

ILIFF COMMONS METROPOLITAN DISTRICT #2

Financial Statements

Year Ended December 31, 2016

with

Independent Auditors' Report



RECEIVED

By the Office of the State Auditor at 1:54 pm, Sep 19, 2017

C O N T E N T S

	<u>Page</u>
<u>Independent Auditors' Report</u>	I
<u>Basic Financial Statements</u>	
Balance Sheet/Statement of Net Position - Governmental Funds	1
Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities - Governmental Funds	2
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	3
Notes to Financial Statements	4
<u>Supplemental Information</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Debt Service Fund	17
Summary of Assessed Valuation, Mill Levy and Property Taxes Collected	18
Debt Service Requirements to Maturity	19

Independent Auditor's Report

Board of Directors

Iiff Commons Metropolitan District #2

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Iiff Commons Metropolitan District #2 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 an opinion on these financial statements based on our audits. We conducted our audits 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Economic Dependency

The District has not yet established a revenue base sufficient to pay its debt service and operational expenditures. As discussed in Note 8, the District is dependent upon the Developer of the District's service area to provide funds for such expenditures.

Opinion

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 Iliff Commons Metropolitan District #2 as of December 31, 2016, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted the 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, 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 opinions on the basic financial statements are not affected by this missing 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 as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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.

L. Paul Goedecke P.C.

L. Paul Goedecke, P.C.
August 28, 2017

ILIFF COMMONS METROPOLITAN DISTRICT #2

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

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	Statement of <u>Net Position</u>
ASSETS					
Cash and investments	\$ 828	\$ -	\$ 828	\$ -	\$ 828
Cash and investments - restricted	480	334,138	334,618	-	334,618
Receivable - County Treasurer	15	111	126	-	126
Property taxes receivable	10,399	77,997	88,396	-	88,396
Receivable - other	1,011	-	1,011	(1,011)	-
Prepaid expenses	2,251	-	2,251	-	2,251
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 14,984</u>	<u>\$ 412,246</u>	<u>\$ 427,230</u>	<u>(1,011)</u>	<u>426,219</u>
LIABILITIES					
Accounts payable	\$ 4,117	\$ -	\$ 4,117	-	4,117
Accounts payable - other	468	-	468	-	468
Accrued interest on bonds	-	-	-	180,982	180,982
Long-term liabilities:					
Due in more than one year	-	-	-	3,370,784	3,370,784
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>4,585</u>	<u>-</u>	<u>4,585</u>	<u>3,551,766</u>	<u>3,556,351</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred property taxes	10,399	77,997	88,396	-	88,396
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Deferred Inflows of Resources	<u>10,399</u>	<u>77,997</u>	<u>88,396</u>	<u>-</u>	<u>88,396</u>
FUND BALANCES/NET POSITION					
Fund Balances:					
Nonspendable:					
Prepays	2,251	-	2,251	(2,251)	-
Restricted:					
Emergencies	480	-	480	(480)	-
Debt service	-	334,249	334,249	(334,249)	-
Unassigned	(2,731)	-	(2,731)	2,731	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>-</u>	<u>334,249</u>	<u>334,249</u>	<u>(334,249)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances					
	<u>\$ 14,984</u>	<u>\$ 412,246</u>	<u>\$ 427,230</u>		
Net Position:					
Restricted for:					
Emergencies				480	480
Debt service				153,267	153,267
Unrestricted				<u>(3,372,275)</u>	<u>(3,372,275)</u>
Total Net Position				<u>\$ (3,218,528)</u>	<u>\$ (3,218,528)</u>

