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Accountant's Compilation Report

Board of Directors
Hawthorn Metropolitan District No. 2

Management is responsible for the accompanying budget of revenues, expenditures, and fund balances of Hawthorn Metropolitan District No. 2 for the year ending December 31, 2019, including the estimate of comparative information for the year ending December 31, 2018, and the actual comparative information for the year ended December 31, 2017, in the format prescribed by Colorado Revised Statutes (C.R.S.) 29-1-105 and the related summary of significant assumptions in accordance with guidelines for the presentation of a budget established by the American Institute of Certified Public Accountants (AICPA). We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the budget nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on the accompanying budget.

The budgeted results may not be achieved as there will usually be differences between the budgeted and actual results, because events and circumstances frequently do not occur as expected, and these differences may be material. We assume no responsibility to update this report for events and circumstances occurring after the date of this report.

We draw attention to the summary of significant assumptions which describe that the budget is presented in accordance with the requirements of C.R.S 29-1-105, and is not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America.

We are not independent with respect to Hawthorn Metropolitan District No. 2.

Greenwood Village, Colorado
December 4, 2018



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HAWTHORN METROPOLITAN DISTRICT NO. 2
SUMMARY
2019 BUDGET
WITH 2017 ACTUAL AND 2018 ESTIMATED
For the Years Ended and Ending December 31,

12/4/18

	ACTUAL 2017	ESTIMATED 2018	BUDGET 2019
BEGINNING FUND BALANCES	\$ 832,542	\$ (49,772)	\$ 121,309
REVENUES			
Bond issuance	7,958,000	-	-
Bond premium	113,094	-	-
Developer advance	3,085,599	-	-
Interest income	7,072	510	1,010
Operations fees	95,626	105,582	93,132
Penalties and late fees	-	1,263	-
Property taxes	301,446	579,706	593,305
Specific ownership tax	41,392	46,380	35,598
Total revenues	<u>11,602,229</u>	<u>733,441</u>	<u>723,045</u>
TRANSFERS IN	<u>4,159</u>	<u>31,500</u>	<u>83,500</u>
Total funds available	<u>12,438,930</u>	<u>715,169</u>	<u>927,854</u>
EXPENDITURES			
General Fund	101,434	84,019	84,979
Operations Fund	130,880	117,568	156,220
Debt Service Fund	7,685,350	360,773	375,000
Capital Projects Fund	4,566,879	-	-
Total expenditures	<u>12,484,543</u>	<u>562,360</u>	<u>616,199</u>
TRANSFERS OUT	<u>4,159</u>	<u>31,500</u>	<u>83,500</u>
Total expenditures and transfers out requiring appropriation	<u>12,488,702</u>	<u>593,860</u>	<u>699,699</u>
ENDING FUND BALANCES	<u>\$ (49,772)</u>	<u>\$ 121,309</u>	<u>\$ 228,155</u>
Emergency Reserve	\$ 5,000	\$ 5,100	\$ 5,100
Surplus Fund	300,531	121,439	207,778
TOTAL RESERVE	<u>\$ 305,531</u>	<u>\$ 126,539</u>	<u>\$ 212,878</u>

This financial information should be read only in connection with the accompanying accountant's compilation report and summary of significant assumptions.

HAWTHORN METROPOLITAN DISTRICT NO. 2
PROPERTY TAX SUMMARY INFORMATION
2019 BUDGET
WITH 2017 ACTUAL AND 2018 ESTIMATED
For the Years Ended and Ending December 31,

12/4/18

	ACTUAL 2017	ESTIMATED 2018	BUDGET 2019
ASSESSED VALUATION			
Residential	\$ 4,495,240	\$ 7,676,087	\$ 7,856,213
Commercial	50,906	-	-
Vacant land	1,824,963	203	203
Personal property	-	95	56
Certified Assessed Value	<u>\$ 6,371,109</u>	<u>\$ 7,676,385</u>	<u>\$ 7,856,472</u>
MILL LEVY			
General	16.500	20.241	20.241
Debt Service	50.000	55.277	55.277
Total mill levy	<u>66.500</u>	<u>75.518</u>	<u>75.518</u>
PROPERTY TAXES			
General	\$ 105,123	\$ 155,378	\$ 159,023
Debt Service	318,555	424,328	434,282
Levied property taxes	423,678	579,706	593,305
Adjustments to actual/rounding	(46,129)	-	-
Refunds and abatements	(76,103)	-	-
Budgeted property taxes	<u>\$ 301,446</u>	<u>\$ 579,706</u>	<u>\$ 593,305</u>
BUDGETED PROPERTY TAXES			
General	\$ 74,795	\$ 155,378	\$ 159,023
Debt Service	226,651	424,328	434,282
	<u>\$ 301,446</u>	<u>\$ 579,706</u>	<u>\$ 593,305</u>

This financial information should be read only in connection with the accompanying accountant's compilation report and summary of significant assumptions.

