

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO. 2**  
**El Paso County, Colorado**

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



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## INDEPENDENT AUDITOR'S REPORT

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Board of Directors

**Upper Cottonwood Creek Metropolitan District No. 2**

El Paso County, Colorado

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

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2016, the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

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

### *Other Information*

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

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

*BiggsKofford, P.C.*

Colorado Springs, Colorado  
July 17, 2017

## **BASIC FINANCIAL STATEMENTS**

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO. 2**  
**STATEMENT OF NET POSITION**  
**December 31, 2016**

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Cash and investments	\$ 14
Cash and investments - Restricted	575,201
Receivable from County Treasurer	5,704
Property taxes receivable	734,852
Total assets	<u>1,315,771</u>
<b>LIABILITIES</b>	
Accounts payable - Intergovernmental	1,440
Accrued interest payable	13,281
Noncurrent liabilities	
Due within one year	35,000
Due in more than one year	2,090,000
Total liabilities	<u>2,139,721</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Property tax revenue	734,852
Total deferred inflows of resources	<u>734,852</u>
<b>NET POSITION</b>	
Restricted for:	
Debt service	566,198
Unrestricted	(2,125,000)
Total net position	<u>\$ (1,558,802)</u>

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

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO. 2**  
**STATEMENT OF ACTIVITIES**  
**Year Ended December 31, 2016**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses)</u> <u>Revenues and</u> <u>Changes in</u> <u>Net Position</u>
		<u>Charges</u> <u>for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
Government activities:					
General government	\$ 158,818	\$ -	\$ -	\$ -	\$ (158,818)
Interest and related costs on long-term debt	167,846	-	-	-	(167,846)
	<u>\$ 326,664</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(326,664)</u>
General revenues:					
Property taxes					569,334
Specific ownership taxes					65,552
Net investment income					4,261
Total general revenues					<u>639,147</u>
Change in net position					312,483
Net position - Beginning					<u>(1,871,285)</u>
Net position - Ending					<u>\$ (1,558,802)</u>

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

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO. 2**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**December 31, 2016**

	<b>General</b>	<b>Debt Service</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and investments	\$ 14	\$ -	\$ 14
Cash and investments - Restricted	-	575,201	575,201
Receivable from County Treasurer	1,426	4,278	5,704
Property taxes receivable	183,713	551,139	734,852
Total assets	\$ 185,153	\$ 1,130,618	\$ 1,315,771
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable - Intergovernmental	\$ 1,440	\$ -	\$ 1,440
Total liabilities	1,440	-	1,440
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property tax revenue	183,713	551,139	734,852
Total deferred inflows of resources	183,713	551,139	734,852
<b>FUND BALANCES</b>			
Restricted for:			
Debt service	-	579,479	579,479
Total fund balances	-	579,479	579,479
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 185,153</b>	<b>\$ 1,130,618</b>	

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

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

Bonds payable	(2,125,000)
Accrued interest on bonds payable	(13,281)
Net position of governmental activities	\$ (1,558,802)

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

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO. 2**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**Year Ended December 31, 2016**

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Property taxes	\$ 142,333	\$ 427,001	\$ 569,334
Specific ownership taxes	16,391	49,161	65,552
Net investment income	94	4,167	4,261
Total revenues	<u>158,818</u>	<u>480,329</u>	<u>639,147</u>
<b>EXPENDITURES</b>			
Current			
County Treasurer's fees	2,136	6,409	8,545
Intergovernmental expenditure	156,682	-	156,682
Debt service			
Bond principal	-	30,000	30,000
Bond interest	-	161,625	161,625
Total expenditures	<u>158,818</u>	<u>198,034</u>	<u>356,852</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>-</u>	<u>282,295</u>	<u>282,295</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	282,295	282,295
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>-</u>	<u>297,184</u>	<u>297,184</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ -</u>	<u>\$ 579,479</u>	<u>\$ 579,479</u>

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

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

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

Net changes in fund balances - Total governmental funds	\$	282,295
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The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences is the treatment of long-term debt and related items as follows:

