

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

**FINANCIAL STATEMENTS**  
**December 31, 2014**

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**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 ended December 31, 2014, 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 of 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 Hawthorn Metropolitan District No. 2, as of December 31, 2014, 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 budget to actual schedules for the debt service and the 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 them.

*Dargis & Platt, LLC*

June 24, 2015

## **BASIC FINANCIAL STATEMENTS**

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**STATEMENT OF NET POSITION**  
**December 31, 2014**

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Cash and investments - Restricted	\$ 1,149,702
Receivable from County Treasurer	52
Property taxes receivable	77,437
Capital assets	5,615,930
Total assets	<u>6,843,121</u>
<b>LIABILITIES</b>	
Due to Hawthorn Metropolitan District No. 1	52
Accrued interest payable	21,941
Noncurrent liabilities	
Due in more than one year	7,123,901
Total liabilities	<u>7,145,894</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Property tax revenue	<u>77,437</u>
Total deferred inflows of resources	<u>77,437</u>
<b>NET POSITION</b>	
Restricted for:	
Capital Projects	76,035
Unrestricted	<u>(456,245)</u>
Total net position	<u><u>\$ (380,210)</u></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, 2014**

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Changes in Net Position</u>
					<u>Governmental Activities</u>
Government activities:					
General government	\$ 9,812	\$ -	\$ -	\$ -	\$ (9,812)
Interest and related costs on long-term debt	380,528	-	-	-	(380,528)
	<u>\$ 390,340</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(390,340)</u>
General revenues:					
Property taxes					9,231
Specific ownership taxes					549
Interest income					318
Other income					32
Total general revenues					<u>10,130</u>
Change in net position					(380,210)
Net position - Beginning					-
Net position - Ending					<u>\$ (380,210)</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, 2014**

	<b>General</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and investments - Restricted	\$ -	\$ 1,073,667	\$ 76,035	\$ 1,149,702
Receivable from County Treasurer	52	-	-	52
Property taxes receivable	15,487	61,950	-	77,437
Total assets	\$ 15,539	\$ 1,135,617	\$ 76,035	\$ 1,227,191
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
Due to Hawthorn Metropolitan District No. 1	\$ 52	\$ -	\$ -	\$ 52
Total liabilities	52	-	-	52
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred property tax revenue	15,487	61,950	-	77,437
Total deferred inflows of resources	15,487	61,950	-	77,437
<b>FUND BALANCES</b>				
Restricted for:				
Debt service	-	1,073,667	-	1,073,667
Capital Projects	-	-	76,035	76,035
Total fund balances	-	1,073,667	76,035	1,149,702
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 15,539</b>	<b>\$ 1,135,617</b>	<b>\$ 76,035</b>	

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

Capital assets are reported as assets on the Statement of Net Position  
but are recorded as expenditures in the funds

Capital assets	5,615,930
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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	(4,130,000)
Bond interest payable	(21,941)
Developer advances payable	(2,915,930)
Accrued interest on Developer advances	(77,971)
	<b>\$ (380,210)</b>

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

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
Year Ended December 31, 2014

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Property taxes	\$ 9,231	\$ -	\$ -	\$ 9,231
Specific ownership taxes	549	-	-	549
Interest income	-	298	20	318
Other income	32	-	-	32
Total revenues	<u>9,812</u>	<u>298</u>	<u>20</u>	<u>10,130</u>
<b>EXPENDITURES</b>				
Current				
County Treasurer's fees	138	-	-	138
Transfers to Hawthorn Metropolitan District No. 1	9,674	-	-	9,674
Debt service				
Bond interest	-	68,016	-	68,016
Capital				
Bond issue costs	-	-	212,600	212,600
Capital outlay	-	-	5,615,930	5,615,930
Total expenditures	<u>9,812</u>	<u>68,016</u>	<u>5,828,530</u>	<u>5,906,358</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>-</u>	<u>(67,718)</u>	<u>(5,828,510)</u>	<u>(5,896,228)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond proceeds	-	-	4,130,000	4,130,000
Developer advance	-	-	5,615,930	5,615,930
Transfer (to) from other funds	-	1,141,385	(1,141,385)	-
Repay developer advances	-	-	(2,700,000)	(2,700,000)
Total other financing sources (uses)	<u>-</u>	<u>1,141,385</u>	<u>5,904,545</u>	<u>7,045,930</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	1,073,667	76,035	1,149,702
<b>FUND BALANCES (DEFICITS) - BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES (DEFICITS) - END OF YEAR</b>	<u>\$ -</u>	<u>\$ 1,073,667</u>	<u>\$ 76,035</u>	<u>\$ 1,149,702</u>

