

HAWTHORN METROPOLITAN DISTRICT NO. 2
Jefferson County, Colorado

FINANCIAL STATEMENTS
December 31, 2016

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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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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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, 2016, 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.

Dassio & Associates, P.C.

August 9, 2017

BASIC FINANCIAL STATEMENTS

HAWTHORN METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET POSITION
December 31, 2016

| | <u>Governmental Activities</u> |
|--------------------------------------|---|
| ASSETS | |
| Cash and investments | \$ 10,584 |
| Cash and investments - Restricted | 855,364 |
| Receivable from County Treasurer | 1,960 |
| Property taxes receivable | 423,678 |
| Capital assets | <u>5,615,930</u> |
| Total assets | <u>6,907,516</u> |
| LIABILITIES | |
| Accounts payable | 35,366 |
| Accrued interest payable | 21,941 |
| Noncurrent liabilities | |
| Due in more than one year | <u>7,836,029</u> |
| Total liabilities | <u>7,893,336</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Property tax revenue | <u>423,678</u> |
| Total deferred inflows of resources | <u>423,678</u> |
| NET POSITION | |
| Restricted for: | |
| Emergency reserves | 5,000 |
| Debt Service | 154,000 |
| Unrestricted | <u>(1,568,498)</u> |
| Total net position | <u>\$ (1,409,498)</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, 2016

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in</u> <u>Net Position</u> |
|---|-------------------|---|---|---|--|
| | | <u>Charges</u> <u>for</u> <u>Services</u> | <u>Operating</u> <u>Grants and</u> <u>Contributions</u> | <u>Capital</u> <u>Grants and</u> <u>Contributions</u> | <u>Governmental</u> <u>Activities</u> |
| Government activities: | | | | | |
| General government | \$ 227,883 | \$ - | \$ 98,423 | \$ - | \$ (129,460) |
| Interest and related costs on long-term debt | 506,128 | - | - | - | (506,128) |
| | <u>\$ 734,011</u> | <u>\$ -</u> | <u>\$ 98,423</u> | <u>\$ -</u> | <u>(635,588)</u> |
| General revenues: | | | | | |
| Property taxes | | | | | 296,794 |
| Specific ownership taxes | | | | | 23,843 |
| Interest income | | | | | 4,346 |
| Total general revenues | | | | | <u>324,983</u> |
| Change in net position | | | | | (310,605) |
| Net position - Beginning | | | | | (1,098,893) |
| Net position - Ending | | | | | <u>\$ (1,409,498)</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, 2016

| | General | Debt Service | Capital Projects | Total Governmental Funds |
|---|-------------------|-------------------------|-----------------------------|---|
| ASSETS | | | | |
| Cash and investments | \$ 10,584 | \$ - | \$ - | \$ 10,584 |
| Cash and investments - Restricted | 5,000 | 850,364 | - | 855,364 |
| Property taxes receivable | 105,123 | 318,555 | - | 423,678 |
| Receivable from County Treasurer | 352 | 1,608 | - | 1,960 |
| Due from other fund | - | 17,305 | - | 17,305 |
| Total assets | \$ 121,059 | \$ 1,187,832 | \$ - | \$ 1,308,891 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | |
| Accounts payable | \$ 35,366 | \$ - | \$ - | \$ 35,366 |
| Due to other fund | 17,305 | - | - | 17,305 |
| Total liabilities | 52,671 | - | - | 52,671 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred property tax revenue | 105,123 | 318,555 | - | 423,678 |
| Total deferred inflows of resources | 105,123 | 318,555 | - | 423,678 |
| FUND BALANCES | | | | |
| Restricted for: | | | | |
| Emergency reserves | 5,000 | - | - | 5,000 |
| Debt service | - | 869,277 | - | 869,277 |
| Unassigned | (41,735) | - | - | (41,735) |
| Total fund balances | (36,735) | 869,277 | - | 832,542 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 121,059 | \$ 1,187,832 | \$ - | |

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 | 5,615,930 |
| Capital assets | 5,615,930 |
| 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 | (6,035,000) |
| Bond interest payable | (163,837) |
| Developer advances payable | (1,234,584) |
| Accrued interest on Developer advances | (424,549) |
| Net position of governmental activities | \$ (1,409,498) |

