

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**Jefferson County, Colorado**

**FINANCIAL STATEMENTS**  
**December 31, 2017**

**E**

**RECEIVED**

Office of the State Auditor

July 26, 2018

**TABLE OF CONTENTS**

	<b>PAGE</b>
<b>INDEPENDENT AUDITOR'S REPORT</b> .....	<b>1</b>
<b>BASIC FINANCIAL STATEMENTS</b>	
<b>Government-wide Financial Statements</b>	
Statement of Net Position .....	1
Statement of Activities .....	2
<b>Fund Financial Statements</b>	
Balance Sheet - Governmental Funds .....	3
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....	4
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	5
General Fund - Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual .....	6
Notes to Financial Statements .....	7
<b>SUPPLEMENTARY INFORMATION</b> .....	<b>24</b>
Debt Service Fund - Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual .....	25
Capital Projects Fund - Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual .....	26
<b>OTHER INFORMATION</b> .....	<b>27</b>
Schedule of Debt Service Requirements to Maturity .....	28
Schedule of Assessed Valuation, Mill Levy and Property Taxes Collected .....	29



---

Dazzio & Associates, PC

---

Certified Public Accountants

## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Hawthorn Metropolitan District No. 2  
Jefferson County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hawthorn Metropolitan District No. 2 as of and for the year December 31, 2017, 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.

8200 South Quebec Street, Suite A3259, Centennial, Colorado 80112  
303-905-0809 • [info@dazziocpa.com](mailto:info@dazziocpa.com)

• Member American Institute of Certified Public Accountants • Member Colorado Society of Certified Public Accountants •

## 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 Hawthorn Metropolitan District No. 2, as of December 31, 2017, and the respective changes in financial position 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.

## Other Matters

### *Required Supplementary Information*

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements 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 Hawthorn Metropolitan District No. 2's basic financial statements. The Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual for the Debt Service and Capital Projects Funds (the Supplementary Information) and the Schedule of Debt Service Requirements to Maturity and the Schedule of Assessed Valuation, Mill Levy and Property Taxes Collected (the Other Information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Information is the responsibility of management and was derived from and relate 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.

The Other Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Duggio & Associates, P.C.*

July 18, 2018

## **BASIC FINANCIAL STATEMENTS**

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**STATEMENT OF NET POSITION**  
**December 31, 2017**

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Cash and investments	\$ 10,176
Cash and investments - Restricted	30,548
Receivable from County Treasurer	3,123
Property taxes receivable	579,706
Capital assets	1,149,010
Total assets	<u>1,772,563</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Cost of refunding	<u>661,763</u>
Total deferred inflows of resources	<u>661,763</u>
<b>LIABILITIES</b>	
Accounts payable	93,619
Accrued interest payable	12,142
Noncurrent liabilities	
Due within one year	60,000
Due in more than one year	8,163,561
Total liabilities	<u>8,329,322</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Property tax revenue	<u>579,706</u>
Total deferred inflows of resources	<u>579,706</u>
<b>NET POSITION</b>	
Net investment in capital assets	40,964
Restricted for:	
Emergency reserves	5,000
Unrestricted	(6,520,666)
Total net position	<u>\$ (6,474,702)</u>

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

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**STATEMENT OF ACTIVITIES**  
Year Ended December 31, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Changes in Net Position</u>
					<u>Governmental Activities</u>
Government activities:					
General government	\$ 301,854	\$ 95,626	\$ -	\$ -	\$ (206,228)
Conveyance of assets to other entities	7,477,045	-	-	-	(7,477,045)
Interest and related costs on long-term debt	918,100	-	-	-	(918,100)
	<u>\$ 8,696,999</u>	<u>\$ 95,626</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(8,601,373)</u>
General revenues:					
Property taxes					301,446
Specific ownership taxes					41,392
Interest income					7,072
Special items:					
Forgiveness and cancellation of debt					3,186,259
Total general revenues					<u>3,536,169</u>
Change in net position					<u>(5,065,204)</u>
Net position - Beginning					<u>(1,409,498)</u>
Net position - Ending					<u>\$ (6,474,702)</u>

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

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**December 31, 2017**

	General	Debt Service	Capital Projects	Total Governmental Funds
<b>ASSETS</b>				
Cash and investments	\$ 10,176	\$ -	\$ -	\$ 10,176
Cash and investments - Restricted	5,000	25,548	-	30,548
Property taxes receivable	155,378	424,328	-	579,706
Receivable from County Treasurer	775	2,348	-	3,123
Due from other fund	-	3,538	-	3,538
Total assets	\$ 171,329	\$ 455,762	\$ -	\$ 627,091
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
Accounts payable	\$ 85,619	\$ 8,000	\$ -	\$ 93,619
Due to other fund	3,538	-	-	3,538
Total liabilities	89,157	8,000	-	97,157
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred property tax revenue	155,378	424,328	-	579,706
Total deferred inflows of resources	155,378	424,328	-	579,706
<b>FUND BALANCES (DEFICITS)</b>				
Restricted for:				
Emergency reserves	5,000	-	-	5,000
Debt service	-	23,434	-	23,434
Unassigned	(78,206)	-	-	(78,206)
Total fund balances (deficits)	(73,206)	23,434	-	(49,772)
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 171,329</b>	<b>\$ 455,762</b>	<b>\$ -</b>	

