

VDW METROPOLITAN DISTRICT NO. 1
Larimer County, Colorado

BASIC FINANCIAL STATEMENTS

December 31, 2016

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FINANCIAL SECTION



JOHN CUTLER & ASSOCIATES

Board of Directors
VDW Metropolitan District No. 1
Larimer County, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of VDW Metropolitan District No. 1, as of and for the year ended 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.

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 VDW Metropolitan District No. 1, as of December 31, 2016, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary information on page 18 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has not presented the management's discussion and analysis that governmental 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 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 VDW Metropolitan District No. 1's financial statements. The individual fund schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund schedules are fairly stated in all material respects in relation to the financial statements as a whole.

John Luthr & Associates, LLC

July 28, 2017

BASIC FINANCIAL STATEMENTS

VDW METROPOLITAN DISTRICT NO. 1

STATEMENT OF NET POSITION
As of December 31, 2016

	Governmental Activities	
	2016	2015
ASSETS		
Cash and Investments	\$ 630,114	\$ 345,020
Cash and Investments - Restricted	4,854	5,125
Service Fees Receivable - District No. 2	3,340	2,971
Service Fees Receivable - District No. 3	1,672	2,182
Deposits	92,356	-
Prepaid Expenses	8,062	7,755
Capital Assets, not Depreciated	499,187	-
Capital Assets, Depreciated, net	2,306,294	2,430,769
TOTAL ASSETS	3,545,879	2,793,822
LIABILITIES		
Accounts Payable	72,016	23,301
Accrued Interest	7,440	21,480
Noncurrent Liabilities		
Due within One Year	35,000	120,000
Due in More Than One Year	1,080,000	10,874,885
TOTAL LIABILITIES	1,194,456	11,039,666
NET POSITION		
Investment in Capital Assets	1,690,481	(8,564,116)
Restricted for		
Emergencies	16,500	18,100
Debt Service	4,854	5,125
Capital Projects	111,190	1,641
Unrestricted	528,398	293,406
TOTAL NET POSITION	\$ 2,351,423	\$ (8,245,844)

The accompanying notes are an integral part of the financial statements.

VDW METROPOLITAN DISTRICT NO. 1

STATEMENT OF ACTIVITIES
Year Ended December 31, 2016

	Governmental Activities	
	2016	2015
EXPENSES		
Governmental Activities		
General Government	\$ 392,543	\$ 366,669
Interest on Long-Term Debt	497,572	265,939
 TOTAL EXPENSES	 890,115	 632,608
REVENUES		
GENERAL REVENUES		
Service Fees - District No. 2	369,161	368,024
Service Fees - District No. 3	172,500	270,120
Other Governmental Revenues	162,738	217,392
Investment Income	1,359	765
SPECIAL ITEM		
Transfer from District No. 2	10,781,624	-
 TOTAL REVENUES	 11,487,382	 856,301
 CHANGE IN NET POSITION	 10,597,267	 223,693
NET POSITION, Beginning	(8,245,844)	(8,469,537)
NET POSITION, Ending	\$ 2,351,423	\$ (8,245,844)

The accompanying notes are an integral part of the financial statements.

VDW METROPOLITAN DISTRICT NO. 1

BALANCE SHEET
GOVERNMENTAL FUNDS
As of December 31, 2016

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TOTALS	2015 TOTAL
ASSETS					
Cash and Investments	\$ 543,671	\$ 86,443	\$ -	\$ 630,114	\$ 345,020
Cash and Investments - Restricted	-	-	4,854	4,854	5,125
Service Fees Receivable - District No. 2	3,340	-	-	3,340	2,971
Service Fees Receivable - District No. 3	1,672	-	-	1,672	2,182
Due from Other Funds	-	-	-	-	16,186
Deposits	-	92,356	-	92,356	-
Prepaid Expenses	8,062	-	-	8,062	7,755
TOTAL ASSETS	\$ 556,745	\$ 178,799	\$ 4,854	\$ 740,398	\$ 379,239
LIABILITIES AND FUND EQUITY					
LIABILITIES					
Accounts Payable	\$ 4,407	\$ 67,609	\$ -	\$ 72,016	\$ 23,301
Due to Other Funds	-	-	-	-	16,186
TOTAL LIABILITIES	4,407	67,609	-	72,016	39,487
FUND EQUITY					
Fund Balance					
Nonspendable	8,062	-	-	8,062	7,755
Restricted	16,500	111,190	4,854	132,544	24,866
Unassigned	527,776	-	-	527,776	307,131
TOTAL FUND EQUITY	552,338	111,190	4,854	668,382	339,752
TOTAL LIABILITIES & FUND EQUITY	\$ 556,745	\$ 178,799	\$ 4,854		

