

CROSS CREEK METROPOLITAN DISTRICT NO. 2

Financial Statements

Year Ended December 31, 2016

with

Independent Auditor's Report



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Cross Creek Metropolitan District No. 2
City of Aurora, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Cross Creek Metropolitan District No. 2, City of Aurora, Colorado, as of and for the year ended December 31, 2016, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Cross Creek Metropolitan District No. 2, City of Aurora, Colorado, as of December 31, 2016, and the respective changes in financial position and the respective budgetary comparisons for the General Fund and Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has not presented Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basis 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 opinion on the basis financial statements is not affected by the missing information

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements. The supplemental information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Watson Coon & Associates P.C.

Watson Coon & Associates P.C.

September 29, 2017
Greenwood Village, Colorado

CROSS CREEK METROPOLITAN DISTRICT NO. 2

BALANCE SHEET/STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Special Revenue</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Cash and investments	\$ 318,955	\$ -	\$ -	\$ 318,955	\$ -	\$ 318,955
Cash and investments - Restricted	2,036	575,417	49,669	627,122	-	627,122
Receivable - county treasurer	997	3,390	-	4,387	-	4,387
Property taxes receivable	178,465	594,882	-	773,347	-	773,347
Prepaid insurance	8,630	-	-	8,630	-	8,630
Accounts receivable - recreation fees	-	-	28,296	28,296	-	28,296
Capital assets net of depreciation	-	-	-	-	4,314,788	4,314,788
Total Assets	<u>\$ 509,083</u>	<u>\$ 1,173,689</u>	<u>\$ 77,965</u>	<u>\$ 1,760,737</u>	<u>4,314,788</u>	<u>6,075,525</u>
LIABILITIES						
Accounts payable	\$ 22,332	\$ -	\$ 10,321	\$ 32,653	-	32,653
Regional mill levy payable	-	68,520	-	68,520	-	68,520
Accrued interest	-	-	-	-	125,129	125,129
Long-term liabilities						
Due in more than one year	-	-	-	-	20,553,479	20,553,479
Total Liabilities	<u>22,332</u>	<u>68,520</u>	<u>10,321</u>	<u>101,173</u>	<u>20,678,608</u>	<u>20,779,781</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	<u>178,465</u>	<u>594,882</u>	<u>-</u>	<u>773,347</u>	<u>-</u>	<u>773,347</u>
Total Deferred Inflows of Resources	<u>178,465</u>	<u>594,882</u>	<u>-</u>	<u>773,347</u>	<u>-</u>	<u>773,347</u>
FUND BALANCE:						
Nonspendable:						
Prepays	8,630	-	-	8,630	(8,630)	-
Restricted:						
Emergencies	2,036	-	-	2,036	(2,036)	-
Debt service	-	510,287	-	510,287	(510,287)	-
Recreation and landscaping	-	-	67,644	67,644	(67,644)	-
Unassigned	<u>297,620</u>	<u>-</u>	<u>-</u>	<u>297,620</u>	<u>(297,620)</u>	<u>-</u>
Total Fund Balances	<u>308,286</u>	<u>510,287</u>	<u>67,644</u>	<u>886,217</u>	<u>(886,217)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 509,083</u>	<u>\$ 1,173,689</u>	<u>\$ 77,965</u>	<u>\$ 1,760,737</u>		
NET POSITION:						
Net investment in capital assets					(16,238,691)	(16,238,691)
Restricted for:						
Emergencies					2,036	2,036
Debt service					468,079	468,079
Recreation					67,644	67,644
Unrestricted					<u>(662,888)</u>	<u>223,329</u>
Total Net Position (Deficit)					<u>\$ (16,363,820)</u>	<u>\$ (15,477,603)</u>

