

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2019**

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 2
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2019**

INDEPENDENT AUDITOR'S REPORT	1
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	1
STATEMENT OF ACTIVITIES	2
FUND FINANCIAL STATEMENTS	
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 THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	5
GENERAL FUND – STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL	6
NOTES TO BASIC FINANCIAL STATEMENTS	7
SUPPLEMENTARY INFORMATION	
DEBT SERVICE FUND – SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL	20
CAPITAL PROJECTS FUND – SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL	21
OTHER INFORMATION	
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY	23
SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED	25



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Upper Cottonwood Creek Metropolitan District No 2
El Paso County, Colorado

Report on the Financial Statements

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 and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2019, and the changes in its 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
September 25, 2020

BASIC FINANCIAL STATEMENTS

UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 2
STATEMENT OF NET POSITION
DECEMBER 31, 2019

	Governmental Activities
ASSETS	
Cash and Investments - Restricted	\$ 1,360,141
Receivable from County Treasurer	10,791
Property Taxes Receivable	1,120,099
Total Assets	2,491,031
LIABILITIES	
Accounts Payable	10,000
Accounts Payable - Intergovernmental	25,198
Accrued Interest Payable	55,747
Noncurrent Liabilities:	
Due Within One Year	140,000
Due in More Than One Year	11,780,000
Total Liabilities	12,010,945
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	1,120,099
Total Deferred Inflows of Resources	1,120,099
NET POSITION	
Restricted For:	
Debt Service	1,279,987
Unrestricted	(11,920,000)
Total Net Position	\$ (10,640,013)

See accompanying Notes to Basic Financial Statements.

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 2
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

		Program Revenues			Net Revenues (Expenses) and Change in Net Position
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
FUNCTIONS/PROGRAMS					
Government Activities:					
General Government	\$ 2,544,583	\$ -	\$ -	\$ -	
Interest and Related Costs on Long-Term Debt	663,326	-	-	(663,326)	
Total Governmental Activities	\$ 3,207,909	\$ -	\$ -	(3,207,909)	
 GENERAL REVENUES					
Property Taxes				988,357	
Specific Ownership Taxes				119,668	
Net Investment Income				39,499	
Total General Revenues				1,147,524	
 CHANGE IN NET POSITION					
Net Position - Beginning of Year				(8,579,628)	
 NET POSITION - END OF YEAR					
				\$ (10,640,013)	

See accompanying Notes to Basic Financial Statements.

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 2
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and Investments - Restricted	\$ -	\$ 1,327,641	\$ 32,500	\$ 1,360,141
Receivable from County Treasurer	2,698	8,093	-	10,791
Property Taxes Receivable	280,018	840,081	-	1,120,099
 Total Assets	<u>\$ 282,716</u>	<u>\$ 2,175,815</u>	<u>\$ 32,500</u>	<u>\$ 2,491,031</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ 10,000	\$ 10,000
Accounts Payable - Intergovernmental	2,698	-	22,500	25,198
Total Liabilities	2,698	-	32,500	35,198
 DEFERRED INFLOWS OF RESOURCES				
Property Tax Revenue	280,018	840,081	-	1,120,099
Total Deferred Inflows of Resources	280,018	840,081	-	1,120,099
 FUND BALANCES				
Restricted For:				
Debt Service	-	1,335,734	-	1,335,734
Total Fund Balances	-	1,335,734	-	1,335,734
 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 282,716</u>	<u>\$ 2,175,815</u>	<u>\$ 32,500</u>	

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	(11,920,000)
Accrued Interest on Bonds Payable	(55,747)

Net Position of Governmental Activities	<u>\$ (10,640,013)</u>
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UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 2
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2019

