

**GOLD HILL MESA METROPOLITAN DISTRICT NO. 2**  
**El Paso County, Colorado**

**FINANCIAL STATEMENTS**  
**December 31, 2016**



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## INDEPENDENT AUDITOR'S REPORT

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Board of Directors  
**Gold Hill Mesa Metropolitan District No. 2**  
El Paso County, Colorado

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Gold Hill Mesa Metropolitan District No. 2 ("District"), as of December 31, 2016, and for the year then ended, 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 from 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 the District as of December 31, 2016, the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

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

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*BiggsKofford, P.C.*

Colorado Springs, Colorado  
July 27, 2017

## **BASIC FINANCIAL STATEMENTS**

**GOLD HILL MESA METROPOLITAN DISTRICT NO. 2**  
**STATEMENT OF NET POSITION**  
**December 31, 2016**

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Cash and investments	\$ 1,401
Cash and investments - Restricted	197,647
Receivable from County Treasurer	2,360
Accounts receivable	1,000
Property taxes receivable	7,770
Total assets	<u>210,178</u>
<b>LIABILITIES</b>	
Accounts payable - Intergovernmental	4,075
Accrued interest payable	31,582
Noncurrent liabilities	
Due within one year	240,000
Due in more than one year	10,334,176
Total liabilities	<u>10,609,833</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred property taxes	7,770
Total deferred inflows of resources	<u>7,770</u>
<b>NET POSITION</b>	
Restricted for:	
Debt service	198,333
Unrestricted	<u>(10,605,758)</u>
Total net position	<u><u>\$ (10,407,425)</u></u>

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

**GOLD HILL MESA METROPOLITAN DISTRICT NO. 2**  
**STATEMENT OF ACTIVITIES**  
Year Ended December 31, 2016

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expenses)</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenues and Changes in Net Position</u>
				<u>Governmental Activities</u>	
Government activities:					
General government	\$ 74,279	\$ -	\$ -	\$ -	\$ (74,279)
Interest and related costs on long-term debt	603,115	-	-	53,000	(550,115)
	<u>\$ 677,394</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,000</u>	<u>(624,394)</u>
General revenues:					
Property taxes					7,769
Specific ownership taxes					27,181
Urban Renewal TIF					514,000
Net investment income					9
Total general revenues					<u>548,959</u>
Change in net position					(75,435)
Net position - Beginning					<u>(10,331,990)</u>
Net position - Ending					<u>\$ (10,407,425)</u>

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

**GOLD HILL MESA METROPOLITAN DISTRICT NO. 2**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**December 31, 2016**

	<b>General</b>	<b>Debt Service</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and investments	\$ 1,401	\$ -	\$ 1,401
Cash and investments - Restricted	-	197,647	197,647
Receivable from County Treasurer	674	1,686	2,360
Accounts receivable	-	1,000	1,000
Property taxes receivable	2,220	5,550	7,770
Total assets	\$ 4,295	\$ 205,883	\$ 210,178
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable - Intergovernmental	\$ 2,075	\$ 2,000	\$ 4,075
Total liabilities	2,075	2,000	4,075
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred property taxes	2,220	5,550	7,770
Total deferred inflows of resources	2,220	5,550	7,770
<b>FUND BALANCES</b>			
Restricted for:			
Debt service	-	198,333	198,333
Total fund balances	-	198,333	198,333
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 4,295</b>	<b>\$ 205,883</b>	

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

Other long-term assets are not available to pay for current period expenditures and, therefore, are recorded as expenditures in the funds.

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Loans and bonds payable	(10,378,000)
Accrued interest on loans and bonds payable	(227,758)
Total net position	<b>\$ (10,407,425)</b>

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

**GOLD HILL MESA 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>
<b>REVENUES</b>			
Property taxes	\$ 2,220	\$ 5,549	\$ 7,769
Specific ownership taxes	7,766	19,415	27,181
Facility fees	-	53,000	53,000
Urban renewal TIF	-	514,000	514,000
Net investment income	3	6	9
Total revenues	<u>9,989</u>	<u>591,970</u>	<u>601,959</u>
<b>EXPENDITURES</b>			
Current			
County Treasurer's fees	33	83	116
Miscellaneous	77	-	77
Intergovernmental expenditure	9,879	64,290	74,169
Debt service			
Loan principal	-	145,000	145,000
Loan interest expense	-	174,400	174,400
Bond interest expense	-	186,650	186,650
Paying agent fee	-	10,050	10,050
Total expenditures	<u>9,989</u>	<u>580,473</u>	<u>590,462</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>-</u>	<u>11,497</u>	<u>11,497</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	11,497	11,497
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>-</u>	<u>186,836</u>	<u>186,836</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ -</u>	<u>\$ 198,333</u>	<u>\$ 198,333</u>

