

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
Arapahoe County, Colorado

FINANCIAL STATEMENTS
December 31, 2016



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Independent Auditor's Report

Board of Directors
East Smoky Hill Metropolitan District No. 2
Arapahoe County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of East Smoky Hill Metropolitan District No. 2 (District) as of and for the year ended December 31, 2016, and the related notes to the financial statements 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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of East Smoky Hill Metropolitan District No. 2, as of December 31, 2016, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

Management has not presented the management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other 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 table of contents is presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary 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 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

The other information listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

SCHILLING & COMPANY, INC.

Highlands Ranch, Colorado
June 13, 2017

BASIC FINANCIAL STATEMENTS

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET POSITION
December 31, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 768,709
Cash and investments - Restricted	45,474
Receivable - County Treasurer	4,739
Property taxes receivable	847,292
Interest receivable	660
Total assets	<u>1,666,874</u>
DEFERRED OUTFLOWS OF RESOURCES	
Cost of bond refunding, net	<u>208,458</u>
Total deferred outflows of resources	<u>208,458</u>
LIABILITIES	
Accounts payable	77,868
Accrued interest payable	16,061
Noncurrent liabilities:	
Due within one year	430,000
Due in more than one year	5,886,532
Total liabilities	<u>6,410,461</u>
DEFERRED INFLOWS OF RESOURCES	
Property tax revenue	<u>847,292</u>
Total deferred inflows of resources	<u>847,292</u>
NET POSITION	
Restricted for:	
Emergency reserves	7,600
Debt service	21,813
Unrestricted	<u>(5,411,834)</u>
Total net position	<u>\$ (5,382,421)</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
STATEMENT OF ACTIVITIES
Year Ended December 31, 2016

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Changes in Net Position</u>
					<u>Governmental Activities</u>
Primary government:					
Governmental activities:					
General government	\$ 270,364	\$ -	\$ -	\$ -	\$ (270,364)
Interest on long-term debt and related costs	214,682	-	-	-	(214,682)
	<u>\$ 485,046</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(485,046)</u>
General revenues:					
Property taxes					846,847
Specific ownership taxes					64,909
Net investment income					5,899
Total general revenues					<u>917,655</u>
Change in net position					432,609
Net position - Beginning					<u>(5,815,030)</u>
Net position - Ending					<u>\$ (5,382,421)</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2016

	General	Debt Service	Total Governmental Funds
ASSETS			
Cash and investments	\$ 768,709	\$ -	\$ 768,709
Cash and investments - Restricted	7,600	37,874	45,474
Receivable - County Treasurer	4,739	-	4,739
Property taxes receivable	205,404	641,888	847,292
Interest receivable	660	-	660
TOTAL ASSETS	\$ 987,112	\$ 679,762	\$ 1,666,874
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 77,868	\$ -	\$ 77,868
Total liabilities	77,868	-	77,868
DEFERRED INFLOWS OF RESOURCES			
Property tax revenue	205,404	641,888	847,292
Total deferred inflows of resources	205,404	641,888	847,292
FUND BALANCES			
Restricted			
Emergency reserves	7,600	-	7,600
Debt service	-	37,874	37,874
Unassigned	696,240	-	696,240
Total fund balances	703,840	37,874	741,714
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 987,112	\$ 679,762	

Amounts reported for governmental activities in the statement of net position are different because:

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	
Bonds payable	(6,135,000)
Deferred cost of refunding, net	208,458
Original issue premium, net	(181,532)
Accrued bond interest payable	(16,061)
Net position of governmental activities	\$ (5,382,421)