**HAWTHORN METROPOLITAN DISTRICT NO. 2
GENERAL FUND
2019 BUDGET
WITH 2017 ACTUAL AND 2018 ESTIMATED
For the Years Ended and Ending December 31,**

12/4/18

	ACTUAL 2017	ESTIMATED 2018	BUDGET 2019
BEGINNING FUND BALANCE	\$ (36,735)	\$ (47,111)	\$ 5,188
REVENUES			
Developer advance	10,000	-	-
Interest income	150	10	10
Property taxes	74,795	155,378	159,023
Specific ownership tax	10,272	12,430	9,541
Total revenues	95,217	167,818	168,574
Total funds available	58,482	120,707	173,762
EXPENDITURES			
Accounting	22,623	23,000	23,000
Auditing	4,700	4,900	4,900
Contingency	-	-	-
County interest expense	1,896	-	-
County Treasurer's fee	1,096	2,330	2,385
Directors' fees	861	800	800
Dissolution of District No. 1	-	-	7,000
Dues and licenses	479	448	470
Election expense	-	749	-
Insurance and bonds	10,264	10,800	11,424
Legal services	59,495	40,000	35,000
Miscellaneous	20	992	-
Total expenditures	101,434	84,019	84,979
TRANSFERS OUT			
Transfer to other fund	4,159	31,500	83,500
Total expenditures and transfers out requiring appropriation	105,593	115,519	168,479
ENDING FUND BALANCE	\$ (47,111)	\$ 5,188	\$ 5,283
Emergency Reserve	\$ 5,000	\$ 5,100	\$ 5,100

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**HAWTHORN METROPOLITAN DISTRICT NO. 2
OPERATIONS FUND
2019 BUDGET
WITH 2017 ACTUAL AND 2018 ESTIMATED
For the Years Ended and Ending December 31,**

12/4/18

	ACTUAL 2017	ESTIMATED 2018	BUDGET 2019
BEGINNING FUND BALANCE	\$ -	\$ (26,095)	\$ (5,318)
REVENUES			
Developer advance	5,000	-	-
Interest income	-	-	-
Operations fees	95,626	105,582	93,132
Penalties and late fees	-	1,263	-
Total revenues	<u>100,626</u>	<u>106,845</u>	<u>93,132</u>
TRANSFERS IN			
Transfers from other funds	<u>4,159</u>	<u>31,500</u>	<u>83,500</u>
Total funds available	<u>104,785</u>	<u>112,250</u>	<u>171,314</u>
EXPENDITURES			
General and administrative			
Covenant enforcement	-	1,560	1,920
Design review	-	1,560	1,920
Director expense	1,018	-	-
District management	14,380	14,500	18,000
Legal services	1,008	2,645	2,400
Miscellaneous	192	-	-
Postage and copies	2,400	600	300
Transfer fees	3,300	-	-
Operations and maintenance			
Electricity	661	223	800
Fence repair	-	2,484	1,000
Grounds cleanup	6,252	3,500	3,500
Irrigation repairs	3,469	3,400	4,000
Landscape improvements	-	-	30,000
Landscape maintenance contract	41,472	25,000	25,000
Lighting repair	-	50	50
North Table Mtn IGA	13,983	14,282	15,330
Snow removal	2,533	4,870	5,000
Social activities	1,094	3,000	3,000
Trash removal	35,430	37,000	37,000
Water	3,688	2,894	7,000
Total expenditures	<u>130,880</u>	<u>117,568</u>	<u>156,220</u>
Total expenditures and transfers out requiring appropriation	<u>130,880</u>	<u>117,568</u>	<u>156,220</u>
ENDING FUND BALANCE	<u>\$ (26,095)</u>	<u>\$ (5,318)</u>	<u>\$ 15,094</u>

This financial information should be read only in connection with the accompanying accountant's compilation report and summary of significant assumptions.

**HAWTHORN METROPOLITAN DISTRICT NO. 2
DEBT SERVICE FUND
2019 BUDGET
WITH 2017 ACTUAL AND 2018 ESTIMATED
For the Years Ended and Ending December 31,**

12/4/18

	ACTUAL 2017	ESTIMATED 2018	BUDGET 2019
BEGINNING FUND BALANCE	\$ 869,277	\$ 23,434	\$ 121,439
REVENUES			
Bond issuance	6,461,720	-	-
Bond premium	113,094	-	-
Interest income	6,922	500	1,000
Property taxes	226,651	424,328	434,282
Specific ownership tax	31,120	33,950	26,057
Total revenues	<u>6,839,507</u>	<u>458,778</u>	<u>461,339</u>
Total funds available	<u>7,708,784</u>	<u>482,212</u>	<u>582,778</u>
EXPENDITURES			
Bond interest - Series 2017A	-	291,408	299,625
Bond interest Series 2014	263,288	-	-
Bond issue costs	421,198	-	-
Bond principal - Series 2017A	-	60,000	60,000
Contingency	-	-	5,861
County interest expense	5,746	-	-
County Treasurer's fee	3,320	6,365	6,514
Paying agent fees	5,502	3,000	3,000
Payment to escrow agent	6,148,578	-	-
Refunding bond payment	837,718	-	-
Total expenditures	<u>7,685,350</u>	<u>360,773</u>	<u>375,000</u>
Total expenditures and transfers out requiring appropriation	<u>7,685,350</u>	<u>360,773</u>	<u>375,000</u>
ENDING FUND BALANCE	<u>\$ 23,434</u>	<u>\$ 121,439</u>	<u>\$ 207,778</u>
Surplus Fund	<u>\$ 300,531</u>	<u>\$ 121,439</u>	<u>\$ 207,778</u>

This financial information should be read only in connection with the accompanying accountant's compilation report and summary of significant assumptions.