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

**HAWTHORN METROPOLITAN DISTRICT NO. 2  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended December 31, 2014**

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

Net changes in fund balances - Total governmental funds	\$ 1,149,702
<p>Governmental funds report capital outlays as expenditures. In the statement of activities, capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of any cost of any depreciable asset over the estimated useful life of the asset.</p>	
Capital outlay	5,615,930
<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	(5,615,930)
Repayment of developer advance	2,700,000
Bond issuance	(4,130,000)
<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	(77,971)
Accrued interest on Bonds - Change in liability	<u>(21,941)</u>
Change in net position of governmental activities	<u><u>\$ (380,210)</u></u>

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

**HAWTHORN METROPOLITAN DISTRICT NO. 2  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
December 31, 2014**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance- Positive (Negative)</u>
<b>REVENUES</b>			
Property taxes	\$ 9,232	\$ 9,231	\$ (1)
Specific ownership taxes	650	549	(101)
Other income	-	32	32
Total revenues	<u>9,882</u>	<u>9,812</u>	<u>(70)</u>
<b>EXPENDITURES</b>			
Current			
County Treasurer's fees	138	138	-
Transfers to District No. 1	9,744	9,674	70
Total expenditures	<u>9,882</u>	<u>9,812</u>	<u>70</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES - BEGINNING OF YEAR (DEFICITS)</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES (DEFICITS) - END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

**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 serves as the Operating District.

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.

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. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

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

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

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

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 District property 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 general obligation 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.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

**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 has amended its annual budget for the year ended December 31, 2014.

**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 inflows of resources in the year they are levied and measurable. The property tax revenues are recorded as revenue in the year they are available or collected.

**Capital Assets**

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

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

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

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

**Fund Equity**

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 policy to use the most restrictive classification first.

**NOTE 3 - CASH AND INVESTMENTS**

Cash and investments as of December 31, 2014, are classified in the accompanying financial statements as follows:

Statement of net position:  
Investments - Restricted  
Total Investments

\$ 1,149,702  
\$ 1,149,702

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

**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.

The District had no cash deposits during 2014.

**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 disclosure requirements or subject to investment custodial credit risk 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, 2014**

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

As of December 31, 2014, the District had the following investments:

<b>Investment</b>	<b>Maturity</b>	<b>Fair Value</b>
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted average under 60 days	<u>\$ 1,149,702</u>

**CSAFE**

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE), 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 CSAFE. CSAFE 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, 2014, follows:

	<b>Balance at January 1, 2014</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at December 31, 2014</b>
<b>Governmental Type Activities:</b>				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$5,615,930	\$ -	\$ 5,615,930
Total capital assets, not being depreciated	\$ -	\$5,615,930	\$ -	\$ 5,615,930

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

**NOTE 5 - LONG-TERM OBLIGATIONS**

The following is an analysis of changes in long-term obligations for the year ended December 31, 2014:

	<u>Balance at December 31, 2013</u>	<u>Additions</u>	<u>Retirement of Long-Term Obligations</u>	<u>Balance at December 31, 2014</u>	<u>Due Within One Year</u>
G.O. Bonds - Series 2014	\$ -	\$ 4,130,000	\$ -	\$ 4,130,000	\$ -
Developer advances - capital	-	5,615,930	2,700,000	2,915,930	-
Accrued interest -					
Developer advances - capital	-	77,971	-	77,971	-
	<u>\$ -</u>	<u>\$ 9,823,901</u>	<u>\$ 2,700,000</u>	<u>\$ 7,123,901</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 so long as the amount on deposit in the Surplus Fund is less than the Required Surplus Fund amount of \$413,000. The District currently has less than the Required Surplus Fund amount as of December 31, 2014, and, accordingly, the District has levied 50.000 mills for collection year 2015. As of December 31, 2014, the District had a Reserve Fund of \$375,125.