Bond principal payment		30,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued interest on bonds - Change in liability		188
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Change in net position of governmental activities	\$	<u>312,483</u>
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These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO. 2  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
December 31, 2016**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>			
Property taxes	\$ 142,419	\$ 142,333	\$ (86)
Specific ownership taxes	15,670	16,391	721
Net investment income	30	94	64
Other revenue	1,000	-	(1,000)
Total revenues	<u>159,119</u>	<u>158,818</u>	<u>(301)</u>
<b>EXPENDITURES</b>			
Contingency	1,000	-	1,000
County Treasurer's fees	2,136	2,136	-
Intergovernmental expenditure	155,983	156,682	(699)
Total expenditures	<u>159,119</u>	<u>158,818</u>	<u>301</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	-	-
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 1 - DEFINITION OF REPORTING ENTITY**

Upper Cottonwood Creek Metropolitan District No. 2 (the District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by order and decree of the District Court of El Paso County on May 22, 2006, concurrently with Upper Cottonwood Creek Metropolitan District Nos. 3 – 5, and the previously formed Old Ranch Metropolitan District and Upper Cottonwood Creek Metropolitan District (collectively, the Districts). The Districts were formed under a Joint Service Plan approved by the City of Colorado Springs (the City) on February 6, 2006, and are governed pursuant to provisions of the Colorado Special Districts Act (Title 32, Article 1, Colorado Revised Statutes). The Districts' service area is located entirely within the City. Old Ranch Metropolitan District (the Operating District) is responsible for managing the construction of certain public facilities and improvements and for operation and maintenance of the limited list of public improvements which are not conveyed to the City. The District, Upper Cottonwood Creek Metropolitan District and Upper Cottonwood Creek Metropolitan District Nos. 3 – 5 (collectively, the Financing Districts) are responsible for providing the funding and tax base needed to support the financing plan for capital improvements and to fund limited ongoing operations. Under the Service Plan, the Districts provide the following services: parks and recreation, sanitary sewer, storm drainage, streets, traffic safety protection, water and mosquito control.

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

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

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Government-wide and Fund Financial Statements**

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

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

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

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

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

The District reports the following major governmental funds:

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

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

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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

**Budgets**

In accordance with the State Budget Law 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 appropriation is at the total fund expenditures and other financing uses level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

**Pooled Cash and Investments**

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

**Property Taxes**

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

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

**Deferred Inflows of Resources**

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. Deferred property tax revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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

**Equity**

***Net Position***

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

***Fund Balance***

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

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

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

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 3 - CASH AND INVESTMENTS**

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

Statement of net position:

Cash and investments	\$ 14
Cash and investments - Restricted	<u>575,201</u>
Total cash and investments	<u><u>\$ 575,215</u></u>

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

Investments	\$ <u>575,215</u>
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**Deposits with Financial Institutions**

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

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

At December 31, 2016, the District had no deposits with financial institutions.

**Investments**

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

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

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

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

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

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

**Fair Value Measurement and Application**

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds (PFM Funds Governmental Select series); money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee); and CSAFE which record their investments at amortized cost.

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

<b>Investment</b>	<b>Maturity</b>	<b>Fair Value</b>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	<u>\$ 575,215</u>

**COLOTRUST**

The District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), an external investment pool that records its investments at fair value and measures fair value using Level 2 inputs. The Trust is an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAM by Standard & Poor's.

**NOTE 4 - LONG-TERM OBLIGATIONS**

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

	<u>Balance at December 31, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at December 31, 2016</u>	<u>Due Within One Year</u>
Limited Tax G.O. Bonds -					
Series 2010	\$ 2,155,000	\$ -	\$ 30,000	\$ 2,125,000	\$ 35,000
	<u>\$ 2,155,000</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 2,125,000</u>	<u>\$ 35,000</u>

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

**\$2,250,000 Limited Tax General Obligation Bonds, Series 2010**

On December 3, 2010, the District issued \$2,250,000 in Limited Tax General Obligation Bonds for public improvements. The Bonds bear interest at a rate of 4.75% through December 1, 2011, and then 7.50% through maturity on December 1, 2040. Bond interest and principal payments are payable annually on December 1. Any accrued and unpaid interest will compound on December 1 of each year.