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

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	2,805,481	2,430,769
Long-term liabilities are not due and payable in the current period and are not reported in the funds. These include bonds of \$1,115,000 and accrued interest of \$7,440.	(1,122,440)	(11,016,365)
Net position of governmental activities	<u>\$ 2,351,423</u>	<u>\$ (8,245,844)</u>

The accompanying notes are an integral part of the financial statements.

VDW METROPOLITAN DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended December 31, 2016

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TOTALS	2015 TOTAL
REVENUES					
Service Fees - District No. 2	\$ 291,718	\$ -	\$ 77,443	\$ 369,161	\$ 368,024
Service Fees - District No. 3	127,729	-	44,771	172,500	270,120
Other Governmental Revenues	-	162,738	-	162,738	217,392
Net Investment Income	1,244	-	115	1,359	765
TOTAL REVENUES	<u>420,691</u>	<u>162,738</u>	<u>122,329</u>	<u>705,758</u>	<u>856,301</u>
EXPENDITURES					
Current					
Accounting	33,905	-	-	33,905	31,297
Audit	4,850	-	-	4,850	5,350
Election Costs	1,283	-	-	1,283	-
Engineering	-	-	-	-	4,161
Insurance and Bonds	7,755	-	-	7,755	7,337
Landscape Maintenance	81,598	-	-	81,598	60,622
Legal	12,946	46,031	-	58,977	54,952
Management	34,283	5,103	-	39,386	37,729
Office Expense/Miscellaneous	1,941	-	-	1,941	1,939
Utilities	22,778	-	-	22,778	21,250
Debt Service					
Principal	-	7,294,885	30,000	7,324,885	332,392
Interest and Other Fiscal Charges	-	127,263	92,600	219,863	266,600
Capital Outlay	-	514,782	-	514,782	1,194
TOTAL EXPENDITURES	<u>201,339</u>	<u>7,988,064</u>	<u>122,600</u>	<u>8,312,003</u>	<u>824,823</u>
EXCESS OF REVENUES OVER (UNDER) EXPENSES	<u>219,352</u>	<u>(7,825,326)</u>	<u>(271)</u>	<u>(7,606,245)</u>	<u>31,478</u>
OTHER SOURCES (USES)					
Payment to Escrow Agent	-	-	(2,846,749)	(2,846,749)	-
Transfer from District No. 2	-	7,934,875	2,846,749	10,781,624	-
Transfer Out	-	-	-	-	(20,225)
Transfer In	-	-	-	-	20,225
TOTAL OTHER SOURCES (USES)	<u>-</u>	<u>7,934,875</u>	<u>-</u>	<u>7,934,875</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	219,352	109,549	(271)	328,630	31,478
FUND BALANCES, Beginning	<u>332,986</u>	<u>1,641</u>	<u>5,125</u>	<u>339,752</u>	<u>308,274</u>
FUND BALANCES, Ending	<u>\$ 552,338</u>	<u>\$ 111,190</u>	<u>\$ 4,854</u>	<u>\$ 668,382</u>	<u>\$ 339,752</u>

The accompanying notes are an integral part of the financial statements.

VDW METROPOLITAN DISTRICT NO. 1

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - 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	\$ 328,630
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount that capital outlay \$499,187, exceeded depreciation expense (\$124,475), in the current year.	374,712
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This amount is payment of bond principal (\$2,585,000), payment of capital note principal (\$7,294,885), and change in accrued interest of (\$14,040) for the year.	<u>9,893,925</u>
Change in Net Position of Governmental Activities	<u><u>\$ 10,597,267</u></u>

The accompanying notes are an integral part of the financial statements.

