

**VDW METROPOLITAN DISTRICT NO. 2**  
**Larimer County, Colorado**

**BASIC FINANCIAL STATEMENTS**

**December 31, 2017**

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## **FINANCIAL SECTION**



## JOHN CUTLER & ASSOCIATES

Board of Directors  
VDW Metropolitan District No. 2  
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. 2, as of and for the year ended December 31, 2017, 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. 2, as of December 31, 2017, 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 17 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. 2'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 26, 2018

## **BASIC FINANCIAL STATEMENTS**

## VDW METROPOLITAN DISTRICT NO. 2

STATEMENT OF NET POSITION  
As of December 31, 2017

|                                    | Governmental<br>Activities |                 |
|------------------------------------|----------------------------|-----------------|
|                                    | 2017                       | 2016            |
| ASSETS                             |                            |                 |
| Cash and Investments - Restricted  | \$ 452,873                 | \$ 154,744      |
| Service Fees Receivable            | 9,836                      | -               |
| Property Taxes Receivable          | 943,580                    | 672,988         |
| Due from Other Government          | 4,739                      |                 |
|                                    |                            |                 |
| TOTAL ASSETS                       | 1,411,028                  | 827,732         |
| LIABILITIES                        |                            |                 |
| Due to District No. 1              | 1,043                      | 3,340           |
| Accrued Interest                   | 521,766                    | 233,177         |
| Noncurrent Liabilities             |                            |                 |
| Due within One Year                | 60,000                     | 60,000          |
| Due in More Than One Year          | 11,146,510                 | 11,207,492      |
|                                    |                            |                 |
| TOTAL LIABILITIES                  | 11,729,319                 | 11,504,009      |
| DEFERRED INFLOWS OF RESOURCES      |                            |                 |
| Deferred Revenues - Property Taxes | 943,580                    | 669,648         |
| NET POSITION                       |                            |                 |
| Net Investment in Capital Assets   | (11,728,276)               | (11,500,669)    |
| Restricted for                     |                            |                 |
| Emergencies                        | 27,700                     | 19,100          |
| Debt Service                       | 466,405                    | 139,361         |
| Capital Projects                   | -                          | 15,383          |
| Unrestricted                       | (27,700)                   | (19,100)        |
|                                    |                            |                 |
| TOTAL NET POSITION                 | \$ (11,261,871)            | \$ (11,345,925) |

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

## VDW METROPOLITAN DISTRICT NO. 2

STATEMENT OF ACTIVITIES  
Year Ended December 31, 2017

|                                | Governmental<br>Activities |                        |
|--------------------------------|----------------------------|------------------------|
|                                | 2017                       | 2016                   |
| EXPENSES                       |                            |                        |
| <b>Governmental Activities</b> |                            |                        |
| General Government             | \$ 276,461                 | \$ 11,132,753          |
| Interest on Long-Term Debt     | 561,319                    | 849,885                |
|                                |                            |                        |
| TOTAL EXPENSES                 | 837,780                    | 11,982,638             |
| REVENUES                       |                            |                        |
| GENERAL REVENUES               |                            |                        |
| Taxes                          | 732,145                    | 542,295                |
| Service Fees - District No. 3  | 188,637                    | 93,889                 |
| Other Governmental Revenues    | -                          | 30                     |
| Investment Income              | 1,052                      | 499                    |
|                                |                            |                        |
| TOTAL REVENUES                 | 921,834                    | 636,713                |
|                                |                            |                        |
| CHANGE IN NET POSITION         | 84,054                     | (11,345,925)           |
|                                |                            |                        |
| NET POSITION, Beginning        | (11,345,925)               | -                      |
|                                |                            |                        |
| NET POSITION, Ending           | <u>\$ (11,261,871)</u>     | <u>\$ (11,345,925)</u> |

