

SOUTHSHORE METROPOLITAN DISTRICT NO. 2

Financial Statements

Year Ended December 31, 2016

with

Independent Auditors' Report



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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	19
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual – Capital Projects Fund	20
Schedule of Debt Service Requirements to Maturity – Series 2007 Bonds	21
Schedule of Debt Service Requirements to Maturity – Series 2015 Bonds	22
Summary of Assessed Valuation, Mill Levy and Property Taxes Collected	23



Certified Public Accountants and Business Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Southshore Metropolitan District No. 2
Arapahoe County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Southshore Metropolitan District No. 2 (the District), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Southshore Metropolitan District No. 1, as of December 31, 2016, and the respective changes in financial position thereof, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

I

Barnes Griggs & Associates, PC

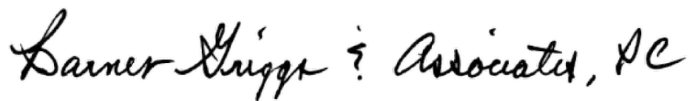
Other Matters

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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District’s basic financial statements. The supplementary information as listed in the table of contents is presented for purposed of legal compliance and 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. The 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Lakewood, Colorado
July 25, 2017

SOUTHSHORE METROPOLITAN DISTRICT NO. 2

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

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Cash and investments	\$ 13,322	\$ -	\$ -	\$ 13,322	\$ -	\$ 13,322
Cash and investments - restricted	15	1,134,760	2,412,447	3,547,222	-	3,547,222
Receivable - County Treasurer	4,645	-	-	4,645	-	4,645
Property taxes receivable	36,917	896,035	-	932,952	-	932,952
Due from other funds	<u>8,750</u>	<u>-</u>	<u>-</u>	<u>8,750</u>	<u>-</u>	<u>8,750</u>
Total Assets	<u>\$ 63,649</u>	<u>\$ 2,030,795</u>	<u>\$ 2,412,447</u>	<u>\$ 4,506,891</u>	<u>-</u>	<u>4,506,891</u>
LIABILITIES						
Due to District No. 1	\$ 6,947	\$ -	\$ 355,471	\$ 362,418	\$ -	\$ 362,418
Due to other funds	-	-	8,750	8,750	-	8,750
Accrued interest on bonds	-	-	-	-	116,824	116,824
Long-term liabilities:						
Due within one year	-	-	-	-	270,000	270,000
Due in more than one year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,492,012</u>	<u>22,492,012</u>
Total Liabilities	<u>6,947</u>	<u>-</u>	<u>364,221</u>	<u>371,168</u>	<u>22,878,836</u>	<u>23,250,004</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	<u>36,917</u>	<u>896,035</u>	<u>-</u>	<u>932,952</u>	<u>-</u>	<u>932,952</u>
Total Deferred Inflows of Resources	<u>36,917</u>	<u>896,035</u>	<u>-</u>	<u>932,952</u>	<u>-</u>	<u>932,952</u>
FUND BALANCES						
Fund Balances:						
Restricted:						
Emergencies	15	-	-	15	(15)	-
Debt service	-	1,134,760	-	1,134,760	(1,134,760)	-
Capital projects	-	-	2,048,226	2,048,226	(2,048,226)	-
Unassigned	<u>19,770</u>	<u>-</u>	<u>-</u>	<u>19,770</u>	<u>(19,770)</u>	<u>-</u>
Total Fund Balances	<u>19,785</u>	<u>1,134,760</u>	<u>2,048,226</u>	<u>3,202,771</u>	<u>(3,202,771)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 63,649</u>	<u>\$ 2,030,795</u>	<u>\$ 2,412,447</u>	<u>\$ 4,506,891</u>		
NET POSITION						
Restricted for:						
Emergencies					15	15
Debt service					1,017,936	1,017,936
Capital projects					2,048,226	2,048,226
Unrestricted					<u>(22,742,242)</u>	<u>(22,742,242)</u>
Total Net Position					<u>\$ (19,676,065)</u>	<u>\$ (19,676,065)</u>