	General	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Property Taxes	\$ 247,089	\$ 741,268	\$ -	\$ 988,357
Specific Ownership Taxes	29,917	89,751	-	119,668
Net Investment Income	77	39,422	-	39,499
Total Revenues	<u>277,083</u>	<u>870,441</u>	<u>-</u>	<u>1,147,524</u>
EXPENDITURES				
Current:				
County Treasurer's Fees	3,708	11,123	-	14,831
Intergovernmental Expenditure	273,375	-	2,267,500	2,540,875
Debt Service:				
Bond Interest - Series 2010	-	154,125	-	154,125
Bond Interest - Series 2018	-	461,100	-	461,100
Bond Principal - Series 2010	-	40,000	-	40,000
Bond Principal - Series 2018	-	80,000	-	80,000
Bond Issue Costs	-	-	32,500	32,500
Total Expenditures	<u>277,083</u>	<u>746,348</u>	<u>2,300,000</u>	<u>3,323,431</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	124,093	(2,300,000)	(2,175,907)
OTHER FINANCING SOURCES (USES)				
Bond Issuance	-	-	2,300,000	2,300,000
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>2,300,000</u>	<u>2,300,000</u>
NET CHANGE IN FUND BALANCES	-	124,093	-	124,093
Fund Balances - Beginning of Year	<u>-</u>	<u>1,211,641</u>	<u>-</u>	<u>1,211,641</u>
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ 1,335,734</u>	<u>\$ -</u>	<u>\$ 1,335,734</u>

See accompanying Notes to Basic Financial Statements.

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 2
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

Net Changes in Fund Balances - Governmental Funds \$ 124,093

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

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 Issuance	(2,300,000)
Bond Principal Payment	120,000

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	(4,478)
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Change in Net Position of Governmental Activities	<u>\$ (2,060,385)</u>
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**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 2
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2019**

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Property Taxes	\$ 247,101	\$ 247,089	\$ (12)
Specific Ownership Taxes	29,652	29,917	265
Net Investment Income	-	77	77
Other Revenue	5,000	-	(5,000)
Total Revenues	<u>281,753</u>	<u>277,083</u>	<u>(4,670)</u>
EXPENDITURES			
Contingency	5,000	-	5,000
County Treasurer's Fees	3,707	3,708	(1)
Intergovernmental Expenditure	<u>273,046</u>	<u>273,375</u>	<u>(329)</u>
Total Expenditures	<u>281,753</u>	<u>277,083</u>	<u>4,670</u>
NET CHANGE IN FUND BALANCE	-	-	-
Fund Balance - Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See accompanying Notes to Basic Financial Statements.

UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

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.

UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (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 of resources and the sum of liabilities and deferred inflows of resources is reported as net position.

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.

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

UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

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.

The District amended its annual budget for the year ended December 31, 2019.

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 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.

UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

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 BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 3 CASH AND INVESTMENTS

Cash and investments as of December 31, 2019, are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Investments - Restricted	\$ 1,360,141
Total Cash and Investments	<u>\$ 1,360,141</u>

Cash and investments as of December 31, 2019, consist of the following:

Investments	<u>\$ 1,360,141</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, 2019, 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 BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2019**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

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, 2019, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted Average Under 60 Days	\$ 1,360,141

COLOTRUST

The District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), 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 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. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST at net asset value as determined by fair value. There are no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

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, 2019:

	Balance - December 31, 2018	Additions	Retirements	Balance - December 31, 2019	Due Within One Year
Limited Tax G.O. Bonds -					
Series 2010	\$ 2,055,000	\$ -	\$ 40,000	\$ 2,015,000	\$ 45,000
Series 2018	7,685,000	-	80,000	7,605,000	85,000
Series 2019	-	2,300,000	-	2,300,000	10,000
Total	<u>\$ 9,740,000</u>	<u>\$ 2,300,000</u>	<u>\$ 120,000</u>	<u>\$ 11,920,000</u>	<u>\$ 140,000</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. For collection year 2019, the adjusted maximum mill levy for debt was 33.166 mills.

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.

\$7,800,000 Limited Tax General Obligation Bond, Series 2018

On April 13, 2018, the District issued a \$7,800,000 in Limited Tax General Obligation Bonds for public improvements. The Bond bears interest at a rate of 6%, maturing on December 1, 2047. Bond interest and principal payments are payable annually on December 1. Any accrued and unpaid interest will compound on December 1 of each year. To the extent principal of the 2018 Bond is not paid when due, such principal shall remain outstanding until paid.

UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

\$7,800,000 Limited Tax General Obligation Bond, Series 2018 (Continued)

The Bond is secured by and payable from the Pledged Revenue, consisting of monies derived by the District from: 1) the Required Mill Levy, after costs of collection; 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 moneys that the Board determines in its sole discretion to credit to the Debt Service Fund. The Required Mill Levy means an ad valorem property tax 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 2018 Bond as the same becomes due and payable. The Required Mill Levy is limited to a maximum of 30.000 mills, provided however, that such limitation shall be adjusted to compensate for changes in the rate of assessed valuation of the property within the District occurring after January 1, 2006, so that to the extent possible, the actual tax revenues generated by the Required Mill Levy, as adjusted, are neither diminished nor enhanced as a result of such changes. As of collection year 2019, the adjusted maximum mill levy is 33.166 mills. So long as the District imposes the Required Mill Levy and applies the Pledged Revenue as required, the insufficiency of Pledged Revenue available to pay the principal and interest on the 2018 Bond does not constitute an event of default.

The Bond is subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, and without premium, on December 1, 2027, and on any date thereafter, upon payment of the redemption price (expressed as a percentage of the principal amount of the Bond being redeemed) of 100%, plus accrued interest to the redemption date.

\$2,300,000 Limited Tax General Obligation Bond, Series 2019

On December 17, 2019, the District issued a \$2,300,000 in Limited Tax General Obligation Bonds, Series 2019 (the "2019 Bonds") for public improvements. The Bond bears interest at a rate of 6%, maturing on November 12, 2049. Bond interest and principal payments are payable annually on December 1. Any accrued and unpaid interest will compound on December 1 of each year. To the extent principal of the 2019 Bond is not paid when due, such principal shall remain outstanding until paid.

The Bond is secured by and payable from the Pledged Revenue, consisting of monies derived by the District from: 1) the Required Mill Levy, after costs of collection; 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 moneys that the Board determines in its sole discretion to credit to the Debt Service Fund. The Required Mill Levy means an ad valorem property tax 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 2018 Bond as the same becomes due and payable. The Required Mill Levy is limited to a maximum of 30.000 mills, provided however, that such limitation shall be adjusted to compensate for changes in the rate of assessed valuation of

UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

\$2,300,000 Limited Tax General Obligation Bond, Series 2019 (Continued)

the property within the District occurring after January 1, 2006, so that to the extent possible, the actual tax revenues generated by the Required Mill Levy, as adjusted, are neither diminished nor enhanced as a result of such changes. As of collection year 2019, the adjusted maximum mill levy is 33.166 mills. So long as the District imposes the Required Mill Levy and applies the Pledged Revenue as required, the insufficiency of Pledged Revenue available to pay the principal and interest on the 2018 Bond does not constitute an event of default.

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

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 140,000	\$ 739,292	\$ 879,292
2021	150,000	736,350	886,350
2022	160,000	726,675	886,675
2023	170,000	716,325	886,325
2024	180,000	705,300	885,300
2025-2029	1,090,000	3,335,325	4,425,325
2030-2034	1,485,000	2,933,700	4,418,700
2035-2039	2,040,000	2,381,625	4,421,625
2040-2044	2,785,000	1,640,100	4,425,100
2045-2049	3,720,000	693,056	4,413,056
Total	<u>\$ 11,920,000</u>	<u>\$ 14,607,748</u>	<u>\$ 26,527,748</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, 2019, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	Amount Authorized on May 2, 2006	Authorization Used for Series 2010 Bonds	Authorization Used for Series 2018 Bonds	Authorization Used for Series 2019 Bonds	Authorized But Unissued
Streets	\$ 25,000,000	\$ 2,250,000	\$ 2,695,000	\$ 588,000	\$ 19,467,000
Water	25,000,000	-	1,438,000	264,000	23,298,000
Sanitary Sewer	25,000,000	-	2,859,000	802,000	21,339,000
Parks and Recreation	25,000,000	-	808,000	646,000	23,546,000
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
Total	<u>\$ 210,000,000</u>	<u>\$ 2,250,000</u>	<u>\$ 7,800,000</u>	<u>\$ 2,300,000</u>	<u>\$ 197,650,000</u>

UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

Authorized Debt (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. Beginning in 2020, the adjusted maximum mill levy for debt was 33.397 mills.

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.

Restricted net position includes 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 restricted net position for debt service of \$1,279,987 as of December 31, 2019.

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.

UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

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.