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

ILIFF COMMONS METROPOLITAN DISTRICT #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>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES					
Accounting and audit	\$ 10,369	\$ -	\$ 10,369	\$ -	\$ 10,369
Insurance	2,463	-	2,463	-	2,463
Legal	6,555	-	6,555	-	6,555
Engineering	195	-	195	-	195
ARI mill levy	468	-	468	-	468
Treasurer's fees	40	298	338	-	338
Bond interest expense	-	126,562	126,562	23,457	150,019
Paying agent fees	-	3,250	3,250	-	3,250
Interest on developer advances	-	-	-	76,448	76,448
Total Expenditures	<u>20,090</u>	<u>130,110</u>	<u>150,200</u>	<u>99,905</u>	<u>250,105</u>
GENERAL REVENUES					
Property taxes	2,644	19,837	22,481	-	22,481
Specific ownership taxes	203	1,521	1,724	-	1,724
Interest income	2	1,782	1,784	-	1,784
Total General Revenues	<u>2,849</u>	<u>23,140</u>	<u>25,989</u>	<u>-</u>	<u>25,989</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
	(17,241)	(106,970)	(124,211)	(99,905)	(224,116)
OTHER FINANCING SOURCES (USES)					
Developer advances	1,011	-	1,011	(1,011)	-
Total Other Financing Sources (Uses)	<u>1,011</u>	<u>-</u>	<u>1,011</u>	<u>(1,011)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES					
	(16,230)	(106,970)	(123,200)	123,200	
CHANGE IN NET POSITION					
				(224,116)	(224,116)
FUND BALANCES/NET POSITION:					
BEGINNING OF YEAR	16,230	441,219	457,449	(3,451,861)	(2,994,412)
END OF YEAR	<u>\$ -</u>	<u>\$ 334,249</u>	<u>\$ 334,249</u>	<u>\$ (3,552,777)</u>	<u>\$ (3,218,528)</u>

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

ILIFF COMMONS METROPOLITAN DISTRICT #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>	<u>Favorable</u> <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 2,645	\$ 2,644	\$ (1)
Specific ownership taxes	159	203	44
Interest income	<u>-</u>	<u>2</u>	<u>2</u>
Total Revenues	<u>2,804</u>	<u>2,849</u>	<u>45</u>
EXPENDITURES			
Accounting and audit	6,500	10,369	(3,869)
Insurance	2,500	2,463	37
Legal	10,000	6,555	3,445
Engineering	-	195	(195)
ARI mill levy	441	468	(27)
Treasurer's fees	40	40	-
Contingency	3,000	-	3,000
Emergency reserve	<u>570</u>	<u>-</u>	<u>570</u>
Total Expenditures	<u>23,051</u>	<u>20,090</u>	<u>2,961</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(20,247)	(17,241)	3,006
OTHER FINANCING SOURCES (USES)			
Developer advances	<u>10,368</u>	<u>1,011</u>	<u>(9,357)</u>
Total Other Financing Sources (Uses)	<u>10,368</u>	<u>1,011</u>	<u>(9,357)</u>
NET CHANGE IN FUND BALANCE	(9,879)	(16,230)	(6,351)
FUND BALANCE:			
BEGINNING OF YEAR	<u>9,879</u>	<u>16,230</u>	<u>6,351</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

ILIFF COMMONS METROPOLITAN DISTRICT #2

Notes to Financial Statements
December 31, 2016

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Iliff Commons Metropolitan District #2 (the “District”), located in Arapahoe County, 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 June 16, 2006, concurrently with Iliff Commons Metropolitan District #1 (“District #1”), as a quasi-municipal organization established under the State of Colorado Special District Act. The Districts were established to plan for, design, acquire, construct, install, relocate, redevelop and finance public improvements within the District. Pursuant to the Intergovernmental Agreements for Assignment and Assumption of Obligations dated April 22, 2014, District #1 has been dissolved and all financial and service obligations of that District have been assumed by the District. The District shall convey the public improvements to the City or other jurisdiction and will not operate or maintain any public improvements, other than park and recreation improvements pursuant to the service plan, or otherwise pursuant to an intergovernmental agreement with the City. The District does not anticipate acquiring any park and recreation improvements in the near future. The District's primary revenues are property taxes. The District is governed by an elected Board of Directors.

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.

ILIFF COMMONS METROPOLITAN DISTRICT #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 governmental funds statement of 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.

ILIFF COMMONS METROPOLITAN DISTRICT #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.

Budgetary Accounting

Budgets are adopted on a non-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.

Subsequent to year end, the District amended its total appropriations in the Debt Service Fund from \$126,860 to \$130,110 primarily due to paying agent fees.

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.