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

SOUTHSHORE 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>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES						
Transfer to District No. 1	\$ 90,293	\$ -	\$ 8,793,433	\$ 8,883,726	\$ -	\$ 8,883,726
Treasurer's fees	492	11,957	-	12,449	-	12,449
Miscellaneous expense	120	-	-	120	-	120
Bond principal	-	260,000	-	260,000	(260,000)	-
Bond interest expense	-	537,144	-	537,144	876,813	1,413,957
Paying agent fees	-	5,500	-	5,500	-	5,500
Cost of issuance	-	-	8,750	8,750	-	8,750
	<u>90,905</u>	<u>814,601</u>	<u>8,802,183</u>	<u>9,707,689</u>	<u>616,813</u>	<u>10,324,502</u>
PROGRAM REVENUES						
System development fees	-	165,000	-	165,000	-	165,000
	<u>-</u>	<u>165,000</u>	<u>-</u>	<u>165,000</u>	<u>-</u>	<u>165,000</u>
Total Program Revenues	-	165,000	-	165,000	-	165,000
	<u>-</u>	<u>165,000</u>	<u>-</u>	<u>165,000</u>	<u>-</u>	<u>165,000</u>
Net Program Income (Expenses)	(90,905)	(649,601)	(8,802,183)	(9,542,689)	(616,813)	(10,159,502)
GENERAL REVENUES						
Property taxes	32,831	796,868	-	829,699	-	829,699
Specific ownership taxes	63,616	-	-	63,616	-	63,616
Miscellaneous income	-	6,000	-	6,000	-	6,000
Interest income	290	6,948	45,957	53,195	-	53,195
	<u>96,737</u>	<u>809,816</u>	<u>45,957</u>	<u>952,510</u>	<u>-</u>	<u>952,510</u>
Total General Revenues	96,737	809,816	45,957	952,510	-	952,510
	<u>96,737</u>	<u>809,816</u>	<u>45,957</u>	<u>952,510</u>	<u>-</u>	<u>952,510</u>
NET CHANGES IN FUND BALANCES	5,832	160,215	(8,756,226)	(8,590,179)	8,590,179	
CHANGE IN NET POSITION					(9,206,992)	(9,206,992)
FUND BALANCES/NET POSITION:						
BEGINNING OF YEAR	<u>13,953</u>	<u>974,545</u>	<u>10,804,452</u>	<u>11,792,950</u>	<u>(22,262,023)</u>	<u>(10,469,073)</u>
END OF YEAR	<u>\$ 19,785</u>	<u>\$ 1,134,760</u>	<u>\$ 2,048,226</u>	<u>\$ 3,202,771</u>	<u>\$ (22,878,836)</u>	<u>\$ (19,676,065)</u>

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

SOUTHSHORE 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

	<u>Original and Final Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 32,837	\$ 32,831	\$ (6)
Specific ownership taxes	58,089	63,616	5,527
Interest income	<u>566</u>	<u>290</u>	<u>(276)</u>
Total Revenues	<u>91,492</u>	<u>96,737</u>	<u>5,245</u>
EXPENDITURES			
Transfer to District No. 1	90,985	90,293	692
Miscellaneous expense	-	120	(120)
Treasurer's fees	492	492	-
Emergency reserve	<u>15</u>	<u>-</u>	<u>15</u>
Total Expenditures	<u>91,492</u>	<u>90,905</u>	<u>587</u>
NET CHANGE IN FUND BALANCE	-	5,832	5,832
FUND BALANCE:			
BEGINNING OF YEAR	<u>-</u>	<u>13,953</u>	<u>13,953</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 19,785</u>	<u>\$ 19,785</u>

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

SOUTHSHORE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2016

Note 1: Summary of Significant Accounting Policies

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

Definition of Reporting Entity

The District was organized in February 2002, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was created in conjunction with Southshore Metropolitan District No. 1, (“District No. 1”) to provide for streets, sanitation and water facilities, parks and recreation and other public improvements. The District was established as the Taxing District and Southshore Metropolitan District No. 1 as the Operating District. The purpose of the Taxing District is to provide funding to the Operating District for construction, operation and maintenance of facilities and improvements. The Taxing District has also issued debt to finance public improvements. 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.