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

**GOLD HILL MESA 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 changes in fund balances - Total governmental funds	\$	11,497
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Long-term debt (e.g., bonds, Developer advances) 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 issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term debt and related items is as follows:

Principal payment		125,000
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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 governmental funds.

Accrued interest on loans and bonds - Change in liability		<u>(211,932)</u>
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Change in net position of governmental activities	\$	<u><u>(75,435)</u></u>
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These financial statements should be read only in connection with  
the accompanying notes to financial statements.

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

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>			
Property taxes	\$ 2,220	\$ 2,220	\$ -
Specific ownership taxes	7,420	7,766	346
Other income	1,000	-	(1,000)
Net investment income	10	3	(7)
Total revenues	<u>10,650</u>	<u>9,989</u>	<u>(661)</u>
<b>EXPENDITURES</b>			
Intergovernmental expenditure	9,417	9,879	(462)
County Treasurer's fees	33	33	-
Miscellaneous	200	77	123
Contingency	1,000	-	1,000
Total expenditures	<u>10,650</u>	<u>9,989</u>	<u>661</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	-	-
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

**GOLD HILL MESA METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 1 - DEFINITION OF REPORTING ENTITY**

Gold Hill Mesa Metropolitan District No. 2 (the District or District No. 2), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by order and decree of the District Court for the City of Colorado Springs (the City), El Paso County, Colorado, on November 9, 2004, and is governed pursuant to provisions of the Colorado Special Districts Act (Title 32, Article 1, Colorado Revised Statutes). The preliminary Consolidated Service Plan, approved by the City of Colorado Springs on September 14, 2004, formed the Gold Hill Mesa Metropolitan District Nos. 1-3 (the Districts) as 'shell districts' which could not operate until an amended service plan was approved. The Amended Consolidated Service Plan was approved by the City on July 11, 2006. The Districts' service area is located entirely within the City. The District was organized in conjunction with two other related districts, Gold Hill Mesa Metropolitan District No. 1 (District No. 1), the Operating District, and Gold Hill Mesa Metropolitan District No. 3 (District No. 3), the Commercial and Financing District. District No. 1 will own (subject to dedication of improvements to the City), operate, maintain and construct facilities benefiting all three Districts, and District No. 2 and District No. 3 will contribute to the costs of construction, operation, and maintenance of such facilities. The District was established to provide the following services: parks and recreation, sanitary sewer, storm drainage, streets, traffic and safety protection, water, mosquito control, and television relay and transportation systems.

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.

**GOLD HILL MESA METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes and specific ownership taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. The District determined that Developer advances are not considered as revenue susceptible to accrual. 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.

**GOLD HILL MESA METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Budgets**

In accordance with the State Budget Law, 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 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 and investments.

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 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 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.

**Deferred Inflows of Resources**

In addition to liabilities, the statement of financial position reports 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 government has only one item that qualifies for reporting in this category. Accordingly, the item, *property tax revenue*, is deferred and recognized as an inflow of resources in the period that the amounts become available.

**GOLD HILL MESA METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Equity**

***Net Position***

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

***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.

**GOLD HILL MESA 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	\$ 1,401
Cash and investments - Restricted	<u>197,647</u>
Total cash and investments	<u>\$ 199,048</u>

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

Deposits with financial institutions	\$ 7,216
Investments	<u>191,832</u>
Total cash and investments	<u>\$ 199,048</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 and a carrying balance of \$7,216.

**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 disclosure requirements or subject to investment custodial credit risk 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.

**GOLD HILL MESA 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

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

<b>Investment</b>	<b>Maturity</b>	<b>Fair Value</b>
U.S. Treasury Money Market Fund	Weighted average under 60 days	<u>\$ 191,832</u>

**U.S. Treasury Money Market Fund**

The debt service and capital project money that was included in the trust accounts as U.S. Bank was invested in the First American Government Obligation Fund (Class D). The First American Government Obligation Fund portfolio is a money market fund that is managed by First American Prime and each share is equal in value to \$1.00. The fund is AAAM rated and invests in high quality short-term U.S. government securities. The average maturity of the underlying securities is 90 days or less.