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

Capital assets are reported as assets on the Statement of Net Position but are recorded as expenditures in the funds		1,149,010
Capital assets, net of depreciation		1,149,010
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		(7,958,000)
Bond interest payable		(18,503)
Developer advances payable		(120,000)
Bond premium		(107,787)
Cost of refunding		661,763
Accrued interest on Developer advances		(31,413)
Net position of governmental activities		<b>\$ (6,474,702)</b>

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

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
Year Ended December 31, 2017

	General	Debt Service	Capital Projects	Total Governmental Funds
<b>REVENUES</b>				
Property taxes	\$ 74,795	\$ 226,651	\$ -	\$ 301,446
Specific ownership taxes	10,272	31,120	-	41,392
Operations fees	95,626	-	-	95,626
Net investment income	150	6,922	-	7,072
Total revenues	<u>180,843</u>	<u>264,693</u>	<u>-</u>	<u>445,536</u>
<b>EXPENDITURES</b>				
Current				
Accounting	22,623	-	-	22,623
Audit	4,700	-	-	4,700
County interest expense	1,896	5,746	-	7,642
County Treasurer's fees	1,096	3,320	-	4,416
Director expense	1,018	-	-	1,018
Directors' fees	861	-	-	861
District management	14,380	-	-	14,380
Dues and licenses	479	-	-	479
Electricity	661	-	-	661
Grounds cleanup	6,252	-	-	6,252
Insurance and bonds	10,264	-	-	10,264
Irrigation repairs	3,469	-	-	3,469
Landscape maintenance contract	41,472	-	-	41,472
Legal	60,503	-	-	60,503
Miscellaneous	212	-	-	212
North Table Mountain IGA	13,983	-	-	13,983
Postage and copies	2,400	-	-	2,400
Snow removal	2,533	-	-	2,533
Social activities	1,094	-	-	1,094
Transfer fees	3,300	-	-	3,300
Trash removal	35,430	-	-	35,430
Water	3,688	-	-	3,688
Debt service				
Bond interest Series 2014	-	263,288	-	263,288
Bond issue costs	-	421,198	-	421,198
Paying agent fees	-	5,502	-	5,502
Refunding Bond payment	-	837,718	-	837,718
Capital				
Capital outlay	-	-	3,070,599	3,070,599
Repay Developer advance	-	-	1,496,280	1,496,280
Total expenditures	<u>232,314</u>	<u>1,536,772</u>	<u>4,566,879</u>	<u>6,335,965</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(51,471)</u>	<u>(1,272,079)</u>	<u>(4,566,879)</u>	<u>(5,890,429)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond issuance	-	6,461,720	1,496,280	7,958,000
Bond premium	-	113,094	-	113,094
Developer advance	15,000	-	3,070,599	3,085,599
Payment to escrow agent	-	(6,148,578)	-	(6,148,578)
Total other financing sources (uses)	<u>15,000</u>	<u>426,236</u>	<u>4,566,879</u>	<u>5,008,115</u>
<b>NET CHANGE IN FUND BALANCES</b>	(36,471)	(845,843)	-	(882,314)
<b>FUND BALANCES (DEFICITS) - BEGINNING OF YEAR</b>	<u>(36,735)</u>	<u>869,277</u>	<u>-</u>	<u>832,542</u>
<b>FUND BALANCES (DEFICITS) - END OF YEAR</b>	<u>\$ (73,206)</u>	<u>\$ 23,434</u>	<u>\$ -</u>	<u>\$ (49,772)</u>

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

**HAWTHORN 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, 2017**

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

Net changes in fund balances - Total governmental funds \$ (882,314)

Governmental funds report capital outlays as expenditures. In the statement of activities, capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of any cost of any depreciable asset over the estimated useful life of the asset.

Capital outlay	3,070,599
Conveyance of assets to other entities	(7,477,045)
Depreciation	(60,474)

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

Developer advance	(3,085,599)
Repay Developer advance	1,496,280
Bond issuance	(7,958,000)
Bond premium	(113,094)
Bond principal refunded - Series 2014	4,130,000
Bond principal refunded - Series 2015	1,905,000
Deferred costs of refunding	661,763
Forgiveness of Capital advances and interest	3,186,259

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.

Amortization of bond premium	5,307
Accrued interest on Developer advances - Change in liability	(89,220)
Accrued interest on Bonds - Change in liability	145,334

Change in net position of governmental activities \$ (5,065,204)

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

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - BUDGET AND ACTUAL**  
**Year Ended December 31, 2017**