These financial statements should be read only in connection with the accompanying notes to financial statements.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
REVENUES			
Property taxes	\$ 179,634	\$ 667,213	\$ 846,847
Specific ownership taxes	64,909	-	64,909
Net investment income	5,636	263	5,899
Total revenues	<u>250,179</u>	<u>667,476</u>	<u>917,655</u>
EXPENDITURES			
Current			
Accounting	16,215	-	16,215
Audit	4,200	-	4,200
County Treasurer's fees	2,702	10,006	12,708
Directors' fees	2,400	-	2,400
District management	21,690	-	21,690
Landscape maintenance	63,094	-	63,094
Legal	12,532	-	12,532
Insurance and bonds	3,033	-	3,033
Miscellaneous	1,249	-	1,249
SDA dues	338	-	338
Park improvement reimbursement	139,418	-	139,418
Debt service			
Bond principal	-	420,000	420,000
Bond interest	-	201,131	201,131
Paying agent fees	-	200	200
Total expenditures	<u>270,364</u>	<u>631,337</u>	<u>901,701</u>
NET CHANGE IN FUND BALANCES	(20,185)	36,139	15,954
FUND BALANCES - BEGINNING OF YEAR	724,025	1,735	725,760
FUND BALANCES - END OF YEAR	<u>\$ 703,840</u>	<u>\$ 37,874</u>	<u>\$ 741,714</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2016**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - Total governmental funds	\$	15,954
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The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Amortization of cost of bond refunding		(31,321)
Current year bond principal		420,000
Amortization of bond premium		27,276

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Accrued bond interest - Change in liability		700
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Changes in net position of governmental activities	\$	<u>432,609</u>
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These financial statements should be read only in connection with the accompanying notes to financial statements.

**EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2016**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Property taxes	\$ 179,604	\$ 179,634	\$ 30
Specific ownership taxes	67,740	64,909	(2,831)
Net investment income	3,900	5,636	1,736
Total revenues	<u>251,244</u>	<u>250,179</u>	<u>(1,065)</u>
EXPENDITURES			
Accounting	17,000	16,215	785
Audit	4,200	4,200	-
County Treasurer's fees	2,694	2,702	(8)
Directors' fees	2,500	2,400	100
District management	20,000	21,690	(1,690)
Election expense	3,000	3,302	(302)
Insurance and bonds	3,600	3,033	567
Landscape maintenance	24,048	63,094	(39,046)
Legal	3,000	12,532	(9,532)
Miscellaneous	2,000	1,249	751
SDA dues	400	338	62
Park improvement	200,000	139,418	60,582
Contingency	7,567	-	7,567
Payroll Taxes	191	191	-
Total expenditures	<u>290,200</u>	<u>270,364</u>	<u>19,836</u>
NET CHANGE IN FUND BALANCES	(38,956)	(20,185)	18,771
FUND BALANCES - BEGINNING OF YEAR	<u>726,823</u>	<u>724,025</u>	<u>(2,798)</u>
FUND BALANCES - END OF YEAR	<u>\$ 687,867</u>	<u>\$ 703,840</u>	<u>\$ 15,973</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 - DEFINITION OF REPORTING ENTITY

East Smoky Hill Metropolitan District No. 2 (District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by order and decree on November 23, 1994, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in Arapahoe County, Colorado. The District was established primarily to provide for the financing of the acquisition, construction, completion, installation and/or operation of street improvements, water, sanitation, safety protection, park and recreation and transportation services. The District has conveyed all facilities and improvements to Arapahoe County, East Cherry Creek Valley Water and Sanitation District, Arapahoe Park and Recreation District, or other entities for maintenance and operation after completion of construction.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

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

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

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

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.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxes and other items not properly included among program revenues are reported instead as general revenues. Indirect expenses are not allocated.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The redemption of bonds is recorded as a reduction in liabilities.

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes and interest income. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is due.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of the governmental funds.

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. Likewise, general revenues include all taxes.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

In accordance with the Local Government Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures and other financing uses level and lapses at year-end. 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.

Pooled Cash and Investments

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

Investments are carried at fair value.

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

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

Equity

Net Position

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

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance

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

- *Nonspendable fund balance* – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.
- *Restricted fund balance* – The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.
- *Committed fund balance* – The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by 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* – The portion of fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.
- *Unassigned fund balance* – The residual portion of fund balance that does not meet any of the criteria described above.

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

Deferred Cost of Bond Refunding

In the government-wide financial statements, the deferred cost of bond refunding is being amortized using the interest method over the life of the new bonds. The amortization amount is a component of interest expense.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 - CASH AND INVESTMENTS

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

Statement of net position:

Cash and investments	\$ 768,709
Cash and investments - Restricted	<u>45,474</u>
Total cash and investments	<u><u>\$ 814,183</u></u>

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

Deposits with financial institutions	\$ 645,418
Investments	<u>168,765</u>
Total cash and investments	<u><u>\$ 814,183</u></u>

Deposits with Financial Institutions

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least 102% of the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2016, the District's cash deposits had a bank balance of \$645,418 and carrying balance of \$645,418.