**Infrastructure Acquisition and Reimbursement Agreement**

On August 11, 2014, an Infrastructure Acquisition and Reimbursement Agreement was entered into by and between District No. 1, Hawthorn Development Inc. (Developer) and the District for the purpose of providing funding for payment obligations. The Districts are intended to cooperate and coordinate in the financing, construction and operation and maintenance of the Public Infrastructure in connection with the development within the boundaries of the Districts (Project), and to issue bonds in order to fund Public Infrastructure at such time as it is reasonably feasible to do so, subject to the limitations of the Service Plan and applicable electoral authority.

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

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

The Developer has incurred certain costs related to the Public Infrastructure for the benefit of the Districts, and expects to incur additional costs related thereto, on the condition that the Districts agree to: (i) reimburse the Developer for all District Eligible Costs to the extent constituting Repayment Obligations, (ii) acquire any such Public Infrastructure constructed for the benefit of the Districts from the Developer that is not being dedicated to other governmental entities, and to pay all reasonable costs related thereto, and (iii) to reimburse the Developer for any costs incurred by the Developer for Public Infrastructure that is being dedicated to replace with other governmental activities. The funding of the Public Infrastructure and payment of all District Eligible Costs will come from legally available revenues of the Districts, including but not limited to the execution and issuance of one or more loans, reimbursement notes, bonds or other instruments (each a Reimbursement Obligation) payable to or at the direction of the Developer, in an aggregate amount equal to the District Eligible Costs approved by the District. Repayment Obligation shall bear simple interest at a rate of 8% per annum from the date any such Repayment Obligation is incurred to the earlier of the date a Reimbursement Obligation is issued, or the date of payment of such amount in full. Any mill certified by District No. 2 for the purposes of repaying costs hereunder shall not exceed fifty (50) mills and shall be further subject to any restrictions provided in the Service Plan, electoral authorization, or any applicable laws. The provision for repayment of amounts due hereunder shall be subject to annual appropriation by the Districts. Further, in order to permit acquisition and/or reimbursement to occur in the future, the Districts and the Developer shall cooperate to furnish documentation as may be required as a matter of law to permit the same to occur. The amount due by the District is \$2,915,930 of principal and interest of \$77,971 as of December 31, 2014.

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

	<b>Governmental Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ -	\$ 263,288	\$ 263,288
2016	-	263,288	263,288
2017	-	263,288	263,288
2018	-	263,288	263,288
2019	25,000	263,288	288,288
2020-2024	240,000	1,281,057	1,521,057
2025-2029	410,000	1,185,113	1,595,113
2030-2034	650,000	1,025,738	1,675,738
2035-2039	980,000	779,026	1,759,026
2040-2044	1,825,000	410,551	2,235,551
	<u>\$ 4,130,000</u>	<u>\$ 5,997,925</u>	<u>\$ 10,127,925</u>

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

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

**Debt Authorization**

At December 31, 2014, the District had authorized but unissued general obligation indebtedness in the following amounts for the following purposes:

	<b>Authorized November 6, 2012 Election</b>	<b>Authorization Used</b>	<b>Remaining at December 31, 2014</b>
Streets	\$ 30,000,000	\$ 1,328,745	\$ 28,671,255
Parks and Recreation	30,000,000	122,231	29,877,769
Water	30,000,000	548,248	29,451,752
Sanitation/Storm Sewer	30,000,000	2,130,776	27,869,224
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>\$ 415,870,000</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.

**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, 2014, as follows:

	<b>Governmental Activities</b>
Restricted net position:	
Capital projects	<u>\$ 76,035</u>

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

**NOTE 6 - NET POSITION (CONTINUED)**

The unrestricted component of net position as of December 31, 2014, totaled \$(456,245). This deficit amount was 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.

**NOTE 7 - DISTRICT AGREEMENTS**

**District Operating Agreement**

The District (the Taxing District) entered into an operating agreement with District No. 1 (the Operating District) on December 10, 2012. Under the Service Plan, the Districts are required to work together and coordinate their efforts with respect to all activities contemplated in the Service Plan including but not limited to the management and administration of the Districts, the provision of essential services by the Districts, and the financing, construction, operation and maintenance of public improvements.