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

CROSS CREEK METROPOLITAN DISTRICT NO. 2

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

For the Year Ended December 31, 2016

	<u>General</u>	Debt <u>Service</u>	Special <u>Revenue</u>	<u>Total</u>	<u>Adjustments</u>	Statement of <u>Activities</u>
EXPENDITURES						
Accounting and audit	\$ 16,530	\$ -	\$ -	\$ 16,530	\$ -	\$ 16,530
Insurance	9,510	-	-	9,510	-	9,510
Legal	54,995	-	-	54,995	-	54,995
Miscellaneous expenses	108	-	1,418	1,526	-	1,526
Water/sewer	-	-	83,437	83,437	-	83,437
Gas/Electric	-	-	17,059	17,059	-	17,059
Telephone	-	-	1,766	1,766	-	1,766
Snow removal - Recreation	-	-	13,545	13,545	-	13,545
Security	-	-	11,066	11,066	-	11,066
Repairs & Maint	-	-	3,952	3,952	-	3,952
G&A - Recreation	-	-	2,704	2,704	-	2,704
Management Fee - Recreation	-	-	28,205	28,205	-	28,205
Pool Service Repairs, and Supplies	-	-	56,144	56,144	(5,318)	50,826
Clubhouse expenses	-	-	11,328	11,328	-	11,328
Landscape Maintenance	-	-	102,160	102,160	-	102,160
Improvements	-	-	151,350	151,350	-	151,350
Treasurers fees	2,647	9,021	-	11,668	-	11,668
Paying agent/dissemination fees	-	3,500	-	3,500	-	3,500
Regional mill levy	-	12,526	-	12,526	-	12,526
Depreciation	-	-	-	-	64,380	64,380
Bond interest	-	506,500	-	506,500	-	506,500
Bond interest - subordinate bonds	-	-	-	-	400,000	400,000
Interest on developer advance	-	-	-	-	82,921	82,921
Total Expenditures	<u>83,790</u>	<u>531,547</u>	<u>484,134</u>	<u>1,099,471</u>	<u>541,983</u>	<u>1,641,454</u>
PROGRAM REVENUES						
Recreation fees	-	-	331,771	331,771	-	331,771
Total Program Revenues	-	-	331,771	331,771	-	331,771
Net Program Income (Expense)	(83,790)	(531,547)	(152,363)	(767,700)	(541,983)	(1,309,683)
GENERAL REVENUES						
Property taxes	176,483	589,631	-	766,114	-	766,114
Specific ownership taxes	16,410	42,768	-	59,178	-	59,178
Property taxes regional	-	11,793	-	11,793	-	11,793
Specific ownership taxes regional	-	910	-	910	-	910
Development fees	-	7,000	-	7,000	-	7,000
Interest income	-	2,860	-	2,860	-	2,860
Total General Revenues	<u>192,893</u>	<u>654,962</u>	<u>-</u>	<u>847,855</u>	<u>-</u>	<u>847,855</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	109,103	123,415	(152,363)	80,155	(541,983)	(461,828)
OTHER FINANCING SOURCES (USES)						
Transfer (to) from other funds	<u>(130,000)</u>	<u>-</u>	<u>130,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(130,000)</u>	<u>-</u>	<u>130,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES						
	(20,897)	123,415	(22,363)	80,155	(80,155)	
CHANGE IN NET POSITION						
					(461,828)	(461,828)
FUND BALANCE/NET POSITION						
BEGINNING OF YEAR	<u>329,183</u>	<u>386,872</u>	<u>90,007</u>	<u>806,062</u>	<u>(15,821,837)</u>	<u>(15,015,775)</u>
END OF YEAR	<u>\$ 308,286</u>	<u>\$ 510,287</u>	<u>\$ 67,644</u>	<u>\$ 886,217</u>	<u>\$ (16,363,820)</u>	<u>\$ (15,477,603)</u>

