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Accountant's Compilation Report

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

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, 2017, including the estimate of comparative information for the year ending December 31, 2016, and the actual comparative information for the year ending December 31, 2015, in the format prescribed by Colorado Revised Statutes (C.R.S.) 29-1-105. 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 American Institute of Certified Public Accountants. 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.

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.

CliftonLarsonAllen LLP

Greenwood Village, Colorado
December 21, 2016

HAWTHORN METROPOLITAN DISTRICT NO. 2
SUMMARY
2017 BUDGET AS ADOPTED
WITH 2015 ACTUAL AND 2016 ESTIMATED
For the Years Ended and Ending December 31,

12/21/2016

	ACTUAL 2015	ESTIMATED 2016	ADOPTED 2017
BEGINNING FUND BALANCES	\$ 1,149,702	\$ 878,871	\$ 858,637
REVENUES			
1 Property taxes	77,437	297,245	423,678
2 Specific ownership taxes	6,493	16,730	33,890
3 Developer advance	-	10,000	-
4 Net investment income	1,147	3,010	6,000
5 Other income	-	-	-
6 Bond issuance	1,905,000	-	-
7 Operation fees	-	18,000	83,550
8 Transfer from District No. 1	-	365	-
Total revenues	<u>1,990,077</u>	<u>345,350</u>	<u>547,118</u>
TRANSFERS IN	<u>-</u>	<u>5</u>	<u>47,000</u>
Total funds available	<u>3,139,779</u>	<u>1,224,226</u>	<u>1,452,755</u>
EXPENDITURES			
9 General and administration			
10 Accounting	-	4,500	16,000
11 Audit	-	-	5,000
12 County Treasurer's fees	194	186	1,577
13 Director fees	-	-	800
14 Dues and membership	-	-	600
15 Insurance	-	-	11,000
16 Legal	-	15,000	20,000
17 Miscellaneous	-	-	123
18 Transfers to Hawthorn #1	16,458	62,000	-
19 Operations and maintenance			
20 Director expense	-	-	2,000
21 Facility management - transfer fee	-	1,000	-
22 Facility management fee	-	3,000	17,760
23 Gas and electric	-	-	1,200
24 Grounds cleanup	-	-	2,500
25 Irrigation repairs	-	-	3,400
26 Landscape maintenance contract	-	-	38,000
27 Lighting repair	-	-	50
28 North Table IGA payment	-	-	14,100
29 Postage, printing and copies	-	-	1,260
30 Snow removal	-	2,000	4,870
31 Social activities	-	-	3,000
32 Sod repair	-	-	250
33 Trash removal	-	3,000	32,200
34 Water and sewer	-	2,000	17,865
35 Debt service			
36 Bond interest Series 2014	263,288	263,288	263,288
37 Bond interest Series 2015	-	-	143,719
38 Contingency	-	-	5,215
39 County Treasurer's fees	968	3,567	4,778
40 Paying agent fees	3,000	2,000	3,000
41 Capital projects			
42 Bond issue costs	178,650	495	-
43 Repay developer advance	1,786,346	-	-
44 Transfers to Hawthorn #1	12,004	3,548	-
Total expenditures	<u>2,260,908</u>	<u>365,584</u>	<u>613,555</u>
TRANSFERS OUT	<u>-</u>	<u>5</u>	<u>47,000</u>
Total expenditures and transfers out requiring appropriation	<u>2,260,908</u>	<u>365,589</u>	<u>660,555</u>
ENDING FUND BALANCES	<u>\$ 878,871</u>	<u>\$ 858,637</u>	<u>\$ 792,200</u>
EMERGENCY RESERVE	\$ -	\$ 1,900	\$ 3,500
RESERVE FUND	<u>2,100</u>	<u>375,025</u>	<u>375,025</u>
TOTAL RESERVE	<u>\$ 2,100</u>	<u>\$ 376,925</u>	<u>\$ 378,525</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
For the Years Ended and Ending December 31,