SOUTHSHORE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

Basis of Presentation

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

The government-wide financial statements (i.e. the governmental funds balance sheet/statement of net position and the 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.

SOUTHSHORE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

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.

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.

Capital Projects Fund - The Capital Projects Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other assets.

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.

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.

SOUTHSHORE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

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

Estimates

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

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 under this category. 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 applicable governmental activities.

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.

SOUTHSHORE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

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.

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 \$15 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 \$1,134,760 is restricted for the payment of the debt service costs associated with the Limited Tax General Obligation Bonds Series 2007 and the General Obligation (Limited Tax Convertible to Unlimited Tax) Capital Appreciation Bonds Series 2015(see Note 3) and represents proceeds held by the Trustee as a reserve requirement, as defined by the Indenture, and is used to secure the District's obligation to the Bondholders until such a time that the Debt to Assessed Value Ratio is less than 50%. At that time the required reserve shall be zero.

The restricted fund balance in the Capital Projects Fund in the amount of \$2,048,226 is restricted for the payment of the costs for capital improvements within or which benefit the District.

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.

SOUTHSHORE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

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.

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 had no items that qualified for reporting 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.

SOUTHSHORE METROPOLITAN DISTRICT NO. 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:

Cash and investments	\$ 13,322
Cash and investments - restricted	<u>3,547,222</u>
Total	<u>\$ 3,560,544</u>

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

Deposits with financial institutions	\$ 145,249
Investments – Colotrust Plus +	<u>3,415,295</u>
	<u>\$ 3,560,544</u>

Deposits:

Custodial Credit Risk

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

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

Investments:

Credit Risk

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

SOUTHSHORE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

Custodial and Concentration of Credit Risk

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

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.

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.

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 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 \$3,415,295 invested in COLOTRUST PLUS+ through the trustee for the bonds.

SOUTHSHORE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

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

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

Limited Tax General Obligation Bonds Series 2007 - The District issued its Series 2007 Bonds in the original principal amount of \$10,000,000. The Bonds are term bonds, of which, \$3,000,000 bearing interest at 5.375% mature December 1, 2022 and \$7,000,000 bearing interest at 5.750% mature December 1, 2031, payable semiannually on each June 1 and December 1, commencing on December 1, 2007. The Bonds are subject to redemption prior to maturity at the option of the District beginning December 1, 2017, and on any date thereafter, upon payment of the principal amount redeemed plus accrued interest to the date of redemption, with no redemption premium.

The Bonds maturing December 1, 2022 are subject to mandatory sinking fund redemption, in part, by lot, on each December 1 in the years 2010 through 2021. The bonds maturing December 1, 2031 are subject to mandatory sinking fund redemption, in part, by lot, on each December 1 in the years 2023 through 2030.

General Obligation (Limited Tax Convertible to Unlimited Tax) Capital Appreciation Bonds, Series 2015 - On September 3, 2015, the District issued \$14,410,000 of General Obligation (Limited Tax Convertible to Unlimited Tax) Capital Appreciation Bonds, Series 2015 ("Series 2015 Bonds") dated January 15, 2015 with an original issue price of \$12,482,807 for the purpose of funding public capital facilities for District No. 1 and paying the costs of issuing the bonds. The Series 2015 Bonds were issued as convertible capital appreciation bonds and will accrete in value from their date of issuance at an annual rate of 6.50%, compounding semi-annually on June 1 and December 1 each year, commencing December 1, 2015. The Series 2015 Bonds convert to current interest bonds on December 1, 2017, and will be payable semi-annually thereafter at the rate of 6.50% per annum on June 1 and December 1 of each year, commencing June 1, 2018. The bonds are subject to a mandatory sinking fund redemption commencing on December 1, 2032. The Bonds mature on December 1, 2042.

The Series 2007 Bonds and the Series 2015 Bonds are secured by and payable from the pledged revenue, consisting of the moneys derived from a required mill levy of at least 30.000 mills until the surplus is fully funded, but not to exceed 50.000 mills (adjusted for changes occurring after the issuance of such bonds in the ratio of assessed values to market values), system development fees (see Note 5) and any other legally available moneys of the District credited to the Bond Fund. The required and limited mill levy rates require adjustment for changes in the ratio of assessed values to market values occurring after the issuance date of the Bonds.