**GOLD HILL MESA 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>Retirements</u>	<u>Balance at December 31, 2016</u>	<u>Due Within One Year</u>
Series 2011C Subordinate Convertible Capital Appreciation Bonds	\$ 1,497,938	\$ -	\$ 5,000	\$ 1,492,938	\$ 50,000
Interest accretion for Series 2011C Bonds	662,062	-	-	662,062	-
Series 2011C Subordinate Bonds - unpaid interest	-	27,791	20,000	7,791	-
Series 2011D Subordinate Bonds	1,983,000	-	-	1,983,000	-
Series 2011D Subordinate Bonds - unpaid interest	-	188,385	-	188,385	-
Series 2015 Refunding & Improvement Loan	6,360,000	-	120,000	6,240,000	190,000
	<u>\$ 10,503,000</u>	<u>\$ 216,176</u>	<u>\$ 145,000</u>	<u>\$ 10,574,176</u>	<u>\$240,000</u>

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

**\$2,160,000 Subordinate Convertible Capital Appreciation Bonds, Series 2011C**

On September 16, 2011, the District issued \$1,497,938 (original issue amount) Subordinate Convertible Capital Appreciation Bonds, with a value of \$2,160,000 at conversion date, for public improvements. The Bonds bear no interest through December 14, 2015, and then bear interest at a rate of 9.0% through maturity on December 15, 2040. Bond interest and principal is payable annually on December 15, commencing in 2016.

The Bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, on December 15, 2015, and on any date thereafter, upon payment of par and accrued interest, without redemption premium.

**\$3,157,000 Second Subordinate Tax-Supported Revenue Bonds, Series 2011D**

On September 16, 2011, the District issued a \$3,157,000 in Subordinate Tax-Supported Revenue Bonds for public improvements. The Bonds bear interest at a rate of 9.50% with a stated maturity of December 15, 2040. Bond interest and principal are payable annually on December 15, with principal payments commencing in 2022. These bonds are anticipated to be repaid in full on December 15, 2026. During 2014, the District did not have sufficient funds to make the interest payment in full. The unpaid interest will compound on each payment date at a rate of 9.5%. The Series D Bonds are payable only from excess pledged revenue available after payment of the Senior Loans.

**GOLD HILL MESA METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)**

The Bonds are secured by and payable from the Pledged Revenue, consisting of monies derived by the District from: 1) all amounts due and owing to the District under the Tax Sharing IGA; 2) the Base AV tax revenue; 3) all amounts derived by the District after the conclusion of the Tax Sharing IGA from the imposition of the Required Mill Levy, less costs of collection; 4) all specific ownership taxes remitted to the District pursuant to Section 42-3-1207, C.R.S., or any successor statute, allocable to the amount of the Required Mill Levy, net of any costs of collection; 5) Capital Fees; and 6) any other legally available monies which the District determines, in its sole discretion, to transfer to the Custodian or the Bank for application as Pledged Revenue. The Required Mill Levy means an ad valorem mill levy imposed upon all taxable property of the District each year in an amount sufficient to pay the principal of, premium, if any, and interest on the Bonds as the same become due and payable. The Required Mill Levy is limited to a minimum of 25.000 mills and a maximum of 30.000 mills, adjusted for changes in the ratio of actual value to assessed value of property within the District. As of December 31, 2016, the adjusted maximum mill levy is 30.000.

The Bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, on any date, upon payment of par and accrued interest, without redemption premium.

**\$6,360,000 Tax-Free Refunding and Improvement Loan Agreement, Series 2015**

On December 16, 2015, the District entered into the \$6,360,000 in Tax-Free Refunding and Improvement Loan Agreement to fully refund the Series 2011 A Loan, the Series 2011 B Loan, and a portion of the outstanding Series 2011 D Bonds, in order to reduce overall interest costs and to reimburse costs for facilities to the Developer. The Loan bears interest at 3.01%. Loan interest payments are due each June 1 and December 1, and loan principal payments are due annually on December 1. The Loan matures on December 16, 2022. On or after December 16, 2020, at the option of the District, the Loan is callable without a premium. The Loan carries a reserve fund requirement of \$190,800 which was funded at the time of issuance.