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



## VDW METROPOLITAN DISTRICT NO. 2

BALANCE SHEET  
GOVERNMENTAL FUNDS  
As of December 31, 2017

|                                                | GENERAL<br>FUND   | CAPITAL<br>PROJECTS<br>FUND | DEBT<br>SERVICE<br>FUND | TOTAL<br>GOVERNMENT FUNDS |                   |
|------------------------------------------------|-------------------|-----------------------------|-------------------------|---------------------------|-------------------|
|                                                |                   |                             |                         | 2017                      | 2016              |
| ASSETS                                         |                   |                             |                         |                           |                   |
| Cash and Investments                           | \$ -              | \$ -                        | \$ -                    | \$ -                      | \$ -              |
| Cash and Investments - Restricted              | -                 | -                           | 452,873                 | 452,873                   | 154,744           |
| Service Fees Receivable                        | -                 | -                           | 1,511                   | 1,511                     | -                 |
| Due from Other Government                      | 1,043             | -                           | 3,696                   | 4,739                     | -                 |
| Due from District No.1                         | -                 | -                           | 8,325                   | 8,325                     | -                 |
| Property Taxes Receivable                      | 157,942           | -                           | 785,638                 | 943,580                   | 672,988           |
| <b>TOTAL ASSETS</b>                            | <b>\$ 158,985</b> | <b>\$ -</b>                 | <b>\$ 1,252,043</b>     | <b>\$ 1,411,028</b>       | <b>\$ 827,732</b> |
| LIABILITIES AND FUND EQUITY                    |                   |                             |                         |                           |                   |
| LIABILITIES                                    |                   |                             |                         |                           |                   |
| Due to District No. 1                          | \$ 1,043          | \$ -                        | \$ -                    | \$ 1,043                  | \$ 3,340          |
| <b>TOTAL LIABILITIES</b>                       | <b>1,043</b>      | <b>-</b>                    | <b>-</b>                | <b>1,043</b>              | <b>3,340</b>      |
| DEFERRED INFLOWS OF RESOURCES                  |                   |                             |                         |                           |                   |
| Deferred Revenues - Property Taxes             | 157,942           | -                           | 785,638                 | 943,580                   | 669,648           |
| FUND EQUITY                                    |                   |                             |                         |                           |                   |
| Fund Balance                                   |                   |                             |                         |                           |                   |
| Restricted                                     | 27,700            | -                           | 466,405                 | 494,105                   | 173,844           |
| Unassigned                                     | (27,700)          | -                           | -                       | (27,700)                  | (19,100)          |
| <b>TOTAL FUND EQUITY</b>                       | <b>-</b>          | <b>-</b>                    | <b>466,405</b>          | <b>466,405</b>            | <b>154,744</b>    |
| <b>TOTAL LIABILITIES<br/>&amp; FUND EQUITY</b> | <b>\$ 158,985</b> | <b>\$ -</b>                 | <b>\$ 1,252,043</b>     |                           |                   |

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

Long-term liabilities are not due and payable in the current period and are not reported in the funds. These include bonds payable of \$11,179,000, bond premium \$27,510, and accrued interest of \$521,766.

|                                         |                 |                 |
|-----------------------------------------|-----------------|-----------------|
|                                         | (11,728,276)    | (11,500,669)    |
| Net position of governmental activities | \$ (11,261,871) | \$ (11,345,925) |

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

## VDW METROPOLITAN DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
Year Ended December 31, 2017

|                                             | GENERAL<br>FUND | CAPITAL<br>PROJECTS<br>FUND | DEBT<br>SERVICE<br>FUND | TOTAL<br>GOVERNMENT FUNDS |                   |
|---------------------------------------------|-----------------|-----------------------------|-------------------------|---------------------------|-------------------|
|                                             |                 |                             |                         | 2017                      | 2016              |
| REVENUES                                    |                 |                             |                         |                           |                   |
| Property Taxes                              | \$ 147,401      | \$ -                        | \$ 522,246              | \$ 669,647                | \$ 501,989        |
| Specific Ownership Taxes                    | 13,757          | -                           | 48,741                  | 62,498                    | 40,306            |
| Service Fees - District No. 3               | -               | -                           | 188,637                 | 188,637                   | 93,889            |
| Other Governmental Revenues                 | -               | -                           | -                       | -                         | 30                |
| Net Investment Income                       | 81              | -                           | 971                     | 1,052                     | 499               |
| TOTAL REVENUES                              | <u>161,239</u>  | <u>-</u>                    | <u>760,595</u>          | <u>921,834</u>            | <u>636,713</u>    |
| EXPENDITURES                                |                 |                             |                         |                           |                   |
| Current                                     |                 |                             |                         |                           |                   |
| Service Fees - District No. 1               | 158,289         | -                           | 83,888                  | 242,177                   | 369,161           |
| County Treasurer's Fee                      | 2,950           | -                           | 10,451                  | 13,401                    | 10,050            |
| Trustee and Paying Agent Fees               | -               | -                           | 5,500                   | 5,500                     | -                 |
| Debt Service                                |                 |                             |                         |                           |                   |
| Principal                                   | -               | -                           | 60,000                  | 60,000                    | 95,000            |
| Interest and Other Fiscal Charges           | -               | -                           | 273,712                 | 273,712                   | 188,612           |
| TOTAL EXPENDITURES                          | <u>161,239</u>  | <u>-</u>                    | <u>433,551</u>          | <u>594,790</u>            | <u>662,823</u>    |
| EXCESS OF REVENUES OVER<br>(UNDER) EXPENSES | <u>-</u>        | <u>-</u>                    | <u>327,044</u>          | <u>327,044</u>            | <u>(26,110)</u>   |
| OTHER SOURCES (USES)                        |                 |                             |                         |                           |                   |
| Proceeds from Issuance of Debt              | -               | -                           | -                       | -                         | 11,363,474        |
| Costs of Issuance                           | -               | -                           | -                       | -                         | (429,078)         |
| Transfer to District No. 1                  | -               | (15,383)                    | -                       | (15,383)                  | (10,753,542)      |
| Transfer Out                                | -               | -                           | -                       | -                         | (165,501)         |
| Transfer In                                 | -               | -                           | -                       | -                         | 165,501           |
| TOTAL OTHER SOURCES (USES)                  | <u>-</u>        | <u>(15,383)</u>             | <u>-</u>                | <u>(15,383)</u>           | <u>180,854</u>    |
| NET CHANGE IN FUND<br>BALANCES              | -               | (15,383)                    | 327,044                 | 311,661                   | 154,744           |
| FUND BALANCES, Beginning                    | <u>-</u>        | <u>15,383</u>               | <u>139,361</u>          | <u>154,744</u>            | <u>-</u>          |
| FUND BALANCES, Ending                       | <u>\$ -</u>     | <u>\$ -</u>                 | <u>\$ 466,405</u>       | <u>\$ 466,405</u>         | <u>\$ 154,744</u> |