VDW METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

VDW Metropolitan District No. 1 (the 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 City of Loveland on June 6, 2002, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in the City of Loveland (City), Larimer County, Colorado. The District was established to provide construction, installation, financing and operation of public improvements, including streets, traffic and safety controls, water, sanitation, storm drainage, transportation, television relay and translator, park and recreation facilities, and mosquito and pest control. The District's service plan was approved by the City. Pursuant to the consolidated service plan for VDW Metropolitan Districts No. 1-3, the District operates as the Service District related to VDW Metropolitan District No. 2 (Residential District) and VDW Metropolitan District No. 3 (Commercial District).

The accounting policies of the District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Reporting Entity

In accordance with governmental accounting standards, the District has considered the possibility of inclusion of additional entities in its financial statements.

The definition of the reporting entity is based primarily on financial accountability. The District is financially accountable for organizations that make up its legal entity. It is also financially accountable for legally separate organizations if District officials appoint a voting majority of the organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. The District may also be financially accountable for organizations that are fiscally dependent upon it.

Based on the application of these criteria, the District does not include additional organizations in its reporting entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of Net Position and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

VDW METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of the given function or segments 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*.

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 the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 collected 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.

Service fees, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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.

VDW METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

In the fund financial statements, 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 District, except those required to be accounted for in another fund.

The *Capital Projects Fund* accounts for the acquisition and construction of capital assets.

The *Debt Service Fund* accounts for the payment of the District's bonds.

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 the immediate operating requirement 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. Cash equivalents include investments with original maturities of three months or less.

Investments are recorded at fair value.

Accounting Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

VDW METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Capital Assets

Capital assets, which include property and equipment, are reported in the 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 and an estimated useful life in excess of one year. The District also capitalizes all infrastructure costs. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities fund type in the Statement of Net Position.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position

The government-wide and business-type fund financial statements utilize a net position presentation. Net position is categorized as investment in capital assets, restricted, and unrestricted.

Investment in Capital Assets is intended to reflect the portion of net position which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets.

Restricted Net Position are liquid assets, which have third party limitations on their use.

Unrestricted Net Position represent assets that do not have any third party limitation on their use. While City management may have categorized and segmented portion for various purposes, the City Council has the unrestricted authority to revisit or alter these managerial decisions.

VDW METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable – This classification includes amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact. The District has reported prepaid expenses as nonspendable as of December 31, 2016.
- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies. The District has also classified the fund balances in the Debt Service and Capital Projects Funds as restricted.
- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors (the “Board”). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District did not have any committed resources as of December 31, 2016.
- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The District would typically use restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned fund balance.

VDW METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. However, complete comparative data in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex.

Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2: **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- On or before October 15, District Management submits to the Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to December 31, the budget is legally enacted through passage of a resolution.
- District Management is authorized to transfer budgeted amounts between departments within any fund. However, any revisions that alter the total expenditures of any fund must be approved by the Board.
- Budgets are legally adopted for all funds of the District on a basis consistent with GAAP.
- Budgeted amounts in the financial statements are as originally adopted or as amended by the Board. All appropriations lapse at year end.

VDW METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 3: CASH AND INVESTMENTS

Cash and Investments at December 31, 2016 consisted of the following:

Deposits	\$ 33,331
Investments	<u>601,637</u>
Total	<u>\$ 634,968</u>

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. 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 regulations. At December 31, 2016, State regulatory commissioners have indicated that all financial institutions holding deposits for the District are eligible public depositories.

Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The District has no policy regarding custodial credit risk for deposits.

At December 31, 2016, the District had deposits with financial institutions with a carrying amount of \$33,331. The bank balances with the financial institutions were \$65,082. All of these balances were covered by federal depository insurance.

Investments

Interest Rate Risk

The District does not have a formal investment policy; however, the District follows state statutes regarding investments.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE 3: CASH AND INVESTMENTS (continued)

Investments (Continued)

Credit Risk

Colorado statutes specify in which instruments the units of local government may invest which include:

- Obligations of the United States and certain U.S. government agency securities
- General obligation and revenue bonds of U.S. local government entities
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

Fair Value

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; Level 3 inputs are significant observable inputs.

