1,782,916 in 2020; for a loss of \$394,904. Oil and gas property tax revenue comprises around 85% of the total tax revenue for the District. This loss of \$1,842,483 in property taxes (since the District assumed ownership of the golf course and rec center), or a 51% loss in property tax revenue, affects the District's ability to perform the extensive capital repairs and basic maintenance that is needed.

The Board of Directors strive to keep user fees for the Rec Center, Golf Course and programs at a price that is affordable to those in the District. Keeping these rates low for the community means that property tax revenue is required to maintain operations and limits the amount available for repairs, maintenance, capital projects and ongoing operations.

2. Overview of the Financial Statements

The annual report consists of three parts:

Management's Discussion and Analysis
Financial Statements
Supplementary Information

3. Required Financial Statements

The financial statement of net position provides information about the District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

Statement of Net Position

The statement of net position provides information about the nature and amounts of investments in resources (assets) and obligations to District creditors (liabilities). It also provides the basis for computing the rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

Statement of Revenues, Expenses and Changes in Net Position

This statement measures the results of the District's operations over the past year and may be used to determine profitability, credit worthiness, and whether the District has successfully recovered all its costs through its user fees, taxes, and other changes.

Statement of Cash Flows

The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the District's cash receipts and payments during the reporting period. This statement reports cash receipts, cash payments, and the net changes in cash resulting from operations, non-capital financing, capital related financing, and investing activities. It also provides answers to such questions as where the cash came from, how was cash used, and what was the change in cash balance during the reporting period.

4. Financial Analysis of The District

One of the most important questions asked about the District's finances is "Is the District as a whole better off or worse off as a result of this year's activities?" The statement of net position and statement of revenues, expenses, and changes in net position report information about the District's activities in a way that can help answer that question. These two statements report the net position of the District and the related change in these assets. The District's net position (the difference between assets and liabilities) is one way to measure financial health or financial position. Over time, increases in the District's net position, is one indicator that the District's financial health is improving. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, or changed governmental legislation.

5. Net Position

As part of our analysis, we provide a summary of the District's statement of net position:

Condensed Statement of Net Position (previously referred to as Balance Sheet)

	2020	2019	2020 - 2019 Change	
			\$	%
Current & Other Assets	\$6,114,293	\$6,772,561	-\$658,268	-9.7%
Capital Assets	\$8,343,368	\$7,207,220	\$1,136,148	15.8%
Total Assets	\$14,457,661	\$13,979,781	\$477,880	3.4%
Total Liabilities	\$137,512	\$ 73,538	\$63,974	87.0%
Deferred Inflow of Resources	\$1,782,916	\$2,177,820	-\$394,904	-18.1%
Net Position:				
Invested in capital assets net of related debt	\$8,343,368	\$7,207,220	\$1,136,148	15.8%
Restricted	\$93,300	\$104,000	-\$10,700	-10.3%
Unrestricted	\$4,100,565	\$4,417,203	-\$316,638	-7.2%
Total Net Position	\$12,537,233	\$11,728,423	\$808,810	6.9%

Current Assets decreased by 9.7% primarily due to using reserves to fund capital expenditures for the Battlement Mesa Golf Club irrigation system replacement in 2020. This investment increased Capital Assets by \$1,136,148 or 15.8%.

Total liabilities increased \$63,974 due to Accounts payable associated with the golf course irrigation system. The District has no long-term debt, and these short-term liabilities are paid off within a few months.

Although capital improvements of \$1,374,798 were made, depreciation expense decreased fixed assets by \$341,389. Restricted funds consist of the TABOR requirement to maintain 3% emergency reserves. Unrestricted funds decreased by \$316,638 due to current assets being applied to capital assets. The unrestricted funds can be utilized as needed and directed by the Board of Directors. In 2020 the District's Net Position improved by \$808,810 due in large part to capital improvements.

Deferred Inflow of Resources decreased \$394,904 as property assessed values decreased, thus effecting the property tax collected.

While the statement of net position shows the net position; the statement of revenue, expenses, and changes in net position answers as to the nature and sources of these changes.

The primary sources of income prior to 2016 were program and activities income and non-operating income (property taxes). With Grand Valley Recreation Center and Battlement Mesa Golf Club under the Park and Rec District umbrella, there are user fees and memberships that contribute to operating revenue.

