

HOMETOWN METROPOLITAN DISTRICT NO. 2

Financial Statements

Year Ended December 31, 2016

with

Independent Auditor's Report



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Independent Auditor's Report

Board of Directors

Hometown Metropolitan District No. 2

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Hometown Metropolitan District No. 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 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management Discussion and Analysis

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 opinion on the basic financial statements are not affected by this missing information.

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 Hometown Metropolitan District No. 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.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion 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

HOMETOWN METROPOLITAN DISTRICT NO. 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>	<u>Statement of Net Position</u>
ASSETS					
Cash and investments	\$ 29,416	\$ -	\$ 29,416	\$ -	\$ 29,416
Cash and investments - restricted	454	87,316	87,770	-	87,770
Cash with County Treasurer	149	447	596	-	596
Property taxes receivable	<u>22,609</u>	<u>56,523</u>	<u>79,132</u>	<u>-</u>	<u>79,132</u>
 Total Assets	 <u>\$ 52,628</u>	 <u>\$ 144,286</u>	 <u>\$ 196,914</u>	 <u>-</u>	 <u>196,914</u>
LIABILITIES					
Accounts payable	\$ 390	\$ -	\$ 390	-	390
Accrued interest on bonds	-	-	-	4,191	4,191
Long-term liabilities					
Due within one year	-	-	-	15,000	15,000
Due in more than one year	<u>-</u>	<u>-</u>	<u>-</u>	<u>730,000</u>	<u>730,000</u>
 Total Liabilities	 <u>390</u>	 <u>-</u>	 <u>390</u>	 <u>749,191</u>	 <u>749,581</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred property taxes	<u>22,609</u>	<u>56,523</u>	<u>79,132</u>	<u>-</u>	<u>79,132</u>
 Total Deferred Inflows of Resources	 <u>22,609</u>	 <u>56,523</u>	 <u>79,132</u>	 <u>-</u>	 <u>79,132</u>
FUND BALANCES/NET POSITION					
Fund Balances:					
Restricted:					
Emergencies	454	-	454	(454)	-
Debt service	-	87,763	87,763	(87,763)	-
Unassigned	<u>29,175</u>	<u>-</u>	<u>29,175</u>	<u>(29,175)</u>	<u>-</u>
 Total Fund Balances	 <u>29,629</u>	 <u>87,763</u>	 <u>117,392</u>	 <u>(117,392)</u>	 <u>-</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	 <u>\$ 52,628</u>	 <u>\$ 144,286</u>	 <u>\$ 196,914</u>		
NET POSITION					
Restricted for:					
Emergencies				454	454
Debt service				87,763	87,763
Unrestricted				<u>(720,016)</u>	<u>(720,016)</u>
 Total Net Position (Deficit)				 <u>\$ (631,799)</u>	 <u>\$ (631,799)</u>

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

HOMETOWN METROPOLITAN DISTRICT NO. 2

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

For the Year Ended December 31, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Position</u>
EXPENDITURES					
Accounting and audit	\$ 2,238	\$ -	\$ 2,238	\$ -	\$ 2,238
Insurance	2,766	-	2,766	-	2,766
Legal	6,459	-	6,459	-	6,459
Director's fees	200	-	200	-	200
Miscellaneous	50	-	50	-	50
Treasurer's fees	339	1,017	1,356	-	1,356
Bond interest expense	-	51,300	51,300	(84)	51,216
Bond principal	-	15,000	15,000	(15,000)	-
Paying agent fees	-	1,500	1,500	-	1,500
	<u>12,052</u>	<u>68,817</u>	<u>80,869</u>	<u>(15,084)</u>	<u>65,785</u>
GENERAL REVENUES					
Property taxes	22,609	67,827	90,436	-	90,436
Specific ownership taxes	1,813	5,440	7,253	-	7,253
Interest income	649	261	910	-	910
	<u>25,071</u>	<u>73,528</u>	<u>98,599</u>	<u>-</u>	<u>98,599</u>
EXCESS OF REVENUES OVER EXPENDITURES	13,019	4,711	17,730	15,084	32,814
OTHER FINANCING SOURCES (USES)					
Transfer to other funds	<u>(10,000)</u>	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Source (Uses)	<u>(10,000)</u>	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	3,019	14,711	17,730	(17,730)	
CHANGES IN NET POSITION				32,814	32,814
FUND BALANCE/NET POSITION:					
BEGINNING OF YEAR	<u>26,610</u>	<u>73,052</u>	<u>99,662</u>	<u>(764,275)</u>	<u>(664,613)</u>
END OF YEAR	<u>\$ 29,629</u>	<u>\$ 87,763</u>	<u>\$ 117,392</u>	<u>\$ (749,191)</u>	<u>\$ (631,799)</u>