The District had invested \$601,637 in the Colorado Government Liquid Asset Trust (ColoTrust) which has a credit rating of AAAM by Standard and Poor's. ColoTrust is an investment vehicle established for local government entities in Colorado to pool surplus funds and is regulated by the State Securities Commissioner. It operates similarly to a money market fund and each share is equal in value to \$1.00. Investments consist of U.S. Treasury and U.S. Agency securities, and repurchase agreements collateralized by U.S. Treasury and U.S. Agency securities. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the entities.

ColoTrust is not a 2a7-like external investment pool. The unit of account is each share held, and the value of the position would be the fair value of the pool's share price multiplied by the number of shares held. The government-investor does not "look through" the pool to report a pro rata share of the pool's investments, receivables, and payables. This investment is valued using Level 2 inputs.

VDW METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016**NOTE 4: CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2016, is summarized below:

	Balances <u>12/31/15</u>	<u>Additions</u>	<u>Deletions</u>	Balances <u>12/31/16</u>
Governmental Activities				
Capital Assets, Not Depreciated				
Construction in Progress	\$ -	499,187	-	\$ 499,187
Capital Assets, Depreciated				
Landscaping	2,709,897	-	-	2,709,897
Less: Accumulated Depreciation				
Landscaping	279,128	124,475	-	403,603
Capital Assets Depreciated, Net	2,430,769	(124,475)	-	2,306,294
Capital Assets, Net	<u>\$ 2,430,769</u>	<u>\$ 374,712</u>	<u>\$ -</u>	<u>\$ 2,805,481</u>

Depreciation expense was charged to general government program.

NOTE 5: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the governmental activities for the year ended December 31, 2016:

	Balance <u>12/31/15</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>12/31/16</u>	Due In <u>One Year</u>
Series 2007					
Ltd. Prop Tax Bonds	\$ 2,555,000	\$ -	\$ 2,555,000	\$ -	\$ -
Series 2011					
Ltd. Prop Tax Bonds	1,145,000	-	30,000	1,115,000	35,000
Capital advances –					
Capital	7,294,885	-	7,294,885	-	-
Totals	<u>\$ 10,994,885</u>	<u>\$ -</u>	<u>\$ 9,879,885</u>	<u>\$ 1,115,000</u>	<u>\$ 35,000</u>

Limited Property Tax Supported Revenue Bonds

\$3,000,000 Limited Property Tax Supported Revenue Bonds, Series 2007, dated December 20, 2007, with interest of 6.50%, consisting of term bonds issued in the original amount of \$3,000,000 due December 1, 2032. In March, 2016, these bonds were advance refunded through the issuance of the Series 2016 Bonds in District No. 2.

VDW METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE 5: LONG-TERM DEBT(Continued)

\$1,200,000 Limited Property Tax Supported Revenue Bonds, Series 2011, dated August 30, 2011, with interest of 8.0%, consisting of term bonds issued in the original amount of \$1,200,000 due December 1, 2032. All bonds maturing on or after December 1, 2021 are callable at the option of the District without premium.

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) all amounts payable to the District under the Capital Pledge Agreement. Under the Capital Pledge Agreement, the two Financing Districts must remit all net property tax collections from the Required Mill Levy to the District. (2) Any other legally available moneys which the District determines, in its absolute discretion, to credit to the Bond Fund. Required Mill Levy means an ad valorem mill levy imposed upon all taxable property of the Financing Districts, each year in an amount sufficient to pay the principal and interest on the bonds as the same become due and payable. Based on the 2015 principal and interest repayment, the mill levy certified for debt service by District No. 2 and District No. 3 was 22.076 mills. For collection year 2016, District No. 2 and District No. 3 levied 22.076 mills.