The Bonds are secured by and payable from the Pledged Revenue, consisting of monies derived by the District from: 1) the Required Mill Levy, net of collection costs; 2) the portion of the specific ownership taxes remitted to the District pursuant to Section 42-3-107, C.R.S., or any successor statute, allocable to the amount of the Required Mill Levy; and 3) any other legally available monies which the District determines, in its sole discretion to credit to the Debt Service Fund. The Required Mill Levy means an ad valorem mill levy imposed upon all taxable property of the District each year in an amount sufficient to pay the principal of, premium, if any, and interest on the Bonds as the same become due and payable. The Required Mill Levy is limited to a maximum of 30.000 mills, adjusted for changes in the ratio of actual value to assessed value of property within the District. As of December 31, 2016, the adjusted maximum mill levy is 30.000.

The Bonds are subject to redemption prior to maturity, at the option of the District, in whole or in part, in integral multiples of \$1,000, on such dates and at such prices as set forth in the Sale Certificate, without redemption premium.

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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

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

	<b>Governmental Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 35,000	\$ 159,375	\$ 194,375
2018	35,000	156,750	191,750
2019	40,000	154,125	194,125
2020	45,000	151,125	196,125
2021	45,000	147,750	192,750
2022-2026	285,000	681,750	966,750
2027-2031	410,000	558,375	968,375
2032-2036	585,000	379,875	964,875
2037-2040	645,000	125,250	770,250
	<u>\$ 2,125,000</u>	<u>\$ 2,514,375</u>	<u>\$ 4,639,375</u>

**Authorized Debt**

On May 2, 2006, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$185,000,000 for infrastructure improvements and operations and maintenance at an interest rate not to exceed 15% and \$25,000,000 for refunding the District's debt or other obligations. At December 31, 2016, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	<b>Amount Authorized on May 2, 2006</b>	<b>Authorization Used for Series 2010 Bonds</b>	<b>Authorized But Unissued</b>
Streets	\$ 25,000,000	\$ 2,250,000	\$ 22,750,000
Water	25,000,000	-	25,000,000
Sanitary sewer	25,000,000	-	25,000,000
Parks and recreation	25,000,000	-	25,000,000
Traffic and safety	25,000,000	-	25,000,000
Television relay and translation	25,000,000	-	25,000,000
Operations and maintenance	10,000,000	-	10,000,000
Intergovernmental contracts	25,000,000	-	25,000,000
Debt refunding	25,000,000	-	25,000,000
	<u>\$ 210,000,000</u>	<u>\$ 2,250,000</u>	<u>\$ 207,750,000</u>

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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

Pursuant to the Joint Service Plan as amended on February 6, 2006, the District can issue bond indebtedness of up to \$25,000,000. In addition, the maximum debt service mill levy for the District is 30.000 mills, as adjusted for changes in the ratio of actual value to assessed value of property within the District.

In the future, the District may issue a portion or all of the remaining authorized but unissued general obligation debt for purposes of providing public improvements to support development as it occurs with the District's service area, within the limitations of the District's Service Plan.

**NOTE 5 - NET POSITION**

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

The restricted component of net position consist of assets that are restricted for use either externally by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The District had restricted net position for debt service of \$556,198 as of December 31, 2016.

The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the restricted component of net position.

The District has a deficit in unrestricted net position. This deficit amount was a result of the District being responsible for the repayment of bonds issued and transferred to the Operating District for the purpose of financing public improvements.

**NOTE 6 - RELATED PARTY**

The Developer of the property which constitutes the District is Nor'wood Development Group. The members of the Board of Directors are officers of, employees of, or associated with the Developer and may have conflicts of interest in dealing with the District.

**NOTE 7 - INTERGOVERNMENTAL AGREEMENT**

On June 1, 2006, the District entered into a District Facilities Construction and Service Agreement (IGA) with the Operating District, Upper Cottonwood Creek Metropolitan District, and Upper Cottonwood Creek Metropolitan District Nos. 3 – 5. The IGA provides that the Operating District is to construct, own, maintain, and operate the facilities benefiting the aforementioned Districts. The Financing Districts have agreed to finance such activities by either issuing bonds and/or pledging certain revenues collected within the boundaries of the Financing Districts.