The Loan is secured by and payable from the Pledged Revenue, consisting of monies derived by the District from: 1) all amounts due and owing to the District under the Tax Sharing IGA; 2) the Base AV tax revenue; 3) all amounts derived by the District after the conclusion of the Tax Sharing IGA from the imposition of the Required Mill Levy, less costs of collection; 4) all specific ownership taxes remitted to the District pursuant to Section 42-3-1207, C.R.S., or any successor statute, allocable to the amount of the Required Mill Levy, net of any costs of collection; and 5) any other legally available monies which the District determines, in its sole discretion, to transfer to the Custodian or the Bank for application as Pledged Revenue.

**GOLD HILL MESA 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:

	<b>Governmental Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 240,000	\$ 767,144	\$ 1,007,144
2018	315,000	562,469	877,469
2019	335,000	551,072	886,072
2020	335,000	539,223	874,223
2021-2025	7,076,737	2,042,623	9,119,360
2026-2030	666,263	766,645	1,432,908
2031-2035	555,000	542,700	1,097,700
2035-2040	855,000	243,450	1,098,450
	<u>\$ 10,378,000</u>	<u>\$ 6,015,326</u>	<u>\$ 16,393,326</u>

**Authorized Debt**

On November 2, 2004, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$56,000,000 for infrastructure improvements and operations and maintenance at an interest rate not to exceed 18% and \$57,000,000 for refunding the District's debt or other obligations. At December 31, 2016, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	<b>Amount Authorized on November 2, 2004</b>	<b>Authorization Used for Series 2011 Loans/Bonds</b>	<b>Authorization Used for Series 2015 Loan</b>	<b>Authorized But Unissued</b>
Streets	\$ 30,000,000	\$ 4,592,704	\$ 133,668	\$ 25,273,628
Water	5,000,000	606,748	217,727	4,175,525
Sanitary sewer	10,000,000	4,477,548	198,109	5,324,343
Parks and recreation	8,000,000	-	-	8,000,000
Traffic and safety protection	1,000,000	-	-	1,000,000
Television relay and translation	1,000,000	-	-	1,000,000
Mosquito control	500,000	-	-	500,000
Transportation system	500,000	-	-	500,000
Debt refunding	57,000,000	-	5,810,496	51,189,504
	<u>\$ 113,000,000</u>	<u>\$ 9,677,000</u>	<u>\$ 6,360,000</u>	<u>\$ 96,963,000</u>

Pursuant to the Amended Consolidated Service Plans as amended on April 23, 2006, the District can issue bond indebtedness of up to \$57,000,000. In addition, the maximum debt service mill levy for the District is 30.000 mills, as adjusted for changes in the ratio of actual value to assessed value of property within the District.

**GOLD HILL MESA METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)**

In the future, the District may issue a portion or all of the remaining authorized but unissued general obligation debt for purposes of providing public improvements.

**NOTE 5 - NET POSITION**

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

Restricted net position includes assets that are restricted for use either externally imposed by creditors, 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:

	<u><b>Governmental Activities</b></u>
Restricted net position:	
Debt service	\$ 198,333
Total restricted net position	<u>\$ 198,333</u>

The District has a deficit in unrestricted net position. This deficit was a result of the District being responsible for the repayment of bonds issued for public improvements which were transferred to Gold Hill Mesa Metropolitan District No. 1 (the Operating District).

**NOTE 6 - RELATED PARTIES**

The Developers of the property which constitutes the District are Gold Hill Mesa Township LLC, Gold Hill Mesa Partners LLC, and Gold Hill Neighborhood LLC. The members of the Board of Directors are officers, employees or associated with the Developer and may have conflicts of interest in dealing with the District.

**NOTE 7 - INTERGOVERNMENTAL AGREEMENTS**

On May 31, 2006 and November 30, 2006, the District entered into an Intergovernmental Agreement (IGA) with Gold Hill Mesa Metropolitan District No. 1 (Operating District) and Gold Hill Mesa Metropolitan District No. 3 (Financing District), respectively. The IGA provides that the Operating District is to operate, maintain, finance and construct facilities benefitting the three Districts, and that District No. 2 and District No. 3 will contribute to the costs of construction, operation, and maintenance of such facilities. The Districts have agreed to finance such activities by either issuing debt and/or pledging certain revenues collected within the boundaries of the Financing Districts. On September 16, 2011, District No. 2 issued Loans and bonds and transferred the proceeds to District No. 1. District No. 1 used those proceeds to repay the Developer for capital construction paid directly by the Developer as part of the Restated Reimbursement Agreement entered into as part of District No. 2's 2011 Loan and Bond Issue.