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

CROSS CREEK METROPOLITAN DISTRICT NO. 2

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

For the Year Ended December 31, 2016

	Original & Final		Variance
	<u>Budget</u>	<u>Actual</u>	Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 178,143	\$ 176,483	\$ (1,660)
Specific ownership taxes	<u>11,580</u>	<u>16,410</u>	<u>4,830</u>
 Total Revenues	 <u>189,723</u>	 <u>192,893</u>	 <u>3,170</u>
 EXPENDITURES			
Accounting and audit	15,000	16,530	(1,530)
Insurance	8,700	9,510	(810)
Legal	40,000	54,995	(14,995)
Miscellaneous expenses	32,000	108	31,892
Treasurers fees	2,672	2,647	25
Contingency	78,554	-	78,554
Emergency reserve	<u>2,951</u>	<u>-</u>	<u>2,951</u>
 Total Expenditures	 <u>179,877</u>	 <u>83,790</u>	 <u>96,087</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	 9,846	 109,103	 99,257
 OTHER FINANCING SOURCES (USES)			
Transfer (to) from other funds	<u>(50,000)</u>	<u>(130,000)</u>	<u>(80,000)</u>
 Total Other Financing Sources (Uses)	 <u>(50,000)</u>	 <u>(130,000)</u>	 <u>(80,000)</u>
 NET CHANGE IN FUND BALANCES	 (40,154)	 (20,897)	 19,257
 FUND BALANCE - BEGINNING OF YEAR	 <u>40,154</u>	 <u>329,183</u>	 <u>289,029</u>
 FUND BALANCE - END OF YEAR	 <u>\$ -</u>	 <u>\$ 308,286</u>	 <u>\$ 308,286</u>

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

CROSS CREEK METROPOLITAN DISTRICT NO. 2

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

For the Year Ended December 31, 2016

	Original and Final		Variance
	<u>Budget</u>	<u>Actual</u>	Favorable <u>(Unfavorable)</u>
REVENUES			
Recreation fees	\$ 274,773	\$ 331,771	\$ 56,998
Total Revenues	<u>274,773</u>	<u>331,771</u>	<u>56,998</u>
EXPENDITURES			
Water and Sewer	85,000	83,437	1,563
Gas/Electric	21,000	17,059	3,941
Telephone	2,200	1,766	434
Snow removal - Recreation	8,000	13,545	(5,545)
Security	4,500	11,066	(6,566)
Repairs & Maint	5,000	3,952	1,048
G&A - Recreation	3,000	2,704	296
Management Fee - Recreation	32,000	28,205	3,795
Miscellaneous expenses	500	1,418	(918)
Pool Service Repairs, and Supplies	57,000	56,144	856
Clubhouse expenses	18,800	11,328	7,472
Landscape Maintenance	95,000	102,160	(7,160)
Improvements	40,000	151,350	(111,350)
Emergency reserve	11,160	-	11,160
Contingency	<u>188,614</u>	<u>-</u>	<u>188,614</u>
Total Expenditures	<u>571,774</u>	<u>484,134</u>	<u>87,640</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(297,001)	(152,363)	144,638
OTHER FINANCING SOURCES (USES)			
Transfer from other funds	<u>50,000</u>	<u>130,000</u>	<u>80,000</u>
Total Other Financing Sources (Uses)	<u>50,000</u>	<u>130,000</u>	<u>80,000</u>
NET CHANGE IN FUND BALANCES	(247,001)	(22,363)	224,638
FUND BALANCE - BEGINNING OF YEAR	<u>247,001</u>	<u>90,007</u>	<u>(156,994)</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ 67,644</u>	<u>\$ 67,644</u>

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

CROSS CREEK METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Cross Creek Metropolitan District No. 2, located in the City of Aurora, Colorado, conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized on December 12, 2002 concurrently with Cross Creek Metropolitan District No. 1 (“District No. 1”), as a quasi-municipal organization established under the State of Colorado Special District Act. On August 6, 2004, an Amended and Restated Consolidated Service Plan for the District, District No. 1, and Cross Creek Metropolitan District No. 3 (“District No. 3”) was approved. The District was established to provide streets, water, wastewater services, park and recreation, and other improvements for the benefit of taxpayers and service users located within the District and District No. 1. On August 10, 2006, the Arapahoe County District Court approved the dissolution of District No. 3. The District's primary revenues are property taxes. The District is governed by an elected Board of Directors. On December 9, 2010, District No. 1 was dissolved and its assets, liabilities, and fund balance were transferred to the District and the District now serves as the Operating District.

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

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

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

CROSS CREEK METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

Basis of Presentation

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

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

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

CROSS CREEK METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

The District reports the following major governmental funds:

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

Debt Service Fund – The Debt Service Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for principal, interest and other debt related costs.

Special Revenue Fund – The Special Revenue Fund is used to account for the resources accumulated and payments made for the operation, and maintenance of the parks and recreational facilities of the District.