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

HOMETOWN METROPOLITAN DISTRICT NO. 2

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

For the Year Ended December 31, 2016

	Original/Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 22,609	\$ 22,609	\$ -
Specific ownership taxes	1,583	1,813	230
Interest income	<u>-</u>	<u>649</u>	<u>649</u>
Total Revenues	<u>24,192</u>	<u>25,071</u>	<u>879</u>
EXPENDITURES			
Accounting and audit	2,500	2,238	262
Election expense	3,000	-	3,000
Insurance	2,600	2,766	(166)
Legal	5,000	6,459	(1,459)
Director's fees	200	200	-
Miscellaneous	100	50	50
Treasurer's fees	339	339	-
Contingency	17,203	-	17,203
Emergency reserve	<u>412</u>	<u>-</u>	<u>412</u>
Total Expenditures	<u>31,354</u>	<u>12,052</u>	<u>19,302</u>
EXCESS OF REVENUES OVER EXPENDITURES	(7,162)	13,019	20,181
OTHER FINANCING SOURCES (USES)			
Transfer to other funds	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(17,162)	3,019	20,181
FUND BALANCE - BEGINNING OF YEAR	<u>17,162</u>	<u>26,610</u>	<u>9,448</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ 29,629</u>	<u>\$ 29,629</u>

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

HOMETOWN METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Hometown Metropolitan District No. 2 (“the District”), located within the City of Arvada (“City”), in Jefferson 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 13, 2008, concurrently with Hometown Metropolitan District No. 1 (“District No. 1”), Hometown Metropolitan District No. 3 (“District No. 3”) and Hometown Metropolitan District No. 4 (“District No. 4”) (collectively, the “Districts”), as a quasi-municipal organization established under the State of Colorado Special District Act. The District was organized to provide essential public improvements within and without the boundaries of the Districts, and as part of a common plan to serve the needs of the mixed-use development commonly known as Hometown. The District's primary revenues are property taxes. The District is governed by an elected Board of Directors.

The District serves as the “Financing District” along with District No. 3 and District No. 4, while District No. 1 serves as the “Coordinating District”. The Coordinating District will own, operate, maintain, and construct the facilities benefiting the Districts.

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 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.

HOMETOWN METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34 - Special Purpose Governments Section Sp 20.

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.

HOMETOWN METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

The District reports the following major governmental funds:

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

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

Budgetary Accounting

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

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents and accounts receivable. 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.

HOMETOWN METROPOLITAN DISTRICT NO. 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.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

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 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.

HOMETOWN METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

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.

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 \$454 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$87,763 is restricted for the payment of the debt service costs associated with the General Obligation Bonds Series 2010 (see Note 4).

Committed Fund Balance

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

Assigned Fund Balance

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

Unassigned Fund Balance

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

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

HOMETOWN METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2016

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District can report 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. At December 31, 2016 the District did not have any funds in this category.

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.

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	\$ 29,416
Cash and investments – Restricted	<u>87,770</u>
Total	<u>\$ 117,186</u>

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

Deposits with financial institutions	\$ 690
Investments - COLOTRUST	<u>116,496</u>
Total	<u>\$ 117,186</u>

HOMETOWN METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

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.

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

An external investment pool that records its investments at fair value. The investment in COLOTRUST is categorized as a Level 2 Investment.

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.