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.

UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 9 TAX, SPENDING, AND DEBT LIMITATIONS (CONTINUED)

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.

SUPPLEMENTARY INFORMATION

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 2
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2019**

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Property Taxes	\$ 741,325	\$ 741,268	\$ (57)
Specific Ownership Taxes	88,959	89,751	792
Net Investment Income	24,821	39,422	14,601
Total Revenues	<u>855,105</u>	<u>870,441</u>	<u>15,336</u>
EXPENDITURES			
County Treasurer's Fee	11,120	11,123	(3)
Bond Interest - Series 2010	154,125	154,125	-
Bond Interest - Series 2018	461,100	461,100	-
Bond Principal - Series 2010	40,000	40,000	-
Bond Principal - Series 2018	80,000	80,000	-
Contingency	3,655	-	3,655
Total Expenditures	<u>750,000</u>	<u>746,348</u>	<u>3,652</u>
NET CHANGE IN FUND BALANCE	105,105	124,093	18,988
Fund Balance - Beginning of Year	<u>1,197,970</u>	<u>1,211,641</u>	<u>13,671</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 1,303,075</u></u>	<u><u>\$ 1,335,734</u></u>	<u><u>\$ 32,659</u></u>

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 2
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2019**

	Budget Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ -	\$ -	\$ -	\$ -
Total Revenues	-	-	-	-
EXPENDITURES				
Intergovernmental Expenditure	-	2,267,500	2,267,500	-
Bond Issue Costs	-	32,500	32,500	-
Total Expenditures	-	2,300,000	2,300,000	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	-	(2,300,000)	(2,300,000)	-
OTHER FINANCING SOURCES (USES)				
Bond Issuance	-	2,300,000	2,300,000	-
Total Other Financing Sources (Uses)	-	2,300,000	2,300,000	-
NET CHANGE IN FUND BALANCE				
	-	-	-	-
Fund Balance - Beginning of Year	-	-	-	-
FUND BALANCE - END OF YEAR	\$ -	\$ -	\$ -	\$ -

OTHER INFORMATION

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 2
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
DECEMBER 31, 2019**

Year Ending December 31.	\$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%			Year Ending December 31.	\$7,800,000 Limited Tax General Obligation Bond Series 2018 Dated April 13, 2018 Interest Rate 6%		
	Principal and Interest Due December 1				Principal and Interest Due December 1		
	Principal	Interest	Total		Principal	Interest	Total
2020	\$ 45,000	\$ 151,125	\$ 196,125	2020	\$ 85,000	\$ 456,300	\$ 541,300
2021	45,000	147,750	192,750	2021	95,000	451,200	546,200
2022	50,000	144,375	194,375	2022	95,000	445,500	540,500
2023	55,000	140,625	195,625	2023	100,000	439,800	539,800
2024	55,000	136,500	191,500	2024	110,000	433,800	543,800
2025	60,000	132,375	192,375	2025	120,000	427,200	547,200
2026	65,000	127,875	192,875	2026	125,000	420,000	545,000
2027	70,000	123,000	193,000	2027	130,000	412,500	542,500
2028	75,000	117,750	192,750	2028	140,000	404,700	544,700
2029	80,000	112,125	192,125	2029	150,000	396,300	546,300
2030	90,000	106,125	196,125	2030	155,000	387,300	542,300
2031	95,000	99,375	194,375	2031	165,000	378,000	543,000
2032	100,000	92,250	192,250	2032	175,000	368,100	543,100
2033	110,000	84,750	194,750	2033	185,000	357,600	542,600
2034	115,000	76,500	191,500	2034	200,000	346,500	546,500
2035	125,000	67,875	192,875	2035	210,000	334,500	544,500
2036	135,000	58,500	193,500	2036	220,000	321,900	541,900
2037	145,000	48,375	193,375	2037	235,000	308,700	543,700
2038	155,000	37,500	192,500	2038	250,000	294,600	544,600
2039	165,000	25,875	190,875	2039	265,000	279,600	544,600
2040	180,000	13,500	193,500	2040	280,000	263,700	543,700
2041	-	-	-	2041	490,000	246,900	736,900
2042	-	-	-	2042	520,000	217,500	737,500
2043	-	-	-	2043	550,000	186,300	736,300
2044	-	-	-	2044	585,000	153,300	738,300
2045	-	-	-	2045	620,000	118,200	738,200
2046	-	-	-	2046	655,000	81,000	736,000
2047	-	-	-	2047	695,000	41,700	736,700
2048	-	-	-	2048	-	-	-
2049	-	-	-	2049	-	-	-
Total	<u>\$ 2,015,000</u>	<u>\$ 2,044,125</u>	<u>\$ 4,059,125</u>	Total	<u>\$ 7,605,000</u>	<u>\$ 8,972,700</u>	<u>\$ 16,577,700</u>

UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 2
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY (CONTINUED)
DECEMBER 31, 2019

\$2,300,000 Limited Tax General Obligation Bond
Series 2019
Dated December 17, 2019
Interest Rate 6%

Year Ending December 31.	Principal and Interest Due December 1			Year Ending December 31.	Total Debt Service		
	Principal	Interest	Total		Principal	Interest	Total
2020	\$ 10,000	\$ 131,867	\$ 141,867	2020	\$ 140,000	\$ 739,292	\$ 879,292
2021	10,000	137,400	147,400	2021	150,000	736,350	886,350
2022	15,000	136,800	151,800	2022	160,000	726,675	886,675
2023	15,000	135,900	150,900	2023	170,000	716,325	886,325
2024	15,000	135,000	150,000	2024	180,000	705,300	885,300
2025	15,000	134,100	149,100	2025	195,000	693,675	888,675
2026	15,000	133,200	148,200	2026	205,000	681,075	886,075
2027	15,000	132,300	147,300	2027	215,000	667,800	882,800
2028	15,000	131,400	146,400	2028	230,000	653,850	883,850
2029	15,000	130,500	145,500	2029	245,000	638,925	883,925
2030	15,000	129,600	144,600	2030	260,000	623,025	883,025
2031	20,000	128,700	148,700	2031	280,000	606,075	886,075
2032	20,000	127,500	147,500	2032	295,000	587,850	882,850
2033	20,000	126,300	146,300	2033	315,000	568,650	883,650
2034	20,000	125,100	145,100	2034	335,000	548,100	883,100
2035	25,000	123,900	148,900	2035	360,000	526,275	886,275
2036	25,000	122,400	147,400	2036	380,000	502,800	882,800
2037	25,000	120,900	145,900	2037	405,000	477,975	882,975
2038	30,000	119,400	149,400	2038	435,000	451,500	886,500
2039	30,000	117,600	147,600	2039	460,000	423,075	883,075
2040	30,000	115,800	145,800	2040	490,000	393,000	883,000
2041	35,000	114,000	149,000	2041	525,000	360,900	885,900
2042	35,000	111,900	146,900	2042	555,000	329,400	884,400
2043	40,000	109,800	149,800	2043	590,000	296,100	886,100
2044	40,000	107,400	147,400	2044	625,000	260,700	885,700
2045	40,000	105,000	145,000	2045	660,000	223,200	883,200
2046	45,000	102,600	147,600	2046	700,000	183,600	883,600
2047	45,000	99,900	144,900	2047	740,000	141,600	881,600
2048	785,000	97,200	882,200	2048	785,000	97,200	882,200
2049	835,000	47,456	882,456	2049	835,000	47,456	882,456
Total	<u>\$ 2,300,000</u>	<u>\$ 3,590,923</u>	<u>\$ 5,890,923</u>	Total	<u>\$ 11,920,000</u>	<u>\$ 14,607,748</u>	<u>\$ 26,527,748</u>

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 2
SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED
DECEMBER 31, 2019**

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied		Total Property Taxes		Percentage Collected to Levied
		General	Debt Service	Levied	Collected	
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
2017	18,371,300	10.000	30.000	734,852	734,785	99.99
2018 ⁽¹⁾	21,007,170	11.055	33.169	929,021	929,021	100.00
2019	22,351,970	11.055	33.166	988,426	988,357	99.99
Estimated for the Year Ending December 31, 2020	\$ 25,154,370	11.132	33.397	\$ 1,120,099		

⁽¹⁾The mill levy for 2018 includes 0.003 mills for prior year refunds and abatements.

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.