Intergovernmental Agreement

On November 3, 2004, the District, along with District No. 1 and District No. 3, entered into an Amended and Restated Intergovernmental Agreement with the City of Aurora, as required by the Amended and Restated Consolidated Service Plan. This was amended on January 26, 2009 to delete all references to District No. 3 which had been dissolved. Under this Agreement, the District must obtain the approval of the Aurora City Council prior to any inclusion of property outside of its “Service Area” (as such term is defined in the Service Plan) into the boundaries of the District, or any consolidation with any other special district. Prior to issuance of any privately placed debt, the District shall obtain a certificate from an External Financial Advisor certifying to the reasonableness of the interest rate and the structure. Pursuant to the agreement and the Amended and Restated Consolidated Service Plan, the Taxing District is required to levy a regional mill levy and to remit it to an Aurora Regional Improvement (“ARI”) Authority or to the City under certain circumstances.

On August 28, 2006, the District entered into the Aurora Regional Improvement Authority No. 1 Establishment Agreement whereby the Authority was formed for the purpose of planning, designing, constructing, installing, acquiring, relocating, redeveloping or financing regional improvements benefiting multiple districts. Operating costs are funded by the ARI mill levy revenues transferred from the contracting districts to the Authority. As the District receives the ARI mill levy revenue, the District is responsible for fulfilling obligations under the Agreement. As of December 31, 2016, the District had collected \$110,208 in regional mill levy revenues a portion of these revenues were used to make regional improvements. The balance being held by the District as of December 31, 2016 is \$68,520.

The Amended and Restated Consolidated Service Plan requires the Districts to dedicate the streets, water, storm drainage and sanitation improvements to the City of Aurora for ownership and maintenance. The District will own and maintain or contract with a homeowners association to operate the park and recreation improvements, including landscaping, parks, trails and detention ponds.

CROSS CREEK METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

Accounts Receivable – Recreation Fees

Accounts receivable – recreation fees represent fees due from homeowners which support maintenance of common areas within the District (See Note 5). All amounts are deemed collectible as such fees constitute a perpetual lien against the property served.

Budgetary Accounting

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

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2016 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

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

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

Estimates

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

CROSS CREEK METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2016

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 under this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Deferred property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized.

Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable, using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated.

As discussed in Note 1, the District has an Intergovernmental Agreement with the City of Aurora under which the District constructed various improvements within the District and upon completion has transferred the improvements to the City of Aurora. The District is maintaining the landscape and recreation center improvements.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Recreation center	30 years
Equipment	5 years

CROSS CREEK METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

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 to 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 in equal installments, at the taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

Long-Term Obligations

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

Fund Equity

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

Nonspendable Fund Balance

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

The nonspendable fund balance in the General Fund in the amount of \$8,630 represents prepaid expenditures.

Restricted Fund Balance

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

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$2,036 of the General Fund balance has been restricted in compliance with this requirement.

CROSS CREEK METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

The restricted fund balance in the Debt Service Fund in the amount of \$510,286 is restricted for the payment of the debt service costs associated with the Limited Tax General Obligation Refunding Bonds, Series 2006.

The restricted fund balance in the Special Revenue Fund in the amount of \$114,057 is restricted for the payment of the costs relating to the landscaping and recreation facilities.

Committed Fund Balance

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

Assigned Fund Balance

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

Unassigned Fund Balance

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

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

Net Position

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

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

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

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

CROSS CREEK METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2016

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

Note 2: Cash and Investments

As of December 31, 2016, cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and investments	\$ 318,955
Cash and investments – Restricted	<u>627,122</u>
Total	<u>\$ 946,077</u>

Cash and investments as of December 31, 2016 consist of the following:

Deposits with financial institutions	\$ 56,985
Investments – COLOTRUST	<u>889,092</u>
Total	<u>\$ 946,077</u>

Deposits

Custodial Credit Risk

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

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

Investments

Credit Risk

The District has not adopted a formal investment policy; however, the District follows state statutes regarding investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

CROSS CREEK METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2016

Custodial and Concentration of Credit Risk

None of the District's investments are subject to custodial or concentration of credit risk.