**GOLD HILL MESA METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 7 - INTERGOVERNMENTAL AGREEMENTS (CONTINUED)**

On January 20, 2011, the District entered into an Intergovernmental Tax Sharing Agreement with the Colorado Springs Urban Renewal Authority. The IGA provides a tax sharing agreement for a period of 25 years on taxes levied by the District beginning on May 25, 2004. Under the agreement, all property tax revenues generated by the assessed valuation in excess of the base assessed valuation as of May 25, 2004, will be paid to the Authority for the purposes of paying debt incurred during the development of the urban renewal project. The gross tax revenues generated by this agreement will be deposited by the Authority into a Pledged Tax Revenue Fund. The tax revenue will remain in that fund until the District requests payment from that fund for the purposes of making an interest or principal payment on the District's outstanding bonds. During the year ended December 31, 2016, the District received \$514,000 in TIF revenue from the Authority as part of the Agreement.

**NOTE 8 - RISK MANAGEMENT**

The District is exposed to various risks of losses 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) as of December 31, 2016. The Pool is an organization created by an 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 the past three fiscal years.

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

**NOTE 9 - TAX, SPENDING AND DEBT LIMITATIONS**

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

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

**GOLD HILL MESA METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 10 - 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 transfers its net operating revenue to Gold Hill Mesa Metropolitan District No. 1 (Operating District) pursuant to an intergovernmental agreement. Therefore, the Emergency Reserves related to the District's revenue are reported in Gold Hill Mesa Metropolitan District No. 1.

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 2, 2004, the District voters passed an election question allowing the District to increase property taxes up to \$1,000,000 annually, without limitation of rate, and without regard to any spending, revenue raising or other limitations contained within Article X, Section 20 of the Colorado Constitution (TABOR) or Section 29-2-301, C.R.S., to pay the District's operations, maintenance and other expenses. Additionally, the District's electors authorized the District to collect, spend or retain all revenue without regard to any limitations under TABOR.

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

**SUPPLEMENTARY INFORMATION**

**GOLD HILL MESA METROPOLITAN DISTRICT NO. 2**  
**DEBT SERVICE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - BUDGET AND ACTUAL**  
**December 31, 2016**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>			
Property taxes	\$ 5,550	\$ 5,549	\$ (1)
Specific ownership taxes	18,560	19,415	855
Facility fees	45,000	53,000	8,000
Urban renewal TIF	538,708	514,000	(24,708)
Net investment income	300	6	(294)
Total revenues	<u>608,118</u>	<u>591,970</u>	<u>(16,148)</u>
<b>EXPENDITURES</b>			
County Treasurer's fees	83	83	-
Bond principal Series 2011C	25,000	25,000	-
Bond principal Series 2015	115,000	120,000	(5,000)
Bond interest Series 2011C	157,221	174,400	(17,179)
Bond interest Series 2011D	49,989	-	49,989
Bond interest Series 2015	192,040	186,650	5,390
Paying agent fee	3,500	10,050	(6,550)
Intergovernmental expenditure	65,285	64,290	995
Total expenditures	<u>608,118</u>	<u>580,473</u>	<u>27,645</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>-</u>	<u>11,497</u>	<u>11,497</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	11,497	11,497
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>190,800</u>	<u>186,836</u>	<u>(3,964)</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 190,800</u>	<u>\$ 198,333</u>	<u>\$ 7,533</u>

**GOLD HILL MESA METROPOLITAN DISTRICT NO. 2**  
**SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY**  
**December 31, 2016**

**\$2,160,000 Series 2011C Subordinate Convertible**  
**Capital Appreciation Bonds**  
**Dated September 16, 2011**  
**Interest Rate 9.00%**  
**Interest and Principal Due December 15**  
**Commencing in 2016**