HOMETOWN METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

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

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust (“COLOTRUST”) is rated AAAM by Standard & Poor’s with a weighted average maturity of under 60 days, a Level 2 investment under the fair value hierarchy. COLOTRUST is an investment trust/joint ventures established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The trusts operate similarly to a money market fund with each share maintaining a value of \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. Designated custodian banks provide safekeeping and depository services to the trusts. Substantially all securities owned by the trusts are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians’ internal records identify the investments owned by COLOTRUST. At December 31, 2016, the District had \$116,496 invested in COLOTRUST.

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.

Note 3: Long Term Debt

General Obligation (Limited Tax Convertible to Unlimited Tax) Bonds Series 2010– On April 28, 2010 the District issued \$800,000 of general obligation limited tax bonds Series 2010 (“Series 2010 Bonds”) for the purpose of paying the costs of acquiring, constructing, and installation of public facilities, providing capitalized interest for payment of a portion of the interest on the Bonds, and paying the costs of issuance of the bonds. The Series 2010 Bonds are term bonds due December 1, 2034, with mandatory sinking fund payments beginning December 1, 2013, and increasing annually thereafter. The Series 2010 Bonds bear interest at 6.75%, to be paid on June 1 and December 1 of each year beginning June 1, 2010.

The Series 2010 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 1, 2020 and on any date thereafter, upon payment of par and accrued interest, without redemption premium.

HOMETOWN METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2016

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

	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016	Current Portion
G.O Bonds Series 2010	\$ 760,000	\$ -	\$ 15,000	\$ 745,000	\$ 15,000
	<u>\$ 760,000</u>	<u>\$ -</u>	<u>\$ 15,000</u>	<u>\$ 745,000</u>	<u>\$ 15,000</u>

The following is a summary of the annual long-term debt principal and interest requirements.

	Principal	Interest	Total
2017	\$ 15,000	\$ 50,288	\$ 65,288
2018	20,000	49,275	69,275
2019	20,000	47,925	67,925
2020	25,000	46,575	71,575
2021	25,000	44,887	69,887
2022 - 2026	170,000	194,738	364,738
2027 - 2031	260,000	125,888	385,888
2032 - 2034	210,000	29,025	239,025
	<u>\$ 745,000</u>	<u>\$ 588,601</u>	<u>\$ 1,333,601</u>

On May 6, 2008, a majority of the qualified electors of the District who voted in the election authorized the issuance of indebtedness of \$7,500,000 for new improvements. The District's Service Plan includes a debt authorization limit of \$7,500,000. As of December 31, 2016, the amount of unissued debt authorized under the Service Plan was \$6,700,000.

HOMETOWN METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

Note 4: Tax, Spending and Debt Limitations

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

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

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

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

On May 6, 2008, 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 5: 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 (“the 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.

HOMETOWN METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2016

Note 6: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

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

- 1) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities.

SUPPLEMENTAL INFORMATION

HOMETOWN METROPOLITAN DISTRICT NO. 2

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

For the Year Ended December 31, 2016

	Original/Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 67,827	\$ 67,827	\$ -
Specific ownership taxes	4,748	5,440	692
Interest income	<u>-</u>	<u>261</u>	<u>261</u>
 Total Revenues	 <u>72,575</u>	 <u>73,528</u>	 <u>953</u>
 EXPENDITURES			
Treasurer's fees	1,017	1,017	-
Bond interest expense	51,300	51,300	-
Bond principal	15,000	15,000	-
Paying agent fees	<u>3,000</u>	<u>1,500</u>	<u>1,500</u>
 Total Expenditures	 <u>70,317</u>	 <u>68,817</u>	 <u>1,500</u>
 EXCESS OF REVENUES OVER EXPENDITURES	 <u>2,258</u>	 <u>4,711</u>	 <u>2,453</u>
 OTHER FINANCING SOURCES			
Transfer from other funds	<u>10,000</u>	<u>10,000</u>	<u>-</u>
 Total Other Financing Sources	 <u>10,000</u>	 <u>10,000</u>	 <u>-</u>
 NET CHANGE IN FUND BALANCE	 12,258	 14,711	 2,453
 FUND BALANCE - BEGINNING OF YEAR	 <u>82,961</u>	 <u>73,052</u>	 <u>(9,909)</u>
 FUND BALANCE - END OF YEAR	 <u>\$ 95,219</u>	 <u>\$ 87,763</u>	 <u>\$ (7,456)</u>

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