	Budget		Actual	Variance- Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 105,123	\$ 105,123	\$ 74,795	\$ (30,328)
Specific ownership taxes	8,410	8,410	10,272	1,862
Operations fee	83,550	83,550	95,626	12,076
Net investment income	2,000	2,000	150	(1,850)
Total revenues	<u>199,083</u>	<u>199,083</u>	<u>180,843</u>	<u>(18,240)</u>
<b>EXPENDITURES</b>				
Current				
Accounting	16,000	23,000	22,623	377
Audit	5,000	5,000	4,700	300
Contingency	-	20,900	-	20,900
County interest expense	-	2,000	1,896	104
County Treasurer's fees	1,577	1,577	1,096	481
Director expense	2,000	2,000	1,018	982
Directors' fees	800	800	861	(61)
District management	17,760	17,760	14,380	3,380
Dues and licenses	600	600	479	121
Electricity	1,200	1,200	661	539
Grounds cleanup	2,500	2,500	6,252	(3,752)
Insurance and bonds	11,000	11,000	10,264	736
Irrigation repairs	3,400	3,400	3,469	(69)
Landscape maintenance contract	38,000	38,000	41,472	(3,472)
Legal	20,000	60,000	60,503	(503)
Lighting repair	50	50	-	50
Miscellaneous	123	123	212	(89)
North Table Mountain IGA	14,100	14,100	13,983	117
Postage and copies	1,260	1,260	2,400	(1,140)
Snow removal	4,870	4,870	2,533	2,337
Social activities	3,000	3,000	1,094	1,906
Sod repair	250	250	-	250
Transfer fees	-	-	3,300	(3,300)
Trash removal	32,200	32,200	35,430	(3,230)
Water	17,865	17,865	3,688	14,177
Total expenditures	<u>193,555</u>	<u>263,455</u>	<u>232,314</u>	<u>31,141</u>
<b>EXCESS OF REVENUES OVER (UNDER)</b>				
<b>EXPENDITURES</b>	<u>5,528</u>	<u>(64,372)</u>	<u>(51,471)</u>	<u>12,901</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Developer advance	-	-	15,000	15,000
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>15,000</u>
<b>NET CHANGE IN FUND BALANCE</b>	5,528	(64,372)	(36,471)	27,901
<b>FUND BALANCES (DEFICITS) -</b>				
<b>BEGINNING OF YEAR</b>	<u>(1,870)</u>	<u>(1,870)</u>	<u>(36,735)</u>	<u>(34,865)</u>
<b>FUND BALANCES (DEFICITS) -</b>				
<b>END OF YEAR</b>	<u>\$ 3,658</u>	<u>\$ (66,242)</u>	<u>\$ (73,206)</u>	<u>\$ (6,964)</u>

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

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 1 - DEFINITION OF REPORTING ENTITY**

Hawthorn Metropolitan District No. 2 (District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by order and decree of the District Court for the County of Jefferson, Colorado on December 5, 2012, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes).

The District was established to provide financing for the operations and maintenance and design, acquisition, installation, construction and completion of public improvements and services, including water, sanitation/storm sewer, streets, park and recreation, transportation, mosquito control, safely protection, fire protection, television relay and translation, and security. The District provides covenant control and was organized in conjunction with Hawthorn Metropolitan District No. 1 (District No. 1), which previously served as the Operating District, and is currently inactive.

On December 7, 2015, District No. 1 approved, and the District accepted, the assignment of any of District No. 1's rights, duties, and obligations under the Covenants and Restrictions of Hawthorn which have been recorded and filed with the County Clerk and Recorder.

The Districts are not authorized to plan for, design, acquire, construct, install, relocate, redevelop, finance, operate or maintain fire protection facilities or services, unless such facilities and services are provided as part of an intergovernmental agreement with the County and now inactive.

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.

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

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

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

The statement of activities demonstrates the degree to which the direct 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 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. Redemption of bonds are recorded as a reduction in liabilities.

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. 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.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of capital equipment and facilities.

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**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 total 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 District amended its annual budget for the year ended December 31, 2017.

**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.

**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.

**Capital Assets**

Capital assets, which include infrastructure assets, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

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

Capital assets which are anticipated to be conveyed to other governmental entities are recorded as construction in progress, and are not included in the calculation of the net investment in capital assets component of the District's net position.

**Amortization**

In the government-wide financial statements, bond premiums are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

**Deferred Inflows/Outflows of Resources**

In addition to assets, the statement of net position reports 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 and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has one item that qualifies for reporting in this category. Accordingly, the item, cost of refunding, is deferred and recognized as an outflows of resources in the period that the amount is incurred.

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 and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Accordingly, the item, *deferred property tax revenue*, is deferred and recognized as an inflow of resources in the period that the amount becomes available.

**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.

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

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

***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.

**Deficits**

The General Fund reported a deficit in the fund financial statements as of December 31, 2017. The deficit will be eliminated with the receipt of property taxes in 2018.

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 3 - CASH AND INVESTMENTS**

Cash and investments as of December 31, 2017, are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and Investments	\$ 10,176
Cash and Investments - Restricted	<u>30,548</u>
Total Investments	<u>\$ 40,724</u>

Cash and Investments as of December 31, 2017 consist of the following:

Deposits with financial institutions	\$ 27,278
Investments	<u>13,446</u>
Total cash and investments	<u>\$ 40,724</u>

**Deposits with Financial Institutions**

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

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

At December 31, 2017, the District's cash deposits had a bank balance and a carrying balance of \$27,278.

**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. Guaranteed investment contracts not purchased with bond proceeds, are limited to maturities of three years or less.