12/21/2016

	ACTUAL 2015	ESTIMATED 2016	ADOPTED 2017
ASSESSED VALUATION -			
Residential	\$ -	\$ 1,339,104	\$ 4,495,240
Commercial	-	7,467	50,906
Vacant Land	1,238,995	3,409,355	1,824,963
Certified Assessed Value	<u>\$ 1,238,995</u>	<u>\$ 4,755,926</u>	<u>\$ 6,371,109</u>
MILL LEVY			
GENERAL FUND	12.500	12.500	16.500
DEBT SERVICE FUND	50.000	50.000	50.000
Total Mill Levy	<u>62.500</u>	<u>62.500</u>	<u>66.500</u>
PROPERTY TAXES			
GENERAL FUND	\$ 15,487	\$ 59,449	\$ 105,123
DEBT SERVICE FUND	61,950	237,796	318,555
Levied property taxes	<u>77,437</u>	<u>297,245</u>	<u>423,678</u>
Adjustments to actual/rounding	-	-	-
Budgeted Property Taxes	<u>\$ 77,437</u>	<u>\$ 297,245</u>	<u>\$ 423,678</u>
BUDGETED PROPERTY TAXES			
GENERAL FUND	\$ 15,487	\$ 59,449	\$ 105,123
DEBT SERVICE FUND	61,950	237,796	318,555
	<u>\$ 77,437</u>	<u>\$ 297,245</u>	<u>\$ 423,678</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
2017 BUDGET AS ADOPTED
WITH 2015 ACTUAL AND 2016 ESTIMATED
For the Years Ended and Ending December 31,

12/21/2016

	ACTUAL 2015	ESTIMATED 2016	ADOPTED 2017
BEGINNING FUND BALANCES	\$ -	\$ -	\$ (8,870)
REVENUES			
1 Property taxes	15,487	59,449	105,123
2 Specific ownership taxes	1,165	3,002	8,410
3 Developer advance	-	10,000	-
4 Net investment income	-	-	1,000
5 Other income	-	-	-
6 Transfer from District No. 1	-	365	-
Total revenues	16,652	72,816	114,533
Total funds available	16,652	72,816	105,663
EXPENDITURES			
General and administration			
7 Accounting	-	4,500	16,000
8 Audit	-	-	5,000
9 County Treasurer's fees	194	186	1,577
10 Director fees	-	-	800
11 Dues and membership	-	-	600
12 Insurance	-	-	11,000
13 Legal	-	15,000	20,000
14 Miscellaneous	-	-	123
15 Transfers to Hawthorn #1	16,458	62,000	-
Total expenditures	16,652	81,686	55,100
TRANSFERS OUT			
OPERATIONS FUND			
Total transfers out	-	-	47,000
Total expenditures and transfers out requiring appropriation	16,652	81,686	102,100
ENDING FUND BALANCES	\$ -	\$ (8,870)	\$ 3,563
EMERGENCY RESERVE	\$ -	\$ 1,900	\$ 3,500
TOTAL RESERVE	\$ -	\$ 1,900	\$ 3,500

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
OPERATIONS FUND
FORECASTED 2017 BUDGET AS ADOPTED
WITH 2015 ACTUAL AND 2016 ESTIMATED
For the Years Ended and Ending December 31,

12/21/2016

	ACTUAL 2015	ESTIMATED 2016	ADOPTED 2017
BEGINNING FUND BALANCES	\$ -	\$ -	\$ 7,000
REVENUES			
1 Net investment income	-	-	1,000
2 Operation fees	-	18,000	83,550
Total revenues	<u>-</u>	<u>18,000</u>	<u>84,550</u>
TRANSFERS IN			
GENERAL FUND	-	-	47,000
Total transfers in	<u>-</u>	<u>-</u>	<u>47,000</u>
Total funds available	<u>-</u>	<u>18,000</u>	<u>138,550</u>
EXPENDITURES			
Operations and maintenance			
3 Director expense	-	-	2,000
4 Facility management - transfer fee	-	1,000	-
5 Facility management fee	-	3,000	17,760
6 Gas and electric	-	-	1,200
7 Grounds cleanup	-	-	2,500
8 Irrigation repairs	-	-	3,400
9 Landscape maintenance contract	-	-	38,000
10 Lighting repair	-	-	50
11 North Table IGA payment	-	-	14,100
12 Postage, printing and copies	-	-	1,260
13 Snow removal	-	2,000	4,870
14 Social activities	-	-	3,000
15 Sod repair	-	-	250
16 Trash removal	-	3,000	32,200
17 Water and sewer	-	2,000	17,865
Total expenditures	<u>-</u>	<u>11,000</u>	<u>138,455</u>
Total expenditures and transfers out requiring appropriation	<u>-</u>	<u>11,000</u>	<u>138,455</u>
ENDING FUND BALANCES	<u>\$ -</u>	<u>\$ 7,000</u>	<u>\$ 95</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
2017 BUDGET AS ADOPTED
WITH 2015 ACTUAL AND 2016 ESTIMATED
For the Years Ended and Ending December 31,