Interest Rate Risk

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

Investment Valuation

The District categorizes its fair value measurements within the fair value 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. Investments not measured at fair value and not categorized include governmental money market funds (PFM Funds Governmental Select series); money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee); and CSAFE which record their investments at amortized cost.

The District has the following recurring fair value measurements as of December 31, 2016:

<u>Investments</u>	<u>Maturity</u>	<u>Fair Value</u>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	\$ 889,092

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust (COLOTRUST) is rated AAAM by Standard & Poor's, the weighted average maturity is less than 60 days and is a Level 2 investment under the fair value hierarchy. COLOTRUST is an investment trust/joint ventures established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. COLOTRUST is an investment trust/joint ventures established for local government entities in Colorado to pool surplus funds. The trusts operate similarly to a money market fund with each share maintaining a value of \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. Designated custodian banks provide safekeeping and depository services to the trusts. Substantially all securities owned by the trusts are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians' internal records identify the investments owned by COLOTRUST. At December 31, 2016, the District had \$889,092 invested in COLOTRUST.

CROSS CREEK METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2016

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2016 follows:

<u>Governmental Type Activities:</u>	<u>Balance</u> <u>1/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2016</u>
<u>Capital assets not being depreciated:</u>				
Landscaping	\$ 3,210,482	\$ -	\$ -	\$ 3,210,482
depreciated:	3,210,482	-	-	3,210,482
<u>Capital assets being depreciated:</u>				
Recreation center	1,702,448	-	-	1,702,448
Equipment	45,615	5,318	-	50,933
Total capital assets:	1,748,063	5,318	-	1,753,381
Accumulated Depreciation	(584,695)	(64,380)	-	(649,075)
Net capital assets being depreciated:	1,163,368	(59,062)	-	1,104,306
Government type assets, net	<u>\$ 4,373,850</u>	<u>\$ (59,062)</u>	<u>\$ -</u>	<u>\$ 4,314,788</u>

Note 4: Long-Term Debt

A description of the long-term obligations as of December 31, 2016 is as follows:

Limited Tax General Obligation Refunding Bonds - Series 2006

On May 31, 2006, the District refunded the Series 2004 Bonds by issuing Limited Tax General Obligation Refunding Bonds, Series 2006 (Bonds) in the principal amount of \$10,710,000. The refunding resulted in a net present value savings to the District of \$265,300.

The Series 2006 Bonds were issued for the purpose of refunding the Series 2004 Bonds, financing the costs of designing, acquiring, installing, constructing, and equipping certain public infrastructure improvements for the master-planned residential community served by the District and paying the costs of issuances. Proceeds after refunding and paying the costs of issuance were transferred to District No. 1 for the payment of costs to develop infrastructure assets.

On July 1, 2012, the bondholders agreed to restructure the Bonds. Originally, the Bonds bore interest at the rate of 6.125%, payable semiannually on each June 1 and December 1, commencing on December 1, 2006. As part of the restructuring the interest rate was reduced to 3.5% from July, 1, 2012 to December 1, 2012 and to 5.0% from December 1, 2012 to December 1, 2017. The Bonds mature on December 1, 2037. Per the renegotiated terms the Bonds are subject to a mandatory sinking fund redemption commencing on December 1, 2020.

CROSS CREEK METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2016

The Bonds are subject to an early redemption, at the option of the District, in whole on any date, or in part on any interest payment date, commencing December 1, 2015 at the redemption price equal to 102% of the principal amount of each Series 2006 Bond or portion thereof redeemed, plus accrued interest. Beginning on December 1, 2020 the redemption price is equal to 100% of the principal amount of each Series 2006 Bond or portion thereof redeemed, plus accrued interest. The Bonds are secured by Pledged Revenues including (i) Property Taxes at a minimum mill levy of 50 mills, (ii) Development Fees (see Note 5), and (iii) Specific Ownership Taxes allocable to the payment of District debt service.

As required under the Trust Indenture, the developer maintained a Supplemental Reserve Fund (Reserve Fund) in the amount of \$1,000,000 to make up for any deficiencies in the Bond Fund relating to the timely payment of principal and interest on the Bonds. As of December 31, 2016 the balance remaining in the reserve fund is \$69,073.