ILIFF COMMONS METROPOLITAN DISTRICT #2

Notes to Financial Statements
December 31, 2016

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.

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.

Original Issue Discount

Original issue discount from the Series 2015A General Obligation Bonds is being amortized over the term of the bonds using the interest method. Accumulated amortization of original issue discount amounted to \$2,202 at December 31, 2016.

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. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. 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 of December 31, 2016, all capital assets have been conveyed to the City of Aurora.

ILIFF COMMONS METROPOLITAN DISTRICT #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 if 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 \$2,251 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 \$480 of the General Fund balance has been restricted in compliance with this requirement.

ILIFF COMMONS METROPOLITAN DISTRICT #2

Notes to Financial Statements
December 31, 2016

The restricted fund balance in the Debt Service Fund in the amount of \$334,249 is restricted for the payment of the debt service costs associated with the General Obligation Bonds – Series 2015A and Subordinate Bonds – Series 2015B (see Note 3).

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 other 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.

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.

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.

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.

ILIFF COMMONS METROPOLITAN DISTRICT #2

Notes to Financial Statements
December 31, 2016

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	\$ 828
Cash and investments - restricted	<u>334,618</u>
Total	<u>\$ 335,446</u>

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

Deposits with financial institutions	\$ 22,270
Investments - CSAFE	<u>313,176</u>
	<u>\$ 335,446</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

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.

ILIFF COMMONS METROPOLITAN DISTRICT #2

Notes to Financial Statements
December 31, 2016

The District had no recurring fair value measurements as of December 31, 2016.

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.

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.

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

CSAFE

The local government investment pool Colorado Surplus Asset Fund Trust ("CSAFE"), is rated AAAM by Standard and Poor's and the maturity is weighted average under 60 days. CSAFE is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds, and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to custodian agreements. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodians' internal records identify the investments owned by CSAFE. At December 31, 2016, the District's custodian had \$313,176 invested in CSAFE, all held by a trustee.

ILIFF COMMONS METROPOLITAN DISTRICT #2

Notes to Financial Statements
December 31, 2016

Note 3: Long Term Debt

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

General Obligation (Limited Tax Convertible To Unlimited Tax) Bonds, Series 2015A

On June 17, 2015, the District issued \$2,025,000 of General Obligation (Limited Tax Convertible To Unlimited Tax) Bonds, Series 2015A (“2015A Bonds”) dated June 17, 2015 for the purpose of funding and reimbursing a portion of the costs of acquiring, constructing, and installing certain public infrastructure improvements, funding the Reserve Fund, funding a portion of the interest to come due on the Bonds, and paying the costs of issuance of the Bonds. The bonds bear interest at 6.25% payable semiannually on each June 1 and December 1, commencing on December 1, 2015. The 2015A Bonds are due December 1, 2044, and are subject to mandatory sinking fund redemption commencing on December 1, 2019. The Bonds are subject to early redemption, at the option of the District, on December 1, 2020, at a redemption price equal to par together with accrued interest thereon to the date of redemption and a redemption premium ranging between 0% and 3% of the principal amount, depending on the date of redemption. The 2015A Bonds are secured by Pledged Revenues including the Required Mill Levy (as defined in the Loan Agreement), Capital Fees, the portion of the Specific Ownership Taxes allocable to the amount of the Required Mill Levy, and any other legally available moneys which the District determines in its sole discretion to apply as Pledged Revenue.

Subordinate General Obligation Limited Tax Bonds, Series 2015B

On June 17, 2015, the District issued \$285,000 of Subordinate General Obligation Limited Tax Bonds, Series 2015B (“2015B Bonds”), dated June 17, 2015 for the purpose of reimbursing Iliff Commons District Investors, LLC, for costs of public improvements not reimbursed with the proceeds of the Series 2015A Bonds. The 2015B Bonds bear interest at the rate of 8%, payable semiannually on each June 15 and December 15, commencing on December 15, 2015. The 2015B Bonds are due December 15, 2044, and are subject to mandatory sinking fund redemption commencing on December 2, 2015 to the extent excess funds are available in the Subordinate Bond Fund. The 2015B Bonds are secured by Subordinate Pledged Revenues including the Subordinate Required Mill Levy (as defined in the Loan Agreement), any amounts in the Surplus Fund from the 2015A Bonds upon termination of this fund, the portion of the Specific Ownership Tax allocable to the amount of the Subordinate Required Mill Levy, and any other legally available moneys which the District determines in its sole discretion to apply as Subordinate Pledged Revenue.