SOUTHSHORE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2016

The District funded a Reserve Fund for the 2007 Bonds in the amount of \$1,000,000. The Bonds are also secured by a Surplus Fund to be funded from the required mill levy to be funded with up to \$1,000,000. The Reserve Fund and the Surplus Fund shall be maintained by the Trustee until the date upon which the Debt to Assessed Ratio is less than 50%, after which the Reserve Fund and the Surplus Fund shall be terminated and any moneys in the Reserve Fund transferred to the Construction Fund and utilized for construction of capital improvements as approved by the voters of the District at the Election and any moneys in the Surplus Fund shall be applied to any lawful purpose.

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 2007	\$ 9,505,000	\$ -	\$ 260,000	\$ 9,245,000	\$ 270,000
General Obligation Bonds - Series 2015	12,482,807	-	-	12,482,807	-
Series 2015 - Accretion	<u>196,695</u>	<u>837,510</u>	<u>-</u>	<u>1,034,205</u>	<u>-</u>
Total Long-term debt	<u>\$ 22,184,502</u>	<u>\$ 837,510</u>	<u>\$ 260,000</u>	<u>\$ 22,762,012</u>	<u>\$ 270,000</u>

The following is a summary of the annual long-term debt principal and interest requirements for the Series 2007 Bonds:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 270,000	\$ 523,169	\$ 793,169
2018	275,000	508,656	783,656
2019	325,000	493,875	818,875
2020	400,000	476,406	876,406
2021	450,000	454,906	904,906
2022 - 2026	3,215,000	1,822,220	5,037,220
2027 - 2031	<u>4,310,000</u>	<u>770,501</u>	<u>5,080,501</u>
	<u>\$ 9,245,000</u>	<u>\$ 5,049,733</u>	<u>\$ 14,294,733</u>

SOUTHSHORE METROPOLITAN DISTRICT NO. 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 Series 2015 Bonds:

	Principal	Interest	Total
2017	\$ -	\$ -	\$ -
2018	-	936,650	936,650
2019	-	936,650	936,650
2020	-	936,650	936,650
2021	-	936,650	936,650
2022 - 2026	-	4,683,250	4,683,250
2027 - 2031	-	4,683,250	4,683,250
2032 - 2036	5,075,000	4,076,475	9,151,475
2037 - 2041	7,465,000	2,135,575	9,600,575
2042	1,870,000	121,550	1,991,550
	\$ 14,410,000	\$ 19,446,700	\$ 33,856,700

Debt Authorization

As of December 31, 2016, District No. 1 and District No. 2 (the “Districts”) had remaining combined voted debt authorization of approximately \$10,404,193. The District has budgeted to issue new debt during 2017, (see Note 9). The District’s Service Plan establishes a total combined general obligation debt limit for both Districts of \$33,033,000.

Note 4: Related Party

One member of the Board of Directors is an employee of RainTree Investment Corporation (“RainTree”), which is the exclusive agent for Paulson Property Management, LLC (“Paulson”), which has significant ownership and/or investment interests in the property within the Districts. Two other directors are consultants, directly or indirectly, to Paulson. Management believes that all potential conflicts, if any, have been disclosed to the Secretary of State and the Board of Directors.

SOUTHSHORE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

Note 5: Agreements

Third Amended and Restated Joint Resolution of Southshore Metropolitan District Nos. 1 and 2 to Establish System Development Fees – On November 30, 2006 and as amended and/or restated in 2007, 2010 and with the most recent Third Amendment on December 11, 2012, the District imposes a system development fee due and payable upon issuance of a building permit to a buyer by the City of Aurora. The fee, at the District’s discretion, may increase on an annual basis in an amount equal to the Consumer Price Index (“CPI”) for that year not to exceed 5%. For 2012, the fee was \$2,000 per single family unit. Effective January 1, 2013, the Third Amendment increased the fees to \$2,500 per single family unit and \$1,750 per multi-family unit. During 2016, the District collected \$165,000 in fees.