The following is a summary of the annual long-term debt principal and interest requirements to maturity for the Series 2006 Bonds:

	Principal	Interest	Total
2017	\$ -	506,500	\$ 506,500
2018	-	620,463	620,463
2019	-	620,463	620,463
2020	40,000	620,463	660,463
2021	100,000	618,013	718,013
2022-2026	1,690,000	2,898,350	4,588,350
2027-2031	2,955,000	2,207,450	5,162,450
2032-2036	4,295,000	1,148,131	5,443,131
2037	1,050,000	64,313	1,114,313
	<u>\$ 10,130,000</u>	<u>9,304,146</u>	<u>\$ 19,434,146</u>

General Obligation Subordinate Bonds Series 2006

On May 31, 2006, the District issued General Obligation Subordinate Bonds Series 2006 (Subordinate Bonds) in the principal amount of \$5,000,000. The Subordinate Bonds mature on December 1, 2037 and bear interest at 8% per annum payable on December 15 of each year beginning December 15, 2006. As outlined in the First Supplemental Trust Indenture dated May 1, 2006, if such interest is not paid when due, it shall not create an event of default and it shall accrue to the next Subordinate Interest Payment date or the maturity date of the Subordinate Bonds. The Subordinate Bonds are subject to redemption prior to maturity at any time on and after such time as the principal amount of the outstanding Series 2006 Bonds is not more than 50% of the most recent certified assessed valuation of all taxable property located within the District. Accrued interest at December 31, 2016, on the Subordinate Bonds totaled \$4,238,889.

CROSS CREEK METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2016

Due to the uncertainty in the timing of the repayment of these bonds, no summary of annual long-term debt principal and interest requirements to maturity is shown.

Funding and Reimbursement Agreement

On March 5, 2003, the District entered into a Funding and Reimbursement Agreement with the Developer whereby the Developer agreed to loan District No. 1 up to \$500,000 for operations and maintenance expenses for the calendar years 2003 through 2007.

On December 21, 2007, District No. 1 entered into a new Funding and Reimbursement Agreement with the Developer whereby the developer agreed to loan the District funds not to exceed \$500,000 for operations and maintenance costs. These funds were available to District No.1 through December 31, 2008. Advances made under the original Funding and Reimbursement Agreement were reflected under this agreement. As of January 1, 2009, District No.1 entered into an amendment to this agreement whereby the amount available under this agreement was increased to \$770,383. As a result of the dissolution of District No. 1 in 2010 this repayment obligation was transferred to the District during 2010. At December 31, 2016, the outstanding balance of the repayment obligation totaled \$1,184,590. In addition, accrued interest at December 31, 2016 totaled \$82,921.

The following is an analysis of the changes in long-term debt for the period ending December 31, 2016:

	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016	Current Portion
Limited Tax G.O. Refunding Bonds - Series 2006	\$ 10,130,000	\$ -	\$ -	\$ 10,130,000	\$ -
G.O. Subordinate Bonds - Series 2006	5,000,000	-	-	5,000,000	-
Promissory note: Operations	1,107,093	77,497	-	1,184,590	-
	16,237,093	77,497	-	16,314,590	-
Accrued Interest - Subordinate Bonds	3,838,889	400,000	-	4,238,889	-
	<u>\$ 20,075,982</u>	<u>\$ 477,497</u>	<u>\$ -</u>	<u>\$ 20,553,479</u>	<u>\$ -</u>

Debt Authorization

In 2002, a majority of the qualified electors of the District who voted in the election authorized the issuance of general obligation indebtedness in an amount not to exceed \$154,400,000. The District has not budgeted to issue any new debt during 2017.

CROSS CREEK METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements

December 31, 2016

Note 5: Amended and Restated Fee Resolutions

On November 4, 2015, the Board of Directors of the District adopted a 2015 Amended and Restated Resolution Concerning the Imposition of an Operations Fee (the Resolution). Per the Resolution, the District established the Operations Fee to pay for the costs associated with the operation and maintenance of public facilities built within the boundaries of the District and other costs of the District, including but not limited to operations and maintenance of landscaping and common areas of the District.