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 (DEFICITS)
GOVERNMENTAL FUNDS
Year Ended December 31, 2016

| | <u>General</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Total Governmental Funds</u> |
|---|--------------------|-------------------------|-----------------------------|---|
| REVENUES | | | | |
| Property taxes | \$ 59,359 | \$ 237,435 | \$ - | \$ 296,794 |
| Specific ownership taxes | 4,280 | 19,563 | - | 23,843 |
| Operations fees | 98,423 | - | - | 98,423 |
| Net investment income | 43 | 4,298 | 5 | 4,346 |
| Total revenues | <u>162,105</u> | <u>261,296</u> | <u>5</u> | <u>423,406</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| Accounting | 23,712 | - | - | 23,712 |
| Audit | 4,700 | - | - | 4,700 |
| County Treasurer's fees | 891 | 3,564 | - | 4,455 |
| Dues and licenses | 703 | - | - | 703 |
| Insurance and bonds | 6,775 | - | - | 6,775 |
| Legal | 43,731 | - | - | 43,731 |
| Miscellaneous | 1,813 | - | - | 1,813 |
| Election | 795 | - | - | 795 |
| Postage and copies | 670 | - | - | 670 |
| Transfer fees | 10,040 | - | - | 10,040 |
| Landscape maintenance contract | 26,823 | - | - | 26,823 |
| Intergovernmental expenditures | 20,755 | - | - | 20,755 |
| Water | 19,608 | - | - | 19,608 |
| Electricity | 147 | - | - | 147 |
| Irrigation repairs | 6,504 | - | - | 6,504 |
| District management | 12,165 | - | - | 12,165 |
| Snow removal | 3,351 | - | - | 3,351 |
| Intergovernmental - Hawthorn MD #1 | 40,657 | - | 3,548 | 44,205 |
| Debt service | | | | |
| Bond interest | - | 263,288 | - | 263,288 |
| Capital | | | | |
| Bond issue costs | - | - | 495 | 495 |
| Total expenditures | <u>223,840</u> | <u>266,852</u> | <u>4,043</u> | <u>494,735</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | <u>(61,735)</u> | <u>(5,556)</u> | <u>(4,038)</u> | <u>(71,329)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Developer advance | 25,000 | - | - | 25,000 |
| Total other financing sources (uses) | <u>25,000</u> | <u>-</u> | <u>-</u> | <u>25,000</u> |
| NET CHANGE IN FUND BALANCES | (36,735) | (5,556) | (4,038) | (46,329) |
| FUND BALANCES - BEGINNING OF YEAR | <u>-</u> | <u>874,833</u> | <u>4,038</u> | <u>878,871</u> |
| FUND BALANCES (DEFICITS) - END OF YEAR | <u>\$ (36,735)</u> | <u>\$ 869,277</u> | <u>\$ -</u> | <u>\$ 832,542</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 (DEFICITS) OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2016**

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

| | |
|---|--------------|
| Net changes in fund balances - Total governmental funds | \$ (46,329) |
| <p>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:</p> | |
| Developer advance | (25,000) |
| <p>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.</p> | |
| Accrued interest on Developer advances - Change in liability | (98,593) |
| Accrued interest on Bonds - Change in liability | (140,683) |
| | (239,276) |
| Change in net position of governmental activities | \$ (310,605) |

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 (DEFICITS) - BUDGET AND ACTUAL
Year Ended December 31, 2016