Investments

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

The District generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk or investment custodial risk disclosure requirements for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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

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

Fair Value Measurement and Application

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; and 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.

As of December 31, 2016, the District had the following investments:

Investment	Maturity	Fair Value
Colorado Local Government Liquid Asset Fund Trust (COLOTRUST)	Weighted average under 60 days	<u>\$ 168,765</u>

COLOTRUST

The District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), an external investment pool that records its investments at fair value and measures fair value using Level 2 inputs. The Trust is an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities 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 any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAM by Standard & Poor's.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 4 - LONG-TERM OBLIGATIONS

The following is an analysis of the changes in the District's long-term obligations for the year ended December 31, 2016:

	<u>Balance at December 31, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2016</u>	<u>Due Within One Year</u>
Governmental Activities:					
General Obligation Bonds payable:					
Series 2011 Bonds	\$ 6,555,000	\$ -	\$ 420,000	\$ 6,135,000	\$ 430,000
Original issue premium	208,808	-	27,276	181,532	-
	<u>\$ 6,763,808</u>	<u>\$ -</u>	<u>\$ 447,276</u>	<u>\$ 6,316,532</u>	<u>\$ 430,000</u>

The details of the District's long-term obligations are as follows:

General Obligation Bonds

\$8,170,000 General Obligation Refunding Bonds, Series 2011, dated December 29, 2011. On December 29, 2011, the District issued \$8,170,000 in Series 2011 General Obligation Refunding Bonds with interest of 2.00% to 3.25% (yield 2.6603%), consisting of serial bonds due through December 1, 2028. The bonds maturing on or after December 1, 2022, are subject to redemption prior to maturity on or after December 1, 2021, at the option of the District without redemption premium. The bonds were issued to advance refund all of the District's General Obligation Bonds, Series 2000 and to pay for the costs of issuing the 2011 bonds. The District used \$450,000 of current funds towards the refunding of the Series 2000 bonds. The bonds and interest are insured as to repayment by Assured Guaranty Municipal Corp (AGM). AGM is rated AA by Standard and Poor's and A2 by Moody's. The Series 2011 bonds are rated A+ by Standard and Poor's.

The bonds are secured by and payable from ad valorem property taxes to be levied on all taxable property in the District without limitation as to rate and in amounts sufficient, when combined with other legally available moneys of the District, if any, to pay the principal of and interest on the Series 2011 Bonds when due. For collection year 2017, the District has levied 12.500 mills for Debt Service.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)

The District's long-term obligations will mature as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 430,000	\$ 192,731	\$ 622,731
2018	435,000	184,131	619,131
2019	450,000	174,344	624,344
2020	465,000	156,344	621,344
2021	485,000	137,744	622,744
2022 - 2026	2,680,000	435,719	3,115,719
2027 - 2028	1,190,000	57,607	1,247,607
	<u>\$ 6,135,000</u>	<u>\$ 1,338,620</u>	<u>\$ 7,473,620</u>

Authorized Debt

On November 8, 1994, the District's electors authorized the issuance of indebtedness in an amount of \$10,000,000 at an interest rate not to exceed 18% per annum. At December 31, 2016, the District had no authorized but unissued debt.

Per the Service Plan, the District is limited to issuing \$10,000,000 in debt. In addition, the maximum debt service mill levy for the District is 50 mills, as adjusted for changes in the ratio of actual value to assessed value of property within the District.

NOTE 5 - NET POSITION

The District has net position consisting of two components - restricted and unrestricted.

The restricted component of net position consists of assets that are restricted for use either externally imposed by auditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had a restricted net position as of December 31, 2016, as follows:

Restricted net position:	
Emergency reserves	\$ 7,600
Debt service	<u>21,813</u>
Total restricted net position	<u>\$ 29,413</u>

The District has a deficit in unrestricted net position. This deficit amount is a result of the District being responsible for the financing and repayment of bonds issued for the construction of public improvements which were conveyed to other governmental entities and which costs were removed from the District's financial records.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 6 - AGREEMENTS

License Agreement

On August 14, 2012, the District entered into a License Agreement with Saddle Rock Ridge Homeowners Association Inc. (SRR HOA) for the use by the District of the playgrounds located in the Parks located at the intersection of 1) Lake Avenue and Lake Place, 2) Tibet and Belleview Lane, and 3) Prentice and Valdai. The license agreement expires December 1, 2028.