Condensed Statement of Revenue, Expenses and Changes in Net Position
 (Previously referred to as Income Statement)

	<u>Gov't Funds</u>	<u>Proprietary Funds</u>	<u>All Funds</u>
Revenue			
Operating Revenue		\$753,884	\$753,884
Non-Operating Revenue	\$2,569,418	\$22,959	\$2,592,377
Total Revenues	\$2,569,418	\$776,843	\$3,346,261
Expenses			
Gov't Fund Expense	\$358,429		\$358,429
Operating Expense		\$1,849,348	\$1,849,348
Transfers Out	\$1,502,898		\$1,502,898
Capital Outlay		\$1,585,384	\$1,585,384
Total Expenses	\$1,861,327	\$3,434,732	\$5,296,059
Income/Loss before Transfers	\$708,091	-\$2,657,889	-\$1,949,798
Transfers In		\$1,502,898	\$1,502,898
Net Income	\$708,091	-\$1,154,991	-\$446,900
GAAP Basis Adjustments:			
Capital Outlay		\$1,585,384	\$1,585,384
Depreciation		-\$341,389	-\$341,389
Net Income (GAAP Basis)	\$708,091	\$89,004	\$797,095
Beginning Balances (Adjusted)	\$2,981,479	\$8,758,659	\$11,740,138
Ending Balances	\$3,689,570	\$8,847,663	\$12,537,233

For Auditing purposes, the Governmental Fund contains the General Fund, Community Park Fund and the PBM Trail Fund. These funds are not considered Enterprise Funds/Proprietary Funds, which charge fees for services. The primary revenue for the Governmental Fund is property tax revenue. The General Fund is used to pay payroll taxes, insurance, employee medical benefits, employee retirement, treasurer's fees, office supplies, printing, postage, elections, management, accounting, legal, audit and sales tax collected.

The Proprietary Fund consists of those funds or activities that charge fees for service or usage; and receive only a part of their income from property tax revenue. The Funds included under the Proprietary (or Enterprise) Fund consist of the Grand Valley Recreation Center, Programs and Activities and the Battlement Mesa Golf Club.

As can be seen above the Proprietary funds only bring in \$753,884 in operating revenue and total expenses were \$1,849,348. Operating income only covers 40% of the operating expenses. The largest expense is approximately \$1,000,000 for payroll and benefits. Utilities and operating supplies cost close to \$450,000 with repairs and maintenance around \$350,000. Due to the age of the facilities repairs and maintenance will only increase in the future. The majority of employees are

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Management's Discussion and Analysis

part time and seasonal which saves in benefits. But with the increase in the hourly rate to \$12.32/hr. and the new State requirement that part time and seasonal staff be paid 1-hour sick leave for every 30 hours worked, this added to the District's expenses.

Battlement Mesa Golf Course previously spent around \$100,000 annually for irrigation repairs and supplies and for 2 employees to daily manually water sections of the course due to a lack of irrigation lines in some areas of the course. Sections of the previous irrigation pipes were corroded and leaked. For these reasons it was imperative to approve the irrigation system capital project at the cost of \$2,168,000 which will be completed by summer of 2021.

The District applied for Covid Relief Funds through the Division of Local Government and received \$202,000 in 2020. The District plans to continue to submit requests for reimbursement through 2021, when the grant program ends. Garfield County Federal and Mineral Lease District contributed \$5,000 toward the installation of a new ceiling at the Rec Center.

Programs, primarily youth sports programs, continued to cost the district \$104,452 in 2020. The total program income was \$3,685 which was in large part due to the COVID closures. However, even in good years the program income rarely exceeds \$40,000, with expenses around \$165,000. The Board understands this loss and believes it has an obligation to provide the youth of the District with these activities.

The Community Park which is open to the public at no charge cost the District \$63,000 for maintenance, utilities, trash removal and water. The District continues to pay for repairs due to vandalism and cameras have been approved for installation in 2021.

Battlement Mesa Golf Course revenue was \$611,933 with expenses of \$980,000. The cost for the ballfield and Skate and Dog Park are included under the golf course fund. The largest expenses were wages, repairs to the irrigation system (prior to installing the new irrigation system) and utilities.

Grand Valley Recreation Center raised rates in 2020 as the rec center and activities lost \$590,000 in 2019. However, due to COVID refunds were made to members for the closure of the Rec Center from March-June 2020 due to COVID. Total income for memberships and user fees were \$145,151, while expenditures were \$858,000. As with the golf course and programs, wages comprised the majority of expense at \$443,221. Building repairs and maintenance continue to contribute to the \$706,000 loss for 2020.