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

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

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

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

As of December 31, 2017, the District had the following investments:

<b>Investment</b>	<b>Maturity</b>	<b>Amount</b>
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted average under 60 days	<u>\$ 13,446</u>

**CSAFE**

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE) (the Trust), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE is rated AAAM by Standard & Poor's. CSAFE records its investments at amortized cost and the District records its investments in CSAFE using the amortized cost method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 4 - CAPITAL ASSETS**

An analysis of the changes in property for the period ended December 31, 2017, follows:

	<b>Balance at January 1, 2017</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at December 31, 2017</b>
<b>Governmental Type Activities:</b>				
Capital assets not being depreciated:				
Construction in progress	\$ 5,615,930	\$ 3,070,599	\$ 8,686,529	\$ -
Total capital assets, not being depreciated	5,615,930	3,070,599	8,686,529	-
Capital assets being depreciated:				
Structures	-	187,200	-	187,200
Landscaping	-	583,140	-	583,140
Parks and Recreation	-	439,144	-	439,144
Total capital assets being depreciated	-	1,209,484	-	1,209,484
Less accumulated depreciation for:				
Structures	-	(9,360)	-	(9,360)
Landscaping	-	(29,157)	-	(29,157)
Parks and Recreation	-	(21,957)	-	(21,957)
Total accumulated depreciation	-	(60,474)	-	(60,474)
Total capital assets, being depreciated, net	-	1,149,010	-	1,149,010
Governmental activities capital assets, net	\$ 5,615,930	\$ 4,219,609	\$ 8,686,529	\$ 1,149,010

Depreciation expense was charged to functions/programs of the primary government as follows:

General government	\$60,474
--------------------	----------

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 5 - LONG-TERM OBLIGATIONS**

The following is an analysis of changes in long-term obligations for the year ended December 31, 2017:

	Balance at December 31, 2016	Additions	Retirement of Long-Term Obligations	Balance at December 31, 2017	Due Within One Year
G.O. Bonds - Series 2014	\$ 4,130,000	\$ -	\$ 4,130,000	\$ -	\$ -
G.O. Subordinate Bonds - Series 2015	1,905,000	-	1,905,000	-	-
G.O. Subordinate Bonds Interest - Series 2015	141,896	147,637	289,533	-	-
G.O. Bonds - Series 2017A	-	6,210,000	-	6,210,000	60,000
G.O. Bonds - Series 2017B	-	820,000	-	820,000	-
G.O. Bonds - Series 2017C	-	928,000	-	928,000	-
Bond premium	-	113,094	5,307	107,787	-
Accrued and unpaid interest - 2017B	-	2,484	-	2,484	-
Accrued and unpaid interest - 2017C	-	3,877	-	3,877	-
Developer advances - operations	105,000	15,000	-	120,000	-
Developer advances - capital	1,129,584	3,070,599	4,200,183	-	-
Accrued interest -					
Developer advances - operations	22,937	8,476	-	31,413	-
Accrued interest -					
Developer advances - capital	401,612	80,744	482,356	-	-
	<u>\$ 7,836,029</u>	<u>\$11,399,911</u>	<u>\$ 11,012,379</u>	<u>\$ 8,223,561</u>	<u>\$ 60,000</u>

**\$4,130,000 Series 2014 General Obligation Bonds**

On August 28, 2014, the District issued a General Obligation (Limited Tax Convertible to Unlimited Tax) Bonds in the amount of \$4,130,000. The Bond bears interest at a rate of 6.375% per annum, with interest payable on June 1 and December 1, and principal payable on December 1. The Bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, on December 1, 2019, and on any date thereafter, upon payment of par and accrued interest, without redemption premium. The Bonds are also subject to mandatory sinking fund redemption, in part, by lot, on December 1, 2019, and each December 1 thereafter.

The Bonds are secured by and payable from the Pledged Revenue consisting of monies derived by the District from the following sources, net of any collection costs: 1) the Required Mill Levy and 2) the portion of the Specific Ownership Tax which is collected as a result of the imposition of the Required Mill Levy. 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, premium if any, and interest on the Bonds as the same become due/payable. The District must levy 50.000 mills (adjusted) so long as the amount on deposit in the Surplus Fund is less than the Required Surplus Fund amount of \$413,000.

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)**

**Series 2015 General Obligation Subordinate Bonds**

On December 29, 2015, the District issued Limited Tax Subordinate General Obligation Bonds in the amount of \$1,905,000. The proceeds from the sale of the bonds were used for the purposes of reimbursing construction costs of public infrastructure improvements and paying costs of issuance of the Subordinate Bonds.

Interest on the Subordinate Bonds is at a rate of 7.75% per annum and is payable annually on December 15, beginning on December 15, 2016. Unpaid interest on the Subordinate Bonds compounds annually on each December 15. The Subordinate Bonds are subject to optional redemption prior to maturity as described in the Subordinate Indenture. The Subordinate Bonds mature on December 15, 2044.

The Subordinate Bonds are secured by and payable solely from Pledged Revenue as described in the Subordinate Indenture, which includes: (i) property taxes, net of the costs of collection, derived from the Required Subordinate Mill Levy; (ii) specific ownership taxes attributable to the Required Subordinate Mill Levy; and (iii) receipts, if any, available for the District's Subordinate Bonds. Pledged Revenue for the Subordinate Bonds is subordinate to the revenue pledged to the 2014 Senior Bonds. While the 2014 Senior Bonds are secured by a Senior Reserve Fund and a Senior Surplus Fund, there is no reserve fund or surplus fund which secures the Subordinate Bonds. The Subordinate Bonds are structured as cash flow bonds, meaning that there are no scheduled payments of principal prior to the final maturity date. A debt to maturity schedule is not provided as repayment depends on available cash flow after the 2014 Senior Bonds are paid. The Indenture provides that any unpaid principal and interest will extinguish on, and will no longer be due as of, December 1, 2055.