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance- Positive (Negative)</u> |
|---|----------------------------|-------------------------|--------------------|--|
| REVENUES | | | | |
| Property taxes | \$ 59,449 | \$ 59,449 | \$ 59,359 | \$ (90) |
| Specific ownership taxes | 4,160 | 4,160 | 4,280 | 120 |
| Operations fee | - | 100,000 | 98,423 | (1,577) |
| Net investment income | 500 | 500 | 43 | (457) |
| Total revenues | <u>64,109</u> | <u>164,109</u> | <u>162,105</u> | <u>(2,004)</u> |
| EXPENDITURES | | | | |
| Accounting | - | 23,712 | 23,712 | - |
| Audit | - | 4,700 | 4,700 | - |
| County Treasurer's fees | 892 | 892 | 891 | 1 |
| Dues and licenses | - | 703 | 703 | - |
| Insurance and bonds | - | 6,775 | 6,775 | - |
| Legal | - | 43,731 | 43,731 | - |
| Miscellaneous | - | 1,813 | 1,813 | - |
| Election | - | 795 | 795 | - |
| Contingency | - | 6,159 | - | 6,159 |
| Postage and copies | - | 670 | 670 | - |
| Transfer fees | - | 10,040 | 10,040 | - |
| Landscape maintenance contract | - | 26,823 | 26,823 | - |
| Intergovernmental expenditures | - | 20,755 | 20,755 | - |
| Water | - | 19,608 | 19,608 | - |
| Electricity | - | 147 | 147 | - |
| Irrigation repairs | - | 6,504 | 6,504 | - |
| District management | - | 12,165 | 12,165 | - |
| Snow removal | - | 3,351 | 3,351 | - |
| Intergovernmental - Hawthorn MD #1 | 63,217 | 40,657 | 40,657 | - |
| Total expenditures | <u>64,109</u> | <u>230,000</u> | <u>223,840</u> | <u>6,160</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | <u>-</u> | <u>(65,891)</u> | <u>(61,735)</u> | <u>4,156</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Developer advance | - | 100,000 | 25,000 | (75,000) |
| Total other financing sources (uses) | <u>-</u> | <u>100,000</u> | <u>25,000</u> | <u>(75,000)</u> |
| NET CHANGE IN FUND BALANCE | <u>-</u> | <u>34,109</u> | <u>(36,735)</u> | <u>(70,844)</u> |
| FUND BALANCES - BEGINNING OF YEAR | | | | |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| FUND BALANCES (DEFICITS) - END OF YEAR | | | | |
| | <u>\$ -</u> | <u>\$ 34,109</u> | <u>\$ (36,735)</u> | <u>\$ (70,844)</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, 2016

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, 2016

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, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

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

The District amended its annual budget for the year ended December 31, 2016.

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.

Investments are carried at fair value.

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.

HAWTHORN METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 estimated acquisition value at the date of donation.

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.

Deferred Inflow/Outflow of Resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *deferred property tax revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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.

HAWTHORN METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *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, 2016. The deficit will be eliminated with the receipt of property taxes in 2017.

NOTE 3 - CASH AND INVESTMENTS

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

| | |
|-----------------------------------|--------------------------|
| Statement of net position: | |
| Cash and Investments | \$ 30,159 |
| Cash and Investments - Restricted | <u>835,789</u> |
| Total Investments | <u><u>\$ 865,948</u></u> |

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

| | |
|--------------------------------------|--------------------------|
| Deposits with financial institutions | \$ 30,159 |
| Investments | <u>835,789</u> |
| Total cash and investments | <u><u>\$ 865,948</u></u> |

HAWTHORN METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Deposits with Financial Institutions

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

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

At December 31, 2016, the District's cash deposits had a bank balance of \$31,148 and a carrying balance of \$30,159.

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.

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

HAWTHORN METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Fair Value Measurement and Application

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

| Investment | Maturity | Fair Value |
|---|-----------------------------------|-------------------|
| Colorado Surplus Asset Fund Trust (CSAFE) | Weighted average under 60 days | \$ 835,789 |

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.

NOTE 4 - CAPITAL ASSETS

An analysis of the changes in property for the period ended December 31, 2016, follows:

| | <u>Balance at January 1, 2015</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at December 31, 2016</u> |
|--|---|------------------|------------------|---|
| Governmental Type Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Construction in progress | \$ 5,615,930 | \$ - | \$ - | \$ 5,615,930 |
| Total capital assets, not being depreciated | <u>\$ 5,615,930</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,615,930</u> |

HAWTHORN METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 5 - LONG-TERM OBLIGATIONS

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

| | Balance at December 31, 2015 | Additions | Retirement of Long-Term Obligations | Balance at December 31, 2016 | 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 | - | 141,896 | - |
| Developer advances - operations | 80,000 | 25,000 | - | 105,000 | - |
| Developer advances - capital | 1,129,584 | - | - | 1,129,584 | - |
| Accrued interest - | | | | | |
| Developer advances - operations | 14,711 | 8,226 | - | 22,937 | - |
| Accrued interest - | | | | | |
| Developer advances - capital | 311,245 | 90,367 | - | 401,612 | - |
| | <u>\$ 7,570,540</u> | <u>\$ 265,489</u> | <u>\$ -</u> | <u>\$ 7,836,029</u> | <u>\$ -</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. The District has \$284,349 in the Surplus Fund as of December 31, 2016, and, accordingly, the District has levied 50.000 mills for collection year 2017. As of December 31, 2016, the District had a Reserve Fund of \$375,698.

HAWTHORN METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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.