A Recurring Payment becomes due and owing to the District on the first day of each month following the issuance of a certificate of occupancy. This Recurring Payment shall be imposed with the following rates: (1) \$51.45 per month per single-family detached residential dwelling units; (2) \$18.90 per month per single-family attached residential dwelling units, or (3) \$57.25 per month per Commercial Unit. Prior to the issuance of a certificate of occupancy, the Recurring Payment shall be imposed at one-half of the above amounts.

In addition, a Transfer Payment of \$250 per completed dwelling unit within the District is due and payable to the District at the time of sale or resale of any single or multiple family dwelling unit that has a certificate of occupancy.

On November 4, 2015, the Board of Directors of the District adopted a 2015 Amended and Restated Resolution Concerning the Imposition of a Capital Facilities Fee (the Capital Resolution). As a result of the Capital Resolution, single-family detached residences pay a one-time Residential Capital Facilities Fee in the amount of \$3,500, and all single-family attached residences in the amount of \$1,750. The fee will automatically increase by 1%, rounded to the nearest \$25, on January 1 of each year beginning January 1, 2005 and continuing until no dwelling units remain to be constructed within the District. The Residential Capital Facilities Fee is payable to the District on the earlier of 1) the date upon which a building permit is issued for such dwelling unit, or 2) the date of first transfer of the property for such dwelling unit. No Residential Capital Facilities Fees were assessed for attached residences during 2016.

A one-time Commercial Capital Facilities Fee was established for all commercial property within the District's boundaries in the amount of \$19,075 per acre of common property. The Commercial Capital Facilities Fee will automatically increase by 1%, rounded to the nearest \$25, on January 1 of each year beginning January 1, 2004 and continuing until no commercial development remains to be completed within the District. These Commercial Capital Facilities Fees become due and owing to the District no later than the date a building permit is obtained for construction on such commercial property. In 2015, the Commercial Capital Facilities Fee was \$21,250, although none were assessed during 2015. The Capital Resolution authorizes the District, at its sole discretion, to reduce or waive the Commercial Capital Facilities Fees due on non-exempt commercial property between May 31, 2012 and December 1, 2017.

CROSS CREEK METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

Note 6: Assignment Agreement

On December 7, 2016, the District and Aurora Cross Creek Owners Association, Inc, a Colorado nonprofit corporation (the "HOA") entered into an Assignment Agreement effective as of January 1, 2017 whereby the HOA delegated to the District the responsibility and all powers and authority necessary to provide various services to the Community for the term of this Agreement, and the District accepted all such delegated responsibilities, powers and authority to provide the Services. The services to be provided by the District include covenant enforcement and architectural control, collection of fees and charges, and the trash service agreement.

Note 7: Tax, Spending and Debt Limitations

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

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

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

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits, will require judicial interpretation.

Note 8: Risk Management

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

CROSS CREEK METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2016

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

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

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

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

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

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

SUPPLEMENTAL INFORMATION

CROSS CREEK METROPOLITAN DISTRICT NO. 2

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - DEBT SERVICE FUND

For the Year Ended December 31, 2016

	Original & Final		Variance
	<u>Budget</u>	<u>Actual</u>	Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 593,812	\$ 589,631	\$ (4,181)
Specific ownership taxes	41,568	42,768	1,200
Property taxes regional	11,876	11,793	(83)
Specific ownership taxes regional	831	910	79
Development fees	-	7,000	7,000
Interest income	-	2,860	2,860
	<u>648,087</u>	<u>654,962</u>	<u>6,875</u>
Total Revenues			
EXPENDITURES			
Bond interest	506,500	506,500	-
Paying agent/dissemination fees	5,500	3,500	2,000
Regional mill levy	12,529	12,526	3
Treasurers fees	9,085	9,021	64
	<u>533,614</u>	<u>531,547</u>	<u>2,067</u>
Total Expenditures			
NET CHANGE IN FUND BALANCES	114,473	123,415	8,942
FUND BALANCE - BEGINNING OF YEAR	<u>179,721</u>	<u>386,872</u>	<u>207,151</u>
FUND BALANCE - END OF YEAR	<u>\$ 294,194</u>	<u>\$ 510,287</u>	<u>\$ 216,093</u>

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