ILIFF COMMONS METROPOLITAN DISTRICT #2

Notes to Financial Statements
December 31, 2016

The following is a summary of the annual long-term debt principal and interest requirements for the 2015A Bonds:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 126,563	\$ 126,563
2018	-	126,563	126,563
2019	15,000	126,563	141,563
2020	20,000	125,625	145,625
2021	20,000	124,375	144,375
2022-2026	145,000	599,063	744,063
2027-2031	250,000	542,188	792,188
2032-2036	380,000	448,438	828,438
2037-2041	560,000	308,750	868,750
2042-2044	635,000	92,188	727,188
	<u>\$ 2,025,000</u>	<u>\$ 2,620,313</u>	<u>\$ 4,645,313</u>

Due to the uncertainty of the timing of the principal and interest payments on the Series 2015B Subordinate Bonds, a schedule of the timing of these payments is not available.

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

	<u>Balance</u> <u>1/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2016</u>	<u>Current</u> <u>Portion</u>
General Obligation Bonds -					
Series 2015A	\$ 2,025,000	\$ -	\$ -	\$ 2,025,000	\$ -
Subordinate					
Bonds - Series 2015B	285,000	-	-	285,000	-
Developer Payable - Capital	1,087,021	-	-	1,087,021	-
Developer Payable -					
Operations	<u>5,095</u>	<u>-</u>	<u>-</u>	<u>5,095</u>	<u>-</u>
Subtotal	<u>3,402,116</u>	<u>-</u>	<u>-</u>	<u>3,402,116</u>	<u>-</u>
Original issue discount	<u>(31,989)</u>	<u>-</u>	<u>(657)</u>	<u>(31,332)</u>	<u>-</u>
Total	<u>\$ 3,370,127</u>	<u>\$ -</u>	<u>\$ (657)</u>	<u>\$ 3,370,784</u>	<u>\$ -</u>

ILIFF COMMONS METROPOLITAN DISTRICT #2

Notes to Financial Statements
December 31, 2016

Debt Authorization

As of December 31, 2016, the District had remaining voted debt authorization of approximately \$4,500,000. The District has not budgeted to issue any new debt during 2017. Per the District's Service Plan, the District can not issue debt in excess of \$6,810,000.

Note 4: Related Party

All of the Board of Directors are employees, owners or are otherwise associated with the Iliff Commons District Investors, LLC, ("the Company") and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board.

Note 5: Other Agreements

Advance and Reimbursement Agreement

On February 6, 2014, the District and the Company entered into an Advance and Reimbursement Agreement pursuant to which the District acknowledged the organization costs paid by the Company's predecessors on behalf of the Districts. The parties also agreed that additional advances would be available to the District as needed and interest of 7% would accrue on any outstanding balance. As of December 31, 2016, the outstanding advances totaled \$5,095.

Infrastructure Acquisition Agreement

On December 4, 2014, the District entered into the Infrastructure Acquisition Agreement with the Company, pursuant to which the District agreed to purchase improvements constructed by the Company at a purchase price equal to the actual costs of construction. Per the Engineer's report dated April 30, 2015, TTG Engineers determined that the construction cost reimbursement value of these improvements to be \$2,669,586. The transfer to the District occurred on May 15, 2015. The Company was repaid \$1,582,565 with the issuance of the 2015A Bonds and the 2015B Bonds, as of December 31, 2016 the balance outstanding was \$1,087,021.

Note 6: 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.

ILIFF COMMONS METROPOLITAN DISTRICT #2

Notes to Financial Statements
December 31, 2016

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 May 2, 2006, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

Note 7: Economic Dependency

The District has not yet established a property tax base sufficient to pay the District's operating costs. Until a sufficient property tax base is established, the District will be dependent upon funding by the Company.