<u>Year Ended</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 50,000	\$ 199,941	\$ 249,941
2018	30,000	189,450	219,450
2019	35,000	186,750	221,750
2020	35,000	183,600	218,600
2021	40,000	180,450	220,450
2022	45,000	176,850	221,850
2023	45,000	172,800	217,800
2024	50,000	168,750	218,750
2025	55,000	164,250	219,250
2026	60,000	159,300	219,300
2027	65,000	153,900	218,900
2028	70,000	148,050	218,050
2029	80,000	141,750	221,750
2030	85,000	134,550	219,550
2031	95,000	126,900	221,900
2032	100,000	118,350	218,350
2033	110,000	109,350	219,350
2034	120,000	99,450	219,450
2035	130,000	88,650	218,650
2036	145,000	76,950	221,950
2037	155,000	63,900	218,900
2038	170,000	49,950	219,950
2039	185,000	34,650	219,650
2040	200,000	18,000	218,000
	<u>\$ 2,155,000</u>	<u>\$ 3,146,541</u>	<u>\$ 5,301,541</u>

(Note: The District did not have sufficient funds to make the full 2016 principal and interest payment. The 2016 unpaid amounts have been added to the payment amounts for the year 2017.)

**GOLD HILL MESA METROPOLITAN DISTRICT NO. 2**  
**SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY**  
**December 31, 2016**

<b>Year Ended December 31,</b>	<b>\$3,157,000 Series 2011D Subordinate Bonds</b>		
	<b>Dated September 16, 2011</b>		
	<b>Interest Rate 9.50%</b>		
	<b>Interest and Principal Due December 15</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ -	\$ 376,770	\$ 376,770
2018	-	188,385	188,385
2019	-	188,385	188,385
2020	-	188,385	188,385
2021	-	188,385	188,385
2022	-	188,385	188,385
2023	-	188,385	188,385
2024	777,686	188,385	966,071
2025	899,051	114,505	1,013,556
2026	306,263	29,095	335,358
	<b>\$ 1,983,000</b>	<b>\$ 1,839,065</b>	<b>\$ 3,822,065</b>

(Note: The stated maturity of the Series 2011D Bonds is December 15, 2040. These bonds are anticipated to be repaid in full on December 15, 2026 as presented in the above schedule. The District did not have sufficient funds to make the 2016 interest payment. The 2016 unpaid interest amount of \$188,385 has been added to the interest payment amount for the year 2017.)

**GOLD HILL MESA METROPOLITAN DISTRICT NO. 2  
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY  
DECEMBER 31, 2016**

**\$6,360,000 Series 2015 Refunding & Improvement Loan  
Dated December 16, 2015  
3.010% Through December 16, 2022  
Interest Payable June 1 and December 1  
Principal Due December 1**

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 190,000	\$ 190,433	\$ 380,433
2018	285,000	184,634	469,634
2019	300,000	175,937	475,937
2020	300,000	167,238	467,238
2021	310,000	157,624	467,624
2022	4,855,000	153,854	5,008,854
	<u>\$ 6,240,000</u>	<u>\$ 1,029,720</u>	<u>\$ 7,269,720</u>

**GOLD HILL MESA METROPOLITAN DISTRICT NO. 2  
SCHEDULE OF ASSESSED VALUATION,  
MILL LEVY AND PROPERTY TAXES COLLECTED  
December 31, 2016**

<b>Year Ended December 31,</b>	<b>Prior Year Assessed Valuation for Current Year Property Tax Levy</b>	<b>Mills Levied</b>		<b>Total Property Taxes</b>		<b>Percentage Collected to Levied</b>
		<b>General</b>	<b>Debt Service</b>	<b>Levied</b>	<b>Collected</b>	
2012	\$ 198,620	10.000	25.000	\$ 6,952	\$ 6,952	100.00%
2013	\$ 201,270	10.000	25.000	\$ 7,044	\$ 7,045	100.01%
2014	\$ 206,240	10.000	25.000	\$ 7,218	\$ 7,222	100.06%
2015	\$ 207,010	10.000	25.000	\$ 7,245	\$ 7,245	100.00%
2016	\$ 222,000	10.000	25.000	\$ 7,770	\$ 7,769	99.99%
Estimated for the year ending December 31, 2017	\$ 222,000	10.000	25.000	\$ 7,770		

**Note:**

Property taxes shown as collected in any one year include collection of delinquent property taxes or abatements of property taxes assessed in prior years. This presentation does not attempt to identify specific years of assessment.