Amended and Restated Intergovernmental Agreement – On December 2, 2004, and amended on May 11, 2007, the District entered into an agreement with District No. 1, in which the District agrees to assign all revenue raised from all sources not pledged to District debt to District No. 1 to offset the expenses of construction of public improvements and the costs of operation and maintenance of such public improvements. District No. 1 shall provide the operations and maintenance services and to maintain all necessary insurance in a manner deemed appropriate by the Districts and in compliance with applicable law. In 2016, the District transferred to District No. 1 \$89,353 for operations and maintenance and \$8,793,433 for capital improvements.

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.

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.

SOUTHSHORE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

In 2002, 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: 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.

Note 8: 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; and,
- 2) 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.

SOUTHSHORE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2016

Note 9: Subsequent Event

One June 21, 2017, the District issued the Subordinate Limited Tax General Obligation Bonds Series 2017 (the "Series 2017 Bonds"), in \$10,404,000. The Bonds will bear interest at 7.75% payable annually on December 15, to the extent of subordinate pledged revenue is available, commencing December 15, 2017. The Series 2017 Bonds mature on December 15, 2042. Proceeds from the sale of the Series 2017 Bonds will be used for the purposes of: (a) paying the project costs for infrastructure located within the District, and (b) paying the costs of issuance of the Series 2017 Bonds. The Series 2017 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 December 1, 2020, and on any date thereafter, upon payment of the principal amount so redeemed plus accrued interest thereon to the date of redemption, without redemption premium, upon payment of par, accrued interest, and a redemption premium of a percentage of the principal amount so redeemed, as follows:

Date of Redemption	Redemption Premium
December 1, 2020, to November 30, 2021	3.00%
December 1, 2021, to November 30, 2022	2.00
December 1, 2022, to November 30, 2023	1.00
December 1, 2023 and thereafter	0.00

SUPPLEMENTAL INFORMATION

SOUTHSHORE 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

	<u>Original and Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
System development fees	\$ 300,000	\$ 165,000	\$ (135,000)
Property taxes	797,005	796,868	(137)
Miscellenaous income	-	6,000	6,000
Interest income	<u>730</u>	<u>6,948</u>	<u>6,218</u>
Total Revenues	<u>1,097,735</u>	<u>974,816</u>	<u>(122,919)</u>
EXPENDITURES			
Bond principal	260,000	260,000	-
Bond interest expense	537,144	537,144	-
Paying agent fees	6,000	5,500	500
Treasurer's fees	<u>11,955</u>	<u>11,957</u>	<u>(2)</u>
Total Expenditures	<u>815,099</u>	<u>814,601</u>	<u>498</u>
NET CHANGE IN FUND BALANCE	282,636	160,215	(122,421)
FUND BALANCE:			
BEGINNING OF YEAR	<u>1,023,685</u>	<u>974,545</u>	<u>(49,140)</u>
END OF YEAR	<u>\$ 1,306,321</u>	<u>\$ 1,134,760</u>	<u>\$ (171,561)</u>

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

SOUTHSHORE METROPOLITAN DISTRICT NO. 2

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - CAPITAL PROJECTS FUND

For the Year Ended December 31, 2016

	<u>Original and Final Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Interest income	\$ -	\$ 45,957	\$ 45,957
Total Revenues	<u>-</u>	<u>45,957</u>	<u>45,957</u>
EXPENDITURES			
Transfer to District 1	11,521,146	8,793,433	2,727,713
Cost of issuance	<u>-</u>	<u>8,750</u>	<u>(8,750)</u>
Total Expenditures	<u>11,521,146</u>	<u>8,802,183</u>	<u>2,718,963</u>
NET CHANGE IN FUND BALANCE	(11,521,146)	(8,756,226)	2,764,920
FUND BALANCE:			
BEGINNING OF YEAR	<u>11,521,146</u>	<u>10,804,452</u>	<u>(716,694)</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 2,048,226</u>	<u>\$ 2,048,226</u>