12/21/2016

	ACTUAL 2015	ESTIMATED 2016	ADOPTED 2017
BEGINNING FUND BALANCES	\$ 1,073,667	\$ 874,833	\$ 860,507
REVENUES			
1 Property taxes	61,950	237,796	318,555
2 Specific ownership taxes	5,328	13,728	25,480
3 Net investment income	1,144	3,000	4,000
Total revenues	68,422	254,524	348,035
TRANSFERS IN			
CAPITAL PROJECTS FUND	-	5	-
Total transfers in	-	5	-
Total funds available	1,142,089	1,129,362	1,208,542
EXPENDITURES			
Debt service			
4 Bond interest Series 2014	263,288	263,288	263,288
5 Bond interest Series 2015	-	-	143,719
6 Contingency	-	-	5,215
7 County Treasurer's fees	968	3,567	4,778
8 Paying agent fees	3,000	2,000	3,000
Total expenditures	267,256	268,855	420,000
Total expenditures and transfers out requiring appropriation	267,256	268,855	420,000
ENDING FUND BALANCES	\$ 874,833	\$ 860,507	\$ 788,542
RESERVE FUND	\$ 2,100	\$ 375,025	\$ 375,025
TOTAL RESERVE	\$ 2,100	\$ 375,025	\$ 375,025

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
2017 BUDGET AS ADOPTED
WITH 2015 ACTUAL AND 2016 ESTIMATED
For the Years Ended and Ending December 31,

12/21/2016

	ACTUAL 2015	ESTIMATED 2016	ADOPTED 2017
BEGINNING FUND BALANCES	\$ 76,035	\$ 4,038	\$ -
REVENUES			
1 Net investment income	3	10	-
2 Bond issuance	1,905,000	-	-
Total revenues	1,905,003	10	-
Total funds available	1,981,038	4,048	-
EXPENDITURES			
Capital projects			
3 Bond issue costs	178,650	495	-
4 Repay developer advance	1,786,346	-	-
5 Transfers to Hawthorn #1	12,004	3,548	-
Total expenditures	1,977,000	4,043	-
TRANSFERS OUT			
DEBT SERVICE FUND	-	5	-
Total transfers out	-	5	-
Total expenditures and transfers out requiring appropriation	1,977,000	4,048	-
ENDING FUND BALANCES	\$ 4,038	\$ -	\$ -

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
2017 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. 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.

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.

The calculation of the taxes levied is displayed on page 3 at the adopted mill levy of 62.500 mills, of which 12.500 mills is for operations and 50.000 mills for debt service.

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 8% of the property taxes collected for General Fund and 8% for Debt Service Fund.

HAWTHORN METROPOLITAN DISTRICT NO. 2
2017 BUDGET
SUMMARY OF SIGNIFICANT ASSUMPTIONS

Expenditures

County Treasurer's Fees

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

Debt and Leases

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: (i) the Required Mill Levy and (ii) 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 but anticipates having the required Surplus Fund amount by the end of 2017.

A debt service schedule is attached.

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.

**HAWTHORN METROPOLITAN DISTRICT NO. 2
2017 BUDGET
SUMMARY OF SIGNIFICANT ASSUMPTIONS**

Debt and Leases - (continued)

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 after all amounts required by the 2014 Indenture are applied by the trustee for the 2014 Senior 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. The first cash flow payment is anticipated to occur on December 15, 2017. A debt to maturity schedule is not provided as repayment depends on available cash flow after the 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 15, 2055.

The Subordinate Indenture requires that a Required Subordinate Mill Levy be imposed in an amount equal to 50 mills 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. The Subordinate Bonds are cash flow bonds and a debt to maturity schedule is not provided as the timing of payments is unknown.

The District has no operating or capital leases.

Reserve Funds

Debt Service Reserve

The Debt Service Reserve Requirement on the 2014 Bond is \$375,025 and was fully funded at closing.

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.

**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		
	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	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>