The Subordinate Indenture requires that a Required Subordinate Mill Levy be imposed in an amount equal to 50 mills (adjusted) less the amount of the Senior Bond Mill Levy. The 2014 Indenture provides a Senior Required Mill Levy which, prior to the time when the debt to assessed value ratio is 50% or less, shall be imposed in an amount sufficient to pay the principal of, premium if any, and interest on the 2014 Senior Bonds and to replenish the 2014 Reserve Fund to the 2014 Required Reserve (less any amounts on deposit in the Bond Fund, and with respect to the Required Mill Levy to be imposed in 2043 only, amounts on deposit in the Surplus Fund and the Reserve Fund, if any). The 2014 Indenture further provides that the Senior Required Mill Levy must equal 50 mills (subject to adjustment as described in the 2014 Indenture) until such time as the Senior Surplus Fund for the 2014 Senior Bonds equals the Required Surplus Amount, which is defined in the 2014 Indenture as the amount of \$413,000. In no event shall the Senior Required Mill Levy exceed 50 mills (subject to adjustment). Until such time as (if ever), the ratio of debt to assessed value in the District is 50% or less, the Senior Required Mill levy is not limited as to rate. Therefore, the Required Subordinate Mill Levy will be zero until such time as the Senior Required Mill Levy is less than 50 mills.

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)**

On December 14, 2017, the District advance refunded and defeased \$4,130,000 of General Obligation bonds (Series 2014) and \$1,905,000 of General Obligation Subordinate bonds (Series 2015) by the issuance of the General Obligation bonds Series 2017A, Series 2017B and Series 2017C dated December 14, 2017. The District advance refunded the Series 2014 and Series 2015 bonds to achieve an economic net present value gain of \$52,314. The District's debt service payments will increase by \$1,066,852 over the next 30 years. Additionally, and concurrently with the refunding of the bonds, the Developer forgave \$3,186,259 in outstanding obligations. Restrictions on the monies restricted for interest payments and the reserve account pertaining to the defeased bonds were removed under the new refunding. The defeased bonds are not considered a liability of the District since sufficient funds in the amount of \$6,685,765 were deposited with a trustee and invested in U.S. government securities for the purpose of paying the principal and interest of the defeased bonds until the call date, at which point the bonds will be repaid in their entirety from the remaining funds in the escrow account. The Series 2014 Bonds will be redeemed December 1, 2019. The Series 2015 Bonds will be redeemed December 15, 2019. As of December 31, 2017, the outstanding principal balance of the defeased bonds is \$6,035,000.

**\$6,210,000 Series 2017A General Obligation (Limited Tax Convertible to Unlimited Tax) Refunding Bonds**

**\$820,000 Series 2017B Subordinate Limited Tax General Obligation Refunding and Improvement Bonds**

**\$928,000 Series 2017C Limited Tax Junior Lien Subordinate General Obligation Bonds**

On December 14, 2017, the District issued its \$6,210,000 General Obligation Refunding Bonds, Series 2017A (2017A Bonds), its \$820,000 Subordinate Limited Tax General Obligation Refunding and Improvement Bonds, Series 2017B (2017B Bonds) and its \$928,000 Limited Tax Junior Lien Subordinate General Obligation Bonds (2017C Bonds). The proceeds from the sale of the 2017A Bonds were applied to refunding the Series 2014 and Series 2015 Bonds of the District and paying the costs of issuing the 2017 Bonds. The proceeds from the sale of the 2017B Bonds will be applied to refunding the remainder of the Series 2015 Bonds, reimbursing Developer advances related to public improvements for the District and paying the costs of issuing the 2017B Bonds. The proceeds from the sale of the 2017C Bonds were used to reimburse Developer advances related to public improvements for the District and paying certain costs of issuing the 2017C Bonds.

The 2017A Bonds bear interest at 4.5% and 5.0%, payable semi-annually on June 1 and December 1, beginning on June 1, 2018. Annual mandatory sinking fund principal payments are due on December 1, beginning on December 1, 2018. The 2017A Bonds mature on December 1, 2032 and December 1, 2047.

The 2017A Bonds are also secured by the amounts on deposit in the Surplus Fund. Prior to the date upon which the Debt to Assessed Ratio is equal to 50% or less, 2017A Pledged Revenue that is not needed to pay debt service on the Senior Bonds in any year will be deposited to and held in the Surplus Fund, up to the Maximum Surplus Amount of \$621,000. Pursuant to the 2017A Indenture, the Surplus Fund will be terminated when the Debt to Assessed Ratio is equal to or less than 50% (if ever) and, any monies therein applied to any legal purpose of the District. Under the 2017B Indenture, any amounts in the Surplus Fund upon termination of such funds are pledged to the payment of the 2017B Bonds.