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

SOUTHSHORE METROPOLITAN DISTRICT NO. 2

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY

December 31, 2016

\$10,000,000 Limited Tax General Obligation Bonds Series 2007

Interest Payable June 1 and December 1

Principal Due December 1

<u>Year Ended</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 270,000	\$ 523,169	\$ 793,169
2018	275,000	508,656	783,656
2019	325,000	493,875	818,875
2020	400,000	476,406	876,406
2021	450,000	454,906	904,906
2022	525,000	430,719	955,719
2023	570,000	402,500	972,500
2024	695,000	369,725	1,064,725
2025	700,000	329,763	1,029,763
2026	725,000	289,513	1,014,513
2027	775,000	247,825	1,022,825
2028	800,000	203,263	1,003,263
2029	875,000	157,263	1,032,263
2030	900,000	106,950	1,006,950
2031	960,000	55,200	1,015,200
	<u>\$ 9,245,000</u>	<u>\$ 5,049,733</u>	<u>\$ 14,294,733</u>

SOUTHSHORE METROPOLITAN DISTRICT NO. 2

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY

December 31, 2016

General Obligation (Limited Tax Convertible to Unlimited Tax)

Convertible capital Appreciation Bonds, Series 2015

Interest Payable June 1 and December 1

Principal Due December 1

<u>Year Ended</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ -	-
2018	-	936,650	936,650
2019	-	936,650	936,650
2020	-	936,650	936,650
2021	-	936,650	936,650
2022	-	936,650	936,650
2023	-	936,650	936,650
2024	-	936,650	936,650
2025	-	936,650	936,650
2026	-	936,650	936,650
2027	-	936,650	936,650
2028	-	936,650	936,650
2029	-	936,650	936,650
2030	-	936,650	936,650
2031	-	936,650	936,650
2032	865,000	936,650	1,801,650
2033	920,000	880,425	1,800,425
2034	1,015,000	820,625	1,835,625
2035	1,085,000	754,650	1,839,650
2036	1,190,000	684,125	1,874,125
2037	1,270,000	606,775	1,876,775
2038	1,390,000	524,225	1,914,225
2039	1,480,000	433,875	1,913,875
2040	1,610,000	337,675	1,947,675
2041	1,715,000	233,025	1,948,025
2042	1,870,000	121,550	1,991,550
	<u>\$ 14,410,000</u>	<u>\$ 19,446,700</u>	<u>\$ 33,856,700</u>

SOUTHSHORE METROPOLITAN DISTRICT NO. 2

**SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED**

December 31, 2016

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied		Total Property Tax		Percent Collected to Levied
		General Fund	Debt Service	Levied	Collected	
2005	\$ 1,314,200	38.000	0.000	\$ 49,940	\$ 49,940	100.00%
2006	\$ 1,309,490	38.000	0.000	\$ 49,761	\$ 49,761	100.00%
2007	\$ 3,670,340	38.000	7.290	\$ 166,230	\$ 165,676	99.67%
2008	\$ 7,508,600	47.000	5.060	\$ 390,898	\$ 391,471	100.15%
2009	\$ 14,577,280	47.000	5.060	\$ 758,893	\$ 702,376	92.55%
2010	\$ 11,872,620	22.060	30.000	\$ 618,089	\$ 612,180	99.04%
2011	\$ 11,218,360	22.060	30.000	\$ 584,028	\$ 524,019 (a)	89.72%
2012	\$ 10,761,490	22.060	30.000	\$ 560,243	\$ 376,928 (b)	67.28%
2013	\$ 11,161,250	2.060	50.000	\$ 581,055	\$ 580,450	99.90%
2014	\$ 11,037,770	2.060	50.000	\$ 574,626	\$ 574,684	100.01%
2015	\$ 11,779,267	2.060	50.000	\$ 613,229	\$ 613,228	100.00%
2016	\$ 15,940,103	2.060	50.000	\$ 829,842	\$ 829,699	99.98%
Estimated for year ending December 31, 2017	\$ 17,920,698	2.060	50.000	\$ 932,952		

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.

(a) The collected tax in 2011 reflects abatements of \$53,791.

(b) The collected tax in 2012 reflects abatements of \$178,099