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

VDW METROPOLITAN DISTRICT NO. 2

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
Year Ended December 31, 2017

Amounts Reported for Governmental Activities in the Statement of Activities  
are Different Because:

|                                                                                                                                                                                                                                                                                                                              |                  |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| Net Changes in Fund Balances - Total Governmental Funds                                                                                                                                                                                                                                                                      | \$ 311,661       |
| 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 includes the payment of bond principal \$60,000, change in bond premium \$982, and change in accrued interest of (\$288,589), for the year. | <u>(227,607)</u> |
| Change in Net Position of Governmental Activities                                                                                                                                                                                                                                                                            | <u>\$ 84,054</u> |

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

## VDW METROPOLITAN DISTRICT NO. 2

### NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

#### NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

VDW Metropolitan District No. 2 (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 and 3, the District operates as the Residential District related to VDW Metropolitan District No. 1 (Service District) and VDW Metropolitan District No. 3 (Commercial District).

The accounting policies of the District conform to Generally Accepted Accounting Principles ("GAAP") 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. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

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. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

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 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. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

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. 2

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2017

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 did not report any amounts as nonspendable as of December 31, 2017.
- 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. These amounts cannot be used for any other purpose unless the Board of Directors (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, 2017.
- 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. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

**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.

**NOTE 3: CASH AND INVESTMENTS**

Cash and Investments at December 31, 2017 consisted of the following:

|             |                   |
|-------------|-------------------|
| Deposits    | \$ -              |
| Investments | <u>452,873</u>    |
| Total       | <u>\$ 452,873</u> |

VDW METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

**NOTE 3: CASH AND INVESTMENTS** (Continued)

**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, 2017, 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, 2017, the District did not report any deposits with financial institutions.

**Investments**

Interest Rate Risk

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

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

VDW METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

**NOTE 3: CASH AND INVESTMENTS** (Continued)

**Investments** (Continued)

As of December 31, 2017, the District had investments in Federated Government Obligations Fund, a Money Market Mutual Fund, which was rated AAAm by Standard and Poor's and Aaa by Moody's Investor Services.

**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 invested \$452,873 in a Money Market Mutual Fund. Portfolio investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The fair value of investments in money market funds is based on the published net asset values per share of those funds. Money market securities are valued using amortized cost, in accordance with Rule 2a-7 under the 1940 Act. Generally, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities held by Prime Series and Government Series are categorized as Level 2.

**Restricted Cash and Investments**

Investments in the amount of \$452,873 are restricted in the Debt Service and Capital Projects funds for capital outlay and payment of the District's debt.

## VDW METROPOLITAN DISTRICT NO. 2

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

**NOTE 4: LONG-TERM DEBT**

Following is a summary of long-term debt transactions for the governmental activities for the year ended December 31, 2017:

|                            | Balance<br><u>12/31/16</u>  | <u>Additions</u>   | <u>Payments</u>         | Balance<br><u>12/31/17</u>  | Due In<br><u>One Year</u> |
|----------------------------|-----------------------------|--------------------|-------------------------|-----------------------------|---------------------------|
| Series 2016A - Senior      |                             |                    |                         |                             |                           |
| Ltd. Tax G.O. Bonds        | \$ 7,370,000                | \$ -               | \$ 60,000               | \$ 7,310,000                | \$ 60,000                 |
| Series 2016B - Subordinate |                             |                    |                         |                             |                           |
| Ltd. Tax G.O. Bonds        | 3,869,000                   | -                  | -                       | 3,869,000                   | -                         |
| Bond Premium               | <u>28,492</u>               | <u>-</u>           | <u>982</u>              | <u>27,510</u>               | <u>-</u>                  |
| <b>Totals</b>              | <b><u>\$ 11,267,492</u></b> | <b><u>\$ -</u></b> | <b><u>\$ 60,982</u></b> | <b><u>\$ 11,206,510</u></b> | <b><u>\$ 60,000</u></b>   |

**Limited Tax General Obligation Bonds**

**\$7,465,000 Limited Tax General Obligation Bonds, Series 2016A**, dated March 24, 2016, with interest ranging from 3.125% to 5.000%, consisting of term bonds issued in the original amount of \$7,465,000 due December 1, 2045.

**\$3,869,000 Limited Tax General Obligation Bonds, Series 2016B**, dated March 24, 2016, with interest of 