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)**

The 2017A Senior Bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity, and in whole or partial maturities (and if in part in such order of maturities as the District shall determine and by lot within maturities), on December 1, 2022, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium equal to a percentage of the principal amount so redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
December 1, 2022, to November 30, 2023	3.00%
December 1, 2023, to November 30, 2024	2.00
December 1, 2024, to November 30, 2025	1.00
December 1, 2025, and thereafter	0.00

The 2017B Bonds bear interest at 7.25% per annum, are payable annually from Subordinate Pledged Revenue, if any, on December 15, beginning on December 15, 2018, and mature on December 15, 2047. The 2017B Bonds are structured as cash flow bonds meaning that there are no scheduled payments of principal prior to the final maturity date. Unpaid interest on the 2017B Bonds compounds annually on each December 15. All of the 2017B Bonds and interest thereon will be deemed to be paid, satisfied and discharged on December 15, 2057, regardless of the amount of principal and interest paid on the 2017B Bonds prior to such Subordinate Termination Date.

The 2017B Subordinate Bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity, and in whole or partial maturities (and if in part in such order of maturities as the District shall determine and by lot within maturities), on December 15, 2022, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium equal to a percentage of the principal amount so redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
December 15, 2022, to December 14, 2023	3.00%
December 15, 2023, to December 14, 2024	2.00
December 15, 2024, to December 14, 2025	1.00
December 15, 2025, and thereafter	0.00

The 2017C Bonds bear interest at the rate of 10.00% per annum, and are payable annually from Junior Subordinate Pledged Revenue, if any available, on each December 15, commencing on the first December 15 occurring after the 2017B Bonds have been paid in full or are no longer outstanding, and mature on December 15, 2051. The 2017C Bonds are structured as cash flow bonds meaning that there are no scheduled payments of principal prior to the final maturity date. Unpaid interest on the 2017C Bonds compounds annually on each December 15. All of the 2017C Bonds and interest thereon will be deemed to be paid, satisfied and discharged on December 15, 2057, regardless of the amount of principal and interest paid on the 2017C Bonds prior to such Termination Date.

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)**

The 2017C Subordinate Bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity, and in whole or partial maturities (and if in part in such order of maturities as the District shall determine and by lot within maturities), on December 15, 2022, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium equal to a percentage of the principal amount so redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
December 15, 2022, to December 14, 2023	3.00%
December 15, 2023, to December 14, 2024	2.00
December 15, 2024, to December 14, 2025	1.00
December 15, 2025, and thereafter	0.00

In the government-wide statements, the purchase price of the Series 2017A bonds included a premium in the amount of \$113,094, which has been deferred and is being amortized over the life of the new debt.

The District's Series 2017A Bonds will mature as follows:

	<b>Governmental Activities</b>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 60,000	\$ 291,408	\$ 351,408
2019	60,000	299,625	359,625
2020	70,000	296,925	366,925
2021	70,000	293,775	363,775
2022	85,000	290,625	375,625
2023-2027	525,000	1,390,575	1,915,575
2028-2032	765,000	1,251,525	2,016,525
2033-2037	1,065,000	1,044,250	2,109,250
2038-2042	1,495,000	737,500	2,232,500
2043-2047	2,015,000	314,250	2,329,250
	<u>\$ 6,210,000</u>	<u>\$ 6,210,458</u>	<u>\$ 12,420,458</u>

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)**

**Infrastructure Acquisition and Reimbursement Agreements**

On December 7, 2015, the District and Hawthorn Development Inc. (Developer) entered into an Infrastructure Acquisition and Reimbursement Agreement (the "Reimbursement Agreement"). The Reimbursement Agreement describes the duties and obligations of the District and the Developer with regard to the installation, financing, and acquisition of the public infrastructure improvements. Under the Reimbursement Agreement, the Developer agrees to finance and install the public infrastructure for the Development, and the District agrees to acquire or reimburse the costs of the public infrastructure, including prior advance amounts due under the prior agreement, by paying the Developer for District Eligible Costs (defined generally as any costs related to the provision of public infrastructure, improvements and services, as described in, and allowed by, the Special District Act and the Service Plan) incurred including a construction management fee capped at 5%. The District agrees to repay the Developer on an annual appropriation basis at the rate of 8% per annum.

During 2017, the District accepted \$3,070,599 of improvements. On December 14, 2017, and concurrently with the issuance of the 2017 bonds, the District repaid \$1,496,280 of advances under the Reimbursement Agreement. The remaining balance of principal and interest, \$2,703,903 and \$482,356, respectively, was forgiven by the Developer and the Reimbursement Agreement was terminated.

**Debt Authorization**

At December 31, 2017, the District had authorized but unissued general obligation indebtedness in the following amounts for the following purposes:

	<b>Authorized November 6, 2012 Election</b>	<b>Series 2014 Authorization Used</b>	<b>Series 2015 Authorization Used</b>	<b>Series 2017 Authorization Used</b>	<b>Remaining at December 31, 2017</b>
Streets	\$ 30,000,000	\$ 1,328,745	\$ 613,000	\$ 501,000	\$ 27,557,255
Parks and Recreation	30,000,000	122,231	56,000	46,000	29,775,769
Water	30,000,000	548,248	253,000	207,000	28,991,752
Sanitation/Storm Sewer	30,000,000	2,130,776	983,000	804,000	26,082,224
Transportation	30,000,000	-	-	-	30,000,000
Mosquito Control	30,000,000	-	-	-	30,000,000
Safety Protection	30,000,000	-	-	-	30,000,000
Fire Protection	30,000,000	-	-	-	30,000,000
Television & Relay	30,000,000	-	-	-	30,000,000
Security	30,000,000	-	-	-	30,000,000
Operations & Maintenance	30,000,000	-	-	-	30,000,000
Refunding of Debt	30,000,000	-	-	-	30,000,000
Governmental IGA's	30,000,000	-	-	-	30,000,000
Private IGA's	30,000,000	-	-	-	30,000,000
	<u>\$ 420,000,000</u>	<u>\$ 4,130,000</u>	<u>\$ 1,905,000</u>	<u>\$ 1,558,000</u>	<u>\$ 412,407,000</u>