Subsequent to year end, the residential assessment rate was changed from 7.96% to 7.20%. Based upon the May 2017 preliminary assessed valuations, the service plan limitation of 50.000 mills could be increased to 55.278 mills. The final adjusted mill levy will be based upon final assessed value for collection in Budget Year 2018.

HAWTHORN METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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. Amounts due are subordinate to the 2014 Senior Bonds, the 2015 Subordinate Bonds, or any other third party bonds issued by the District, including any refunding of any of the same. Any mill levy imposed to repay the Developer is limited to 50 mills, less amounts needed to service existing debt of the District and is subject to annual appropriation by the District. As of December 31, 2016, the amount due to the Developer is \$1,129,584 in principal and \$401,612 of interest.

The District's Series 2014 Bonds will mature as follows:

| | Governmental Activities | | |
|-----------|--------------------------------|---------------------|---------------------|
| | Principal | Interest | Total |
| 2017 | \$ - | \$ 263,288 | \$ 263,288 |
| 2018 | - | 263,288 | 263,288 |
| 2019 | 25,000 | 263,288 | 288,288 |
| 2020 | 40,000 | 261,694 | 301,694 |
| 2021 | 40,000 | 259,144 | 299,144 |
| 2022-2026 | 300,000 | 1,248,863 | 1,548,863 |
| 2027-2031 | 495,000 | 1,129,969 | 1,624,969 |
| 2032-2036 | 770,000 | 939,357 | 1,709,357 |
| 2037-2041 | 1,150,000 | 648,657 | 1,798,657 |
| 2042-2044 | 1,310,000 | 193,801 | 1,503,801 |
| | <u>\$ 4,130,000</u> | <u>\$ 5,471,349</u> | <u>\$ 9,601,349</u> |

HAWTHORN METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

Debt Authorization

At December 31, 2016, the District had authorized but unissued general obligation indebtedness in the following amounts for the following purposes:

| | Authorized November 6, 2012 Election | Series 2014 Authorization Used | Series 2015 Authorization Used | Remaining at December 31, 2016 |
|--------------------------|---|---|---|---|
| Streets | \$ 30,000,000 | \$ 1,328,745 | \$ 613,000 | \$ 28,058,255 |
| Parks and Recreation | 30,000,000 | 122,231 | 56,000 | 29,821,769 |
| Water | 30,000,000 | 548,248 | 253,000 | 29,198,752 |
| Sanitation/Storm Sewer | 30,000,000 | 2,130,776 | 983,000 | 26,886,224 |
| 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>\$ 413,965,000</u> |

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

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 two components - restricted and unrestricted.

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, 2016, as follows:

| | |
|--------------------------|-------------------|
| Restricted net position: | |
| Emergency Reserves | \$ 5,000 |
| Debt Service | 154,000 |
| | <u>\$ 159,000</u> |

HAWTHORN METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 6 - NET POSITION (CONTINUED)

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.

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. The amount assigned to the District from the Prior Funding Agreement is \$94,711, of which \$80,000 is principal and \$14,711 is interest, as of December 31, 2016.

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

HAWTHORN METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 7 - DISTRICT AGREEMENTS (CONTINUED)

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 2016, The Developer advanced \$25,000 bringing the total principal to \$105,000 and interest to \$22,937.

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.

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.

HAWTHORN METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 10 - TAX, SPENDING AND DEBT LIMITATIONS

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, 2016

| | <u>Original and Final Budget</u> | <u>Actual</u> | Variance- Positive (Negative) |
|--|--------------------------------------|-------------------|--|
| REVENUES | | | |
| Property taxes | \$ 237,796 | \$ 237,435 | \$ (361) |
| Specific ownership taxes | 19,020 | 19,563 | 543 |
| Interest income | - | 4,298 | 4,298 |
| Total revenues | <u>256,816</u> | <u>261,296</u> | <u>4,480</u> |
| EXPENDITURES | | | |
| Paying agent fees | 2,000 | - | 2,000 |
| County Treasurer's fees | 3,567 | 3,564 | 3 |
| Bond interest | 263,288 | 263,288 | - |
| Contingency | 1,145 | - | 1,145 |
| Total expenditures | <u>270,000</u> | <u>266,852</u> | <u>3,148</u> |
| NET CHANGE IN FUND BALANCE | <u>(13,184)</u> | <u>(5,556)</u> | <u>7,628</u> |
| FUND BALANCES - BEGINNING OF YEAR | <u>875,673</u> | <u>874,833</u> | <u>(840)</u> |
| FUND BALANCES - END OF YEAR | <u>\$ 862,489</u> | <u>\$ 869,277</u> | <u>\$ 6,788</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, 2016**