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 District has elected to participate in the Colorado Special Districts Property and Liability Pool ("Pool") which 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.

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.

ILIFF COMMONS METROPOLITAN DISTRICT #2

Notes to Financial Statements
December 31, 2016

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) Long-term liabilities such as bonds payable and accrued bond interest payable are not due and payable in the current period and, therefore, are not in the funds.

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

- 1) 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;
- 2) governmental funds report developer advances and/or bond proceeds as revenue; and,
- 3) governmental funds report long-term debt payments as expenditures, however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long-term liabilities.

SUPPLEMENTAL INFORMATION

ILIFF COMMONS METROPOLITAN DISTRICT #2

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

For the Year Ended December 31, 2016

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES				
Property taxes	\$ 19,836	\$ 19,836	\$ 19,837	\$ 1
Specific ownership taxes	1,190	1,190	1,521	331
Interest income	<u>-</u>	<u>1,779</u>	<u>1,782</u>	<u>3</u>
Total Revenues	<u>21,026</u>	<u>22,805</u>	<u>23,140</u>	<u>335</u>
EXPENDITURES				
Bond interest expense	126,562	126,562	126,562	-
Paying agent fees	-	3,250	3,250	-
Treasurer's fees	<u>298</u>	<u>298</u>	<u>298</u>	<u>-</u>
Total Expenditures	<u>126,860</u>	<u>130,110</u>	<u>130,110</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(105,834)	(107,305)	(106,970)	335
FUND BALANCE:				
BEGINNING OF YEAR	<u>441,030</u>	<u>441,030</u>	<u>441,219</u>	<u>189</u>
END OF YEAR	<u>\$ 335,196</u>	<u>\$ 333,725</u>	<u>\$ 334,249</u>	<u>\$ 524</u>

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

ILIFF COMMONS METROPOLITAN DISTRICT #2

SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED

December 31, 2016

(Unaudited)

<u>Year Ended</u> <u>December 31,</u>	Prior Year Assessed Valuation for Current Year Property Tax Levy	<u>Mills Levied</u>		<u>Total Property Tax</u>		Percent Collected to Levied
		<u>General Fund</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2014	\$ 166,410	50.000	0.000	\$ 8,321	\$ 8,321	100.01%
2015	\$ 294,629	50.000	0.000	\$ 14,731	\$ 14,732	100.00%
2016	\$ 440,807	6.000	45.000	\$ 22,481	\$ 22,481	100.00%
Estimated for year ending December 31, 2017	\$ 1,733,261	6.000	45.000	\$ 88,396		

NOTE

Property taxes collected in any one year include collection of delinquent property taxes levied and/or abatements or valuations in prior years. Information received from the County Treasurer does not permit identification of specific year assessment.

ILIFF COMMONS METROPOLITAN DISTRICT #2

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY

December 31, 2016

\$2,025,000 General Obligation Bonds

Series 2015A

Interest Rate 6.25%

Payable June 1 and December 1

Principal Due December 1

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 126,563	\$ 126,563
2018	-	126,563	126,563
2019	15,000	126,563	141,563
2020	20,000	125,625	145,625
2021	20,000	124,375	144,375
2022	25,000	123,125	148,125
2023	25,000	121,563	146,563
2024	30,000	120,000	150,000
2025	30,000	118,125	148,125
2026	35,000	116,250	151,250
2027	40,000	114,063	154,063
2028	45,000	111,563	156,563
2029	50,000	108,750	158,750
2030	55,000	105,625	160,625
2031	60,000	102,188	162,188
2032	65,000	98,438	163,438
2033	70,000	94,375	164,375
2034	75,000	90,000	165,000
2035	80,000	85,313	165,313
2036	90,000	80,313	170,313
2037	95,000	74,688	169,688
2038	105,000	68,750	173,750
2039	110,000	62,188	172,188
2040	120,000	55,313	175,313
2041	130,000	47,813	177,813
2042	140,000	39,688	179,688
2043	150,000	30,938	180,938
2044	<u>345,000</u>	<u>21,563</u>	<u>366,563</u>
	<u>\$ 2,025,000</u>	<u>\$ 2,620,313</u>	<u>\$ 4,645,313</u>