Pursuant to the Service plan, the total Debt that the District shall be permitted to issue shall not exceed \$10,000,000, exclusive of refundings. Additionally, the maximum debt mill levy is 50.000 mills (adjusted to 55.277).

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)**

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

**NOTE 6 - NET POSITION**

The District has net position consisting of three components – net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2017, the District had net investment in capital assets calculated as follows:

	<b>Governmental Activities</b>
Net investment in capital assets:	
Capital assets, net	\$ 1,149,010
Current portion of outstanding long-term obligations	(8,354)
Noncurrent portion of outstanding long-term obligations	(1,099,692)
Net investment in capital assets	\$ 40,964

The restricted component of net position consists of assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had a restricted net position as of December 31, 2017, as follows:

	<b>Governmental Activities</b>
Restricted net assets	
Emergency reserves	\$ 5,500
Total restricted net assets	\$ 5,500

The District has a deficit in unrestricted net position. This deficit amount is a result of the District being responsible for the repayment of bonds issued for public improvements, of which the majority will be conveyed to other governmental entities, and the repayment of Developer advances and accrued interest on those advances.

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 7 - DISTRICT AGREEMENTS**

**Funding and Reimbursement Agreement**

On December 10, 2012, a Funding and Reimbursement Agreement was entered into by District No.1, Golden Peaks, LLC (the Developer), and the District. The Developer agrees to loan to District No. 1 an amount not exceeding \$100,000 per annum for five years, up to \$500,000. The interest rate of this loan shall be 8% per annum, from the date any such advance is made, simple interest, to the earlier of the date the Reimbursement Obligation is issued to evidence such advance, or the date of repayment of such amount. The term for repayment of this obligation shall not extend beyond forty (40) years from the date of this agreement. Any mill levy certified by the Districts for the purposes of repaying advances made hereunder shall not exceed 50 mills and shall be further subject to any restrictions provided in the Districts' Service Plan, electoral authorization, or any applicable laws. The provision for repayment of advances made hereunder and the agreement to issue a Reimbursement Obligation shall be at all times subject to annual appropriation by the Districts, in their absolute discretion. The Districts are intended to cooperate and coordinate in the financing, construction, and operation and maintenance of the Public Infrastructure in connection with the Project, with District No. 1 acting as the administrative arm. Funds advanced under this agreement are recognized as an obligation by District No. 1. This agreement was terminated on December 7, 2015.

On December 7, 2015, the District and Golden Peaks, LLC entered into a Funding and Reimbursement Agreement for operations and maintenance. This agreement entirely replaced the previously disclosed agreement dated December 10, 2012, between District No. 1 and Golden Peaks ("Prior Funding Agreement"). The District acknowledged the Prior Funding Agreement for the purpose of providing funding for payment obligations set forth in the Prior Funding Agreement. Golden Peaks agrees to loan up to \$500,000 to the District through December 31, 2017, and the District agrees to reimburse Golden Peaks on an annual appropriations basis at a rate of 8% per annum. Pursuant to the Prior Funding Agreement, Golden Peaks loaned \$80,000 to the Districts, which has been assumed by the District under this Agreement. The District has agreed to reimburse the prior advances to Golden Peaks in addition to any future advances.

On December 7, 2015, the District and the Developer (Hawthorn Development, Inc.) entered into a Funding and Reimbursement Agreement for operations and maintenance. This agreement states that the District does not presently have financial resources to provide funding for payment of its operations and maintenance costs that are projected to be incurred prior to the anticipated availability of funds, and that the Developer is willing to loan funds to the District for such costs. Specifically, the Developer agrees to loan up to \$500,000 to the District through December 31, 2017, and the District agrees to reimburse the Developer on an annual appropriations basis at a rate of 8% per annum. During 2017, The Developer advanced \$15,000 bringing the total principal to \$120,000 and interest to \$31,413.

**NOTE 8 - RELATED PARTY**

The Developers of the property which constitutes the District are Hawthorn Development, Inc. and Golden Peaks LLC. Hawthorn Development Inc. sold all 199 lots to Lennar Colorado, LLC. The majority of the members of the Board of Directors are employees of, owners of, or otherwise associated with the Developers, and may have conflicts of interest in dealing with the District.

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 9 - 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, workers compensation 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 10 - 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.