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 8 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

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

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

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

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

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

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. The District transfers its net operating revenue to the Operating District pursuant to an intergovernmental agreement. Therefore, the Emergency Reserve related to the District's revenues is reported in Old Ranch Metropolitan District.

On May 2, 2006, the District voters passed an election question allowing the District to increase property taxes up to \$10,000,000 annually, without limitation of rate, and without regard to any spending, revenue raising or other limitations contained within Article X, Section 20 of the Colorado Constitution (TABOR) or Section 29-2-301, C.R.S., to pay the District's operations, maintenance and other expenses. Additionally, the District's electors authorized the District to collect, spend or retain all revenue without regard to any limitations under TABOR.

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.

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

**SUPPLEMENTARY INFORMATION**

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

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>			
Property taxes	\$ 427,258	\$ 427,001	\$ (257)
Specific ownership taxes	47,000	49,161	2,161
Net investment income	640	4,167	3,527
Total revenues	<u>474,898</u>	<u>480,329</u>	<u>5,431</u>
<b>EXPENDITURES</b>			
County Treasurer's fees	6,409	6,409	-
Bond principal	30,000	30,000	-
Bond interest	161,625	161,625	-
Contingency	1,966	-	1,966
Total expenditures	<u>200,000</u>	<u>198,034</u>	<u>1,966</u>
<b>NET CHANGE IN FUND BALANCES</b>	274,898	282,295	7,397
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>296,405</u>	<u>297,184</u>	<u>779</u>
<b>FUND BALANCES - END OF YEAR</b>	<u><u>\$ 571,303</u></u>	<u><u>\$ 579,479</u></u>	<u><u>\$ 8,176</u></u>

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO. 2**  
**SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY**  
**December 31, 2016**

**\$2,250,000 Limited Tax General Obligation Bonds**  
**Series 2010**

**Dated December 3, 2010 Interest**

**Rate 4.75% through December 1, 2011 then 7.50%**

**Principal and Interest Due December 1**

<b><u>Year Ended</u></b> <b><u>December 31,</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2017	\$ 35,000	\$ 159,375	\$ 194,375
2018	35,000	156,750	191,750
2019	40,000	154,125	194,125
2020	45,000	151,125	196,125
2021	45,000	147,750	192,750
2022	50,000	144,375	194,375
2023	55,000	140,625	195,625
2024	55,000	136,500	191,500
2025	60,000	132,375	192,375
2026	65,000	127,875	192,875
2027	70,000	123,000	193,000
2028	75,000	117,750	192,750
2029	80,000	112,125	192,125
2030	90,000	106,125	196,125
2031	95,000	99,375	194,375
2032	100,000	92,250	192,250
2033	110,000	84,750	194,750
2034	115,000	76,500	191,500
2035	125,000	67,875	192,875
2036	135,000	58,500	193,500
2037	145,000	48,375	193,375
2038	155,000	37,500	192,500
2039	165,000	25,875	190,875
2040	180,000	13,500	193,500
	<b><u>\$ 2,125,000</u></b>	<b><u>\$ 2,514,375</u></b>	<b><u>\$ 4,639,375</u></b>

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO. 2  
SCHEDULE OF ASSESSED VALUATION,  
MILL LEVY AND PROPERTY TAXES COLLECTED  
December 31, 2016**

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>	<u>Mills Levied</u>		<u>Total Property Taxes</u>		<u>Percentage Collected to Levied</u>
		<u>General</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2012	\$ 6,130,300	10.000	30.000	\$ 245,212	\$ 244,600	99.75%
2013	\$ 6,735,120	10.000	30.000	\$ 269,405	\$ 269,405	100.00%
2014	\$ 8,251,940	10.000	30.000	\$ 330,077	\$ 329,704	99.89%
2015	\$ 10,798,370	10.000	30.000	\$ 431,934	\$ 431,880	99.99%
2016	\$ 14,241,920	10.000	30.000	\$ 569,677	\$ 569,334	99.94%
Estimated for the year ending December 31, 2017	\$ 18,371,300	10.000	30.000	\$ 734,852		

**NOTE:**

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