6. Budgetary Highlights

As required by state law, the District adopts a budget and appropriates funds by December 15 for the following fiscal year. If an amendment is necessary, the Board will approve a supplemental appropriation at a public hearing and file it with the State of Colorado.

7. Capital Assets and Debt Administration

Capital Assets

Capital Assets increased due to \$1,136,000 in capital projects that are referenced under Section 1: "Financial Highlights".

8. Long-Term Debt

The District has no long-term debt.

9. Economic Factors and New Year's Budget Rates

The District's Board of Directors and management consider many factors when setting the 2021 budget, including user fees and charges. The Board did not raise membership rates or fees in 2021 due to the economic impact to the patrons from COVID. The following table presents the changes in the District's budget from 2020 to 2021.

2021 vs. 2020 Budget

	<u>2021</u>	<u>2020</u>	<u>2020 – 2021 Change</u>	
			<u>\$</u>	<u>%</u>
Revenues				
Operating Revenues	\$784,178	\$1,013,950	-\$229,772	-22.6%
Non-Operating Revenues	\$2,051,115	\$3,030,120	-\$979,005	-32.3%
Transfers In	\$1,645,449	\$1,831,924	-\$186,475	-10.2%
Total Revenues	\$4,480,742	\$5,875,994	-\$1,395,252	-23.7%
Expenses				
Operating Expense	\$1,756,423	\$1,804,674	-\$48,251	-2.7%
G & A Expenses	\$367,725	\$435,428	-\$67,703	-15.5%
Non-operating Expenses	\$40,000	\$119,500	-\$79,500	-66.6%
Capital Outlays	\$1,155,000	\$1,510,000	-\$355,000	-23.5%
Total Expenses	\$3,319,148	\$3,869,602	-\$550,454	-14.2%
Change in Net Position	\$1,161,594	\$2,006,392	-\$844,798	-42.1%
Transfers Out	-\$1,645,449	-\$1,831,924	\$186,475	10.2%
Net Income	-\$483,855	\$174,468	-685,323	377.3%
Beginning Net Position	\$7,105,296	6,930,828	\$174,468	2.5%
Ending Net Position	\$6,621,411	\$7,105,296	-\$483,885	-6.8%

Budgeted Operating Revenues decreased by \$229,772 between 2020-2021 primarily due to the anticipation of the COVID restrictions continuing and affecting the Rec Center membership and usage. The Rec Center membership rates were raised in 2020 to \$204/adult annual membership rate; however there is still an anticipated loss of \$544,000 for the Rec Center fund. Non-Operating Revenue decreased due to a decrease in property taxes; primarily from oil and gas.

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Management's Discussion and Analysis

Transfers out of the Governmental Fund and transfers into Proprietary Fund consisted of property taxes needed to fund operations, cover payroll, and perform capital improvements. The transfer of \$1,645,449 budgeted in 2021 is in large part due to the irrigation system that will be completed in June 2021.

The District strives to keep user rates low for the community; however, the Board is aware that property tax revenue may decrease further due to changes in the Residential Assessment Rate and oil and gas production decreasing. This may require an increase in the mill levy and/or increase in user fees and membership rates in order to continue to provide programs and recreation to the District residents. However, the majority of property tax (85%) comes from oil and gas companies and not residential.

Operating expenses include Battlement Mesa Golf Club, Grand Valley Recreation Center and sports programs and activities, day-to-day operations; including wages, employee benefits, cost of goods sold, utilities, janitorial, repairs and maintenance, landscape maintenance, chemicals, and supplies. The majority of employees are hourly and with the minimum rate increase this has increased payroll expenses. Utilities are also increasing for water, sewer, electrical and gas. Maintenance of the Community Park has increased expenses due to landscape and equipment maintenance, trash, and water charges; and no revenue is generated for this facility.

The G&A budget includes advertising and promotion, computer, phone & internet services, property and liability insurance, workers compensation, management fees, accounting/finance, audit, legal fees, and contingency. 2020 was an election year which included a TABOR election, so G&A was higher than normal. Contingency of \$35,000 is included under General and Administrative expenses.

Non-Operating expenses include TABOR 3% emergency reserve and Garfield County Treasurer's Fees to collect and distribute property taxes.