On November 6, 2012, the District's voters approved for an annual increase in taxes of \$5,000,000 for general operations and maintenance without limitation of rate. This election question allowed the District to collect and spend the additional revenue without regard to any spending, revenue raising, or other limitations contained within 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**

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**DEBT SERVICE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - BUDGET AND ACTUAL**  
**Year Ended December 31, 2017**

	Budget		Actual	Variance- Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 318,555	\$ 318,555	\$ 226,651	\$ (91,904)
Specific ownership taxes	25,480	25,480	31,120	5,640
Interest income	4,000	4,000	6,922	2,922
Total revenues	<u>348,035</u>	<u>348,035</u>	<u>264,693</u>	<u>(83,342)</u>
<b>EXPENDITURES</b>				
Bond interest Series 2014	263,288	263,288	263,288	-
Bond interest Series 2015	143,719	-	-	-
Bond issue costs	-	450,000	421,198	28,802
Contingency	5,215	72,934	-	72,934
County interest expense	-	6,000	5,746	254
County Treasurer's fees	4,778	4,778	3,320	1,458
Paying agent fees	3,000	3,000	5,502	(2,502)
Refunding Bond payment	-	7,000,000	837,718	6,162,282
Total expenditures	<u>420,000</u>	<u>7,800,000</u>	<u>1,536,772</u>	<u>6,263,228</u>
<b>EXCESS OF REVENUES OVER (UNDER)</b>				
<b>EXPENDITURES</b>	<u>(71,965)</u>	<u>(7,451,965)</u>	<u>(1,272,079)</u>	<u>6,179,886</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond issuance	-	6,600,000	6,461,720	(138,280)
Bond premium	-	-	113,094	113,094
Payment to escrow agent	-	-	(6,148,578)	(6,148,578)
Total other financing sources (uses)	<u>-</u>	<u>6,600,000</u>	<u>426,236</u>	<u>(6,173,764)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(71,965)	(851,965)	(845,843)	6,122
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>860,507</u>	<u>860,507</u>	<u>869,277</u>	<u>8,770</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 788,542</u>	<u>\$ 8,542</u>	<u>\$ 23,434</u>	<u>\$ 14,892</u>

**HAWTHORN METROPOLITAN DISTRICT NO. 2  
CAPITAL PROJECTS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
Year Ended December 31, 2017**

	Budget		Actual	Variance- Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Total revenues	-	-	-	-
<b>EXPENDITURES</b>				
Capital outlay	-	6,600,000	3,070,599	3,529,401
Repay Developer advance	-	1,500,000	1,496,280	3,720
Total expenditures	-	8,100,000	4,566,879	3,533,121
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	-	(8,100,000)	(4,566,879)	3,533,121
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond issuance	-	8,100,000	1,496,280	(6,603,720)
Developer advance	-	-	3,070,599	3,070,599
Total other financing sources (uses)	-	8,100,000	4,566,879	(3,533,121)
<b>NET CHANGE IN FUND BALANCE</b>	-	-	-	-
<b>FUND BALANCES - BEGINNING OF YEAR</b>	-	-	-	-
<b>FUND BALANCES - END OF YEAR</b>	\$ -	\$ -	\$ -	\$ -

## **OTHER INFORMATION**

**HAWTHORN METROPOLITAN DISTRICT NO. 2  
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY**

**\$6,210,000**

**General Obligation Refunding Bonds  
Series 2017A, Dated December 14, 2017  
Interest Rate 4.5% to 5.0%  
Payable June 1 and December 1  
Principal Due December 1**

<b>Bonds and Interest Maturing in the Year Ending December 31,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	60,000	291,408	351,408
2019	60,000	299,625	359,625
2020	70,000	296,925	366,925
2021	70,000	293,775	363,775
2022	85,000	290,625	375,625
2023	85,000	286,800	371,800
2024	100,000	282,975	382,975
2025	105,000	278,475	383,475
2026	115,000	273,750	388,750
2027	120,000	268,575	388,575
2028	135,000	263,175	398,175
2029	140,000	257,100	397,100
2030	155,000	250,800	405,800
2031	160,000	243,825	403,825
2032	175,000	236,625	411,625
2033	185,000	228,750	413,750
2034	200,000	219,500	419,500
2035	210,000	209,500	419,500
2036	230,000	199,000	429,000
2037	240,000	187,500	427,500
2038	265,000	175,500	440,500
2039	275,000	162,250	437,250
2040	300,000	148,500	448,500
2041	315,000	133,500	448,500
2042	340,000	117,750	457,750
2043	355,000	100,750	455,750
2044	380,000	83,000	463,000
2045	400,000	64,000	464,000
2046	430,000	44,000	474,000
2047	450,000	22,500	472,500
	<u>\$ 6,210,000</u>	<u>\$ 6,210,458</u>	<u>\$ 12,420,458</u>

**HAWTHORN METROPOLITAN DISTRICT NO. 2  
SCHEDULE OF ASSESSED VALUATION,  
MILL LEVY AND PROPERTY TAXES COLLECTED  
December 31, 2017**

<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>	
2015	\$ 1,238,995	12.500	50.000	\$ 77,437	\$ 77,437	100.00%
2016	4,755,926	13	50	297,245	296,784	99.84%
2017	6,371,109	17	50	423,678	301,446	71.15%
Estimated for the year ending December 31, 2018	\$ 7,676,385	20.241	55.277	\$ 579,706		

**NOTE:**

Property taxes collected in any one year include collection of delinquent property taxes assessed in prior years, as well as reductions for property tax refunds or abatements. Information received from the County Treasurer does not permit identification of specific year of assessment.