Future debt service requirements for the bonds are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 35,000	\$ 89,200	\$ 124,200
2018	40,000	86,400	126,400
2019	40,000	83,200	123,200
2020	40,000	80,000	120,000
2021	50,000	76,800	126,800
2022-2026	305,000	320,000	625,000
2027-2031	480,000	172,400	652,400
2032	<u>125,000</u>	<u>10,000</u>	<u>135,000</u>
Total	<u>\$ 1,115,000</u>	<u>\$ 918,000</u>	<u>\$ 2,033,000</u>

Defeased Debt

In March 2016, the District defeased \$2,555,000 of the 2007 bonds by placing new bond proceeds in an irrevocable trust to provide for future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. These bonds will be redeemed in full on December 1, 2017.

VDW METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 5: LONG-TERM DEBT(Continued)

Authorized Debt

On May 7, 2002, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$32,944,452 at an interest rate not to exceed 12% per annum. Pursuant to the Service Plan, the District is permitted to issue bond indebtedness of up to \$16,000,000.

Advances

The District had a long-term liability to VDW Properties, LLC of \$0 as of December 31, 2016 as a result of the issuance of bonds in VDW District No. 4 and subsequent payoff of principal and accrued interest to VDW Properties, LLC. The District has agreed to acquire from, or reimburse, VDW Properties, LLC for public improvements constructed by VDW Properties, LLC and has entered into the following funding arrangements with VDW Properties, LLC:

Improvements Acquisition Agreement

The District entered into that certain Improvements Acquisition Agreement with VDW Properties, LLC on December 1, 2005, which was replaced and superseded in its entirety by that certain Amended and Restated Improvements Acquisition and Reimbursement Agreement, entered into between the District and VDW Properties, LLC on May 20, 2010. Under the terms of this agreement, the District has agreed to acquire completed public improvements from VDW Properties, LLC. There were no public improvement acquisitions of during 2016. Interest on these advances may only be repaid in the event the District generates sufficient cash flow to pay principal and related interest annually. As of December 31, 2016, outstanding advances under this agreement totaled \$0.

Advance and Reimbursement Agreement

The District entered into that certain Advance and Reimbursement agreement with VDW Properties, LLC, dated November 2, 2014. Pursuant to this agreement, VDW Properties, LLC agreed to loan to the District up to \$2,900,000 to fund capital improvements needed for Parcel D and H development. The funding obligation under this agreement expired on December 31, 2014. The District's obligation to repay funds advanced pursuant to this agreement is currently secured by a subordinate promissory note dated as of January 1, 2016, and issued in the amount of \$2,416,688. As of December 31, 2016, outstanding advances under this agreement totaled \$0.

VDW METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE 6: RELATED PARTIES

The developers of the property which constitutes the District are VDW Properties, LLC, and VDW Retail, LLC. The members of the Board of Directors are employees, owners, or are otherwise associated with the developers and have disclosed any potential conflicts of interest in taking action on matters brought before the Board. The District owes VDW Properties, LLC \$0 as of December 31, 2016 for outstanding capital advances and public improvements acquired by the District.

NOTE 7: 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 natural disasters.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2016. 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 the past three years.

The District pays annual premiums to the Pool for liability, property, and public officials' 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 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 8: COMMITMENTS AND CONTINGENCIES

Tax Payer Bill of Rights (TABOR) Amendment

TABOR Amendment - Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local government. The Amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the Amendment.

The District has established an emergency reserve, representing 3% of fiscal year spending (excluding debt service), as required by the Amendment. At December 31, 2016, the emergency reserve of \$16,500 was recorded in the General Fund.