**HAWTHORN METROPOLITAN DISTRICT NO. 2
CAPITAL PROJECTS FUND
2019 BUDGET
WITH 2017 ACTUAL AND 2018 ESTIMATED
For the Years Ended and Ending December 31,**

12/4/18

	ACTUAL 2017	ESTIMATED 2018	BUDGET 2019
BEGINNING FUND BALANCE	\$ -	\$ -	\$ -
REVENUES			
Developer advance	3,070,599	-	-
Bond issuance	1,496,280	-	-
Total revenues	<u>4,566,879</u>	-	-
Total funds available	<u>4,566,879</u>	-	-
EXPENDITURES			
Repay developer advance	1,496,280	-	-
Capital outlay	3,070,599	-	-
Total expenditures	<u>4,566,879</u>	-	-
Total expenditures and transfers out requiring appropriation	<u>4,566,879</u>	-	-
ENDING FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

This financial information should be read only in connection with the accompanying accountant's compilation report and summary of significant assumptions.

**HAWTHORN METROPOLITAN DISTRICT NO. 2
2019 BUDGET
SUMMARY OF SIGNIFICANT ASSUMPTIONS**

Services Provided

The District, a quasi-municipal corporation and a political subdivision of the State of Colorado, was organized by court order and decree of the District Court for the County of Jefferson 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, safety protection, fire protection, television relay and translation, and security. The District was organized in conjunction with Hawthorn Metropolitan District No. 1 which is now inactive.

The District is 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.

On November 6, 2012, the District's voters authorized total indebtedness of \$300,000,000 for the above listed facilities and \$30,000,000 for operations and maintenance, \$30,000,000 for both intergovernmental and private agreements, and \$30,000,000 for refunding. The election also approved an annual increase in property taxes of \$5,000,000 without limitation of rate, to pay the District's operation and maintenance costs. Per the District's service plan, the maximum debt mill levy is 50.000 mills, as adjusted. The maximum mill levy is 55.277 mills. Additionally the service plan limits the total amount of debt issued between both Districts to \$10,000,000.

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

The District prepares its budget on the modified accrual basis of accounting and in accordance with the requirements of Colorado Revised Statutes C.R.S. 29-1-105 using its best estimates as of the date of the budget hearing. These estimates are based on expected conditions and its expected course of actions. The assumptions disclosed herein are those that the District believes are significant to the budget. There will usually be differences between the budget and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

Revenues

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.

**HAWTHORN METROPOLITAN DISTRICT NO. 2
2019 BUDGET
SUMMARY OF SIGNIFICANT ASSUMPTIONS**

Revenues (continued)

The calculation of the taxes levied is displayed on the Property Tax Summary Information page of the budget using the adopted mill levy imposed by the District.

Specific Ownership

Specific ownership taxes are set by the State and collected by the County Treasurer, primarily on vehicle licensing within the County as a whole. The specific ownership taxes are allocated by the County Treasurer to all taxing entities within the County. The budget assumes that the District's share will be equal to approximately 6% of the property taxes collected for General Fund and 8% for Debt Service Fund.

Operations Fee

The District collects a fee of \$468 per year from homeowners. The fees are used to cover the costs of landscaping, maintenance and trash removal for the District.

Net Investment Income

Interest earned on the District's available funds has been estimated based on an average interest rate of approximately 1.5%.

Expenditures

County Treasurer's Fees

County Treasurer's collection fees have been computed at 1.5% of property taxes.

Administrative Expenditures

Administration expenses include the services necessary to maintain the District's administrative viability such as legal, accounting, insurance, dues and membership, and other administrative expenses.

Maintenance Expenditures

Anticipated maintenance expenditures are shown on the Operations Fee Fund page of the budget.

Debt and Leases

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

**HAWTHORN METROPOLITAN DISTRICT NO. 2
2019 BUDGET
SUMMARY OF SIGNIFICANT ASSUMPTIONS**

Debt and Leases (continued)

The proceeds from the sale of the 2017C Bonds were used to reimburse Developer advances related to public improvements for the District and paying certain costs of issuing the 2017C Bonds.

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

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

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

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

The District has no operating or capital leases.

Reserve Funds

Emergency Reserve

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of fiscal year spending.

This information is an integral part of the budget.