The Service Plan describes certain "Facilities" to be financed in accordance with a general plan of finance described therein or in accordance with plans of finance permitted therein, from the proceeds of indebtedness to be issued by the Taxing District and/or from other funds held or obtained by the Taxing District. The Districts agree that the Facilities are needed by the Districts and that the Facilities will benefit the residents and property owners in the Districts in terms of cost, quality, level of service, and management and operation of such Facilities. The Operating District will (subject to discretionary transfer to other governmental entities or authorities), operate, maintain, and construct the Facilities benefiting the Districts, and the Taxing District will pay all costs related to the construction, operation, and maintenance of such Facilities.

**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.

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

**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, owners 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) as of December 31, 2014. 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 – INTERFUND AND OPERATING TRANSFERS**

During 2014, the District transferred \$1,141,385 from the Capital Projects Fund to the Debt Service Fund related to establish the required reserves related to the bond issuance.

**NOTE 11 - 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

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

**NOTE 11 - TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)**

shortfalls, or salary or benefit increases. The District transfers its net operating revenue to Hawthorn Metropolitan District No. 1 pursuant to the Master IGA. Therefore, the Emergency Reserves related to the District's revenues are captured in Hawthorn Metropolitan District No. 1.

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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Interest income	\$ -	\$ -	\$ 298	\$ 298
Total revenues	<u>-</u>	<u>-</u>	<u>298</u>	<u>298</u>
<b>EXPENDITURES</b>				
Bond interest	-	100,000	68,016	31,984
Total expenditures	<u>-</u>	<u>100,000</u>	<u>68,016</u>	<u>31,984</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>-</u>	<u>(100,000)</u>	<u>(67,718)</u>	<u>32,282</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from other fund	-	1,141,385	1,141,385	-
Total other financing sources (uses)	<u>-</u>	<u>1,141,385</u>	<u>1,141,385</u>	<u>-</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)</b>	<u>-</u>	<u>1,041,385</u>	<u>1,073,667</u>	<u>32,282</u>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ -</u>	<u>\$ 1,041,385</u>	<u>\$ 1,073,667</u>	<u>\$ 32,282</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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Interest income	\$ -	\$ 1,000	\$ 20	\$ (980)
Total revenues	<u>-</u>	<u>1,000</u>	<u>20</u>	<u>(980)</u>
<b>EXPENDITURES</b>				
Bond issue costs	-	558,615	212,600	346,015
Capital outlay	<u>-</u>	<u>5,800,000</u>	<u>5,615,930</u>	<u>184,070</u>
Total expenditures	<u>-</u>	<u>6,358,615</u>	<u>5,828,530</u>	<u>530,085</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>-</u>	<u>(6,357,615)</u>	<u>(5,828,510)</u>	<u>529,105</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond issuance	-	4,130,000	4,130,000	-
Developer advance	-	6,069,000	5,615,930	(453,070)
Repay developer advance	-	(2,700,000)	(2,700,000)	-
Transfers to other fund	<u>-</u>	<u>(1,141,385)</u>	<u>(1,141,385)</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>6,357,615</u>	<u>5,904,545</u>	<u>(453,070)</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)</b>				
	<u>-</u>	<u>-</u>	<u>76,035</u>	<u>76,035</u>
<b>FUND BALANCES - BEGINNING OF YEAR</b>				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES - END OF YEAR</b>				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,035</u>	<u>\$ 76,035</u>

## **OTHER INFORMATION**

**HAWTHORN METROPOLITAN DISTRICT NO. 2**  
**SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY**  
**December 31, 2014**

<b>Bonds and Interest Maturing in the Year Ending December 31,</b>	<b>\$4,130,000</b>		
	<b>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</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ -	\$ 263,288	\$ 263,288
2016	-	263,288	263,288
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
	<b>\$ 4,130,000</b>	<b>\$ 5,997,925</b>	<b>\$ 10,127,925</b>

**HAWTHORN METROPOLITAN DISTRICT NO. 2  
SCHEDULE OF ASSESSED VALUATION,  
MILL LEVY AND PROPERTY TAXES COLLECTED  
December 31, 2014**

<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>	
2013	\$ 190,962	50.000	0.000	\$ 9,548	\$ 9,548	100.00%
2014	\$ 153,863	60.000	0.000	\$ 9,232	\$ 9,231	99.99%
Estimated for the year ending December 31, 2015	\$ 1,238,995	12.500	50.000	\$ 77,437		

**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.