REQUIRED SUPPLEMENTAL INFORMATION

VDW METROPOLITAN DISTRICT NO. 1

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2016

	2016		VARIANCE Positive (Negative)	2015 ACTUAL
	ORIGINAL AND FINAL BUDGET	ACTUAL		
REVENUES				
Service Fees - District No. 2	\$ 288,583	\$ 291,718	\$ 3,135	\$ 160,616
Service Fees - District No. 3	126,399	127,729	1,330	95,003
Net Investment & Other Income	500	1,244	744	763
TOTAL REVENUES	415,482	420,691	5,209	256,382
EXPENDITURES				
Current				
General Government				
Accounting	29,377	33,905	(4,528)	31,297
Audit	5,500	4,850	650	5,350
Election Costs	1,500	1,283	217	-
Insurance and Bonds	7,704	7,755	(51)	7,337
Landscape Maintenance	71,900	81,598	(9,698)	60,622
Legal	15,000	12,946	2,054	26,513
Management	27,878	34,283	(6,405)	32,167
Office Expense/Miscellaneous	2,250	1,941	309	1,939
Utilities	30,000	22,778	7,222	21,250
Contingency	10,000	-	10,000	-
TOTAL EXPENDITURES	201,109	201,339	(230)	186,475
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	214,373	219,352	4,979	69,907
OTHER FINANCING SOURCES (USES)				
Transfer Out	(200,000)	-	200,000	(20,225)
NET CHANGE IN FUND BALANCE	14,373	219,352	204,979	49,682
FUND BALANCE, Beginning	311,026	332,986	21,960	283,304
FUND BALANCE, Ending	\$ 325,399	\$ 552,338	\$ 226,939	\$ 332,986

See the accompanying independent auditors' report.

INDIVIDUAL FUND SCHEDULES

VDW METROPOLITAN DISTRICT NO. 1

CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2016

	2016			VARIANCE	2015
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	Positive (Negative)	ACTUAL
REVENUES					
Other Governmental Revenues	\$ -	\$ 122,951	\$ 162,738	\$ 39,787	\$ 217,392
EXPENDITURES					
Current					
General Government					
Engineering	10,000	10,000	-	10,000	4,161
Legal	-	-	46,031	(46,031)	28,439
Management	6,000	6,000	5,103	897	5,562
Capital Advance Repayment	-	7,518,179	7,422,148	96,031	217,392
Capital Outlay	25,000	510,000	514,782	(4,782)	1,194
TOTAL EXPENDITURES	41,000	8,044,179	7,988,064	56,115	256,748
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(41,000)	(7,921,228)	(7,825,326)	95,902	(39,356)
OTHER FINANCING SOURCES (USES)					
Transfer from District No. 2		7,950,230	7,934,875	(15,355)	-
Transfer In	-	-	-	-	20,225
TOTAL OTHER FINANCING SOURCES (USES)	-	7,950,230	7,934,875	(15,355)	20,225
NET CHANGE IN FUND BALANCE	(41,000)	29,002	109,549	80,547	(19,131)
FUND BALANCE, Beginning	43,079	43,079	1,641	(41,438)	20,772
FUND BALANCE, Ending	\$ 2,079	\$ 72,081	\$ 111,190	\$ 39,109	\$ 1,641

See the accompanying independent auditors' report.

VDW METROPOLITAN DISTRICT NO. 1

DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2016

	2016			VARIANCE	
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	Positive (Negative)	2015 ACTUAL
REVENUES					
Service Fees - District No. 2	\$ 241,016	\$ 241,016	\$ 77,443	\$ (163,573)	\$ 207,408
Service Fees - District No. 3	138,660	138,660	44,771	(93,889)	175,117
Net Investment Income	20	20	115	95	2
TOTAL REVENUES	379,696	379,696	122,329	(257,367)	382,527
EXPENDITURES					
Current					
General Government					
Trustee/Agent Fees	1,000	1,000	1,000	-	1,000
Contingency	1,000	1,000	-	1,000	-
Debt Service					
Principal	120,000	30,000	30,000	-	115,000
Interest and Other Fiscal Charges	257,675	91,600	91,600	-	265,600
TOTAL EXPENDITURES	379,675	123,600	122,600	1,000	381,600
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	21	256,096	(271)	(256,367)	927
OTHER FINANCING SOURCES (USES)					
Payment to Escrow Agent	-	(2,846,204)	(2,846,749)	(545)	-
Transfer from District No. 2	-	2,846,204	2,846,749	545	-
Transfer to District No. 2	-	(454,696)	-	454,696	-
Transfers In	200,000	200,000	-	(200,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	200,000	(254,696)	-	254,696	-
NET CHANGE IN FUND BALANCE	200,021	1,400	(271)	(1,671)	927
FUND BALANCE, Beginning	5,205	5,205	5,125	(80)	4,198
FUND BALANCE, Ending	\$ 205,226	\$ 6,605	\$ 4,854	\$ (1,751)	\$ 5,125

See the accompanying independent auditors' report.