On August 12, 2014, the License Agreement was amended to include the parks located at the intersections of 1) Valdai Court and Tempe Way, 2) Yakima Street and Lake Place, and 3) Versailles Street and Berry Avenue.

On October 25, 2016, the License Agreement was amended a second time to allow SRR HOA to spend additional funds at the discretion of the District for park maintenance, park improvements, and streetscape improvements.

During 2016, the District reimbursed SRR HOA \$139,418 per the Agreement. The District has budgeted \$10,000 in 2017 to reimburse SRR HOA for certain park improvements.

NOTE 7 - RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, as may be amended from time to time, the District may be exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

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

The District pays annual premiums to the Pool for liability, public officials' liability and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 8 - TAX, SPENDING AND DEBT LIMITATIONS

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

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

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 8 - TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

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

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

On November 8, 1994, a majority of the District's electors authorized the District to collect and spend or retain in reserve \$275,000 annually in taxes generated by the certification of an operating mill levy not to exceed 25 mills commencing in 1995 and all subsequent years without any limitations under TABOR.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTARY INFORMATION

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2016

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Property taxes	\$ 667,099	\$ 667,213	\$ 114
Net investment income	250	263	13
Total revenues	<u>667,349</u>	<u>667,476</u>	<u>127</u>
EXPENDITURES			
Debt service			
Bond principal	420,000	420,000	-
Bond interest	201,131	201,131	-
Paying agent fees	2,500	200	2,300
County Treasurer's fees	10,006	10,006	-
Total expenditures	<u>633,637</u>	<u>631,337</u>	<u>2,300</u>
NET CHANGE IN FUND BALANCES	33,712	36,139	2,427
FUND BALANCES - BEGINNING OF YEAR	<u>-</u>	<u>1,735</u>	<u>1,735</u>
FUND BALANCES - END OF YEAR	<u><u>\$ 33,712</u></u>	<u><u>\$ 37,874</u></u>	<u><u>\$ 4,162</u></u>

OTHER INFORMATION

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2016

\$8,170,000			
General Obligation Refunding Bonds			
Series 2011			
Dated December 29, 2011			
Interest Rate 2.00% - 3.25% (Yield 2.6603%)			
Principal Due December 1			
Interest Due June 1 and December 1			
Year Ended December 31,	Principal	Interest	Total
2017	\$ 430,000	\$ 192,731	\$ 622,731
2018	435,000	184,131	619,131
2019	450,000	174,344	624,344
2020	465,000	156,344	621,344
2021	485,000	137,744	622,744
2022	505,000	118,344	623,344
2023	520,000	103,194	623,194
2024	535,000	87,594	622,594
2025	550,000	71,544	621,544
2026	570,000	55,043	625,043
2027	585,000	37,944	622,944
2028	605,000	19,663	624,663
	\$ 6,135,000	\$ 1,338,620	\$ 7,473,620

Bonds maturing on or after December 1, 2022, are callable on or after December 1, 2021, without redemption premium.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
SUMMARY OF ASSESSED VALUATION,
MILL LEVY AND PROPERTY TAXES COLLECTED
December 31, 2016

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy		Percent Increase (Decrease)	Mills Levied for Debt		Total Property Taxes		Percent Collected to Levied
	Total			General	Service	Levied	Collected	
2011	\$	42,736,970	-0.2%	3.500	13.000	\$705,160	\$705,172	100.0%
2012	\$	42,487,380	-0.6%	3.500	13.000	\$701,042	\$701,047	100.0%
2013	\$	42,724,430	0.6%	3.500	13.000	\$704,953	\$704,959	100.0%
2014	\$	42,110,720	-1.4%	3.500	13.000	\$694,826	\$694,287	99.9%
2015	\$	42,083,722	-0.1%	3.500	13.000	\$694,381	\$693,833	99.9%
2016	\$	51,315,339	21.9%	3.500	13.000	\$846,703	\$846,847	100.0%

Estimated for
calendar year ending
December 31,

2017	\$	51,351,016	0.1%	4.000	12.500	\$847,292		
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