| | Budget | | Actual | Variance- Positive (Negative) |
|---|-------------|-----------------|----------------|-------------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Net investment income | \$ - | \$ - | \$ 5 | \$ 5 |
| Total revenues | <u>-</u> | <u>-</u> | <u>5</u> | <u>5</u> |
| EXPENDITURES | | | | |
| Bond issue costs | - | - | 495 | (495) |
| Contingency | - | 6,452 | - | 6,452 |
| Transfer to Hawthorn MD No. 1 | - | 3,548 | 3,548 | - |
| Total expenditures | <u>-</u> | <u>10,000</u> | <u>4,043</u> | <u>5,957</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | <u>-</u> | <u>(10,000)</u> | <u>(4,038)</u> | <u>5,962</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Bond issuance | - | - | - | - |
| Repay developer advance | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCE | <u>-</u> | <u>(10,000)</u> | <u>(4,038)</u> | <u>5,962</u> |
| FUND BALANCES - BEGINNING OF YEAR | <u>-</u> | <u>10,000</u> | <u>4,038</u> | <u>(5,962)</u> |
| FUND BALANCES - END OF YEAR | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

OTHER INFORMATION

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

| Bonds and Interest Maturing in the Year Ending December 31, | \$4,130,000 | | |
|--|--|---------------------|---------------------|
| | General Obligation Bonds (Limited Tax Convertible to Unlimited Tax) Series 2014, Dated August 28, 2014 Interest Rate of 6.375% Payable June 1 and December 1 Principal Due December 1 | | |
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2017 | \$ - | \$ 263,288 | \$ 263,288 |
| 2018 | - | 263,288 | 263,288 |
| 2019 | 25,000 | 263,288 | 288,288 |
| 2020 | 40,000 | 261,694 | 301,694 |
| 2021 | 40,000 | 259,144 | 299,144 |
| 2022 | 50,000 | 256,594 | 306,594 |
| 2023 | 50,000 | 253,406 | 303,406 |
| 2024 | 60,000 | 250,219 | 310,219 |
| 2025 | 65,000 | 246,394 | 311,394 |
| 2026 | 75,000 | 242,250 | 317,250 |
| 2027 | 80,000 | 237,469 | 317,469 |
| 2028 | 90,000 | 232,369 | 322,369 |
| 2029 | 100,000 | 226,631 | 326,631 |
| 2030 | 110,000 | 220,256 | 330,256 |
| 2031 | 115,000 | 213,244 | 328,244 |
| 2032 | 130,000 | 205,913 | 335,913 |
| 2033 | 140,000 | 197,625 | 337,625 |
| 2034 | 155,000 | 188,700 | 343,700 |
| 2035 | 165,000 | 178,819 | 343,819 |
| 2036 | 180,000 | 168,300 | 348,300 |
| 2037 | 195,000 | 156,825 | 351,825 |
| 2038 | 215,000 | 144,394 | 359,394 |
| 2039 | 225,000 | 130,688 | 355,688 |
| 2040 | 250,000 | 116,344 | 366,344 |
| 2041 | 265,000 | 100,406 | 365,406 |
| 2042 | 290,000 | 83,513 | 373,513 |
| 2043 | 310,000 | 65,025 | 375,025 |
| 2044 | 710,000 | 45,263 | 755,263 |
| | <u>\$ 4,130,000</u> | <u>\$ 5,471,349</u> | <u>\$ 9,601,349</u> |

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

| <u>Year Ended December 31,</u> | <u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u> | <u>Mills Levied</u> | | <u>Total Property Taxes</u> | | <u>Percentage Collected to Levied</u> |
|--|---|---------------------|---------------------|-----------------------------|------------------|---|
| | | <u>General</u> | <u>Debt Service</u> | <u>Levied</u> | <u>Collected</u> | |
| 2015 | \$ 1,238,995 | 12.500 | 50.000 | \$ 77,437 | \$ 77,437 | 100.00% |
| 2016 | \$ 4,755,926 | 12.500 | 50.000 | \$ 297,245 | \$ 296,794 | 99.85% |
| Estimated for the year ending December 31, 2017 | \$ 6,371,109 | 16.500 | 50.000 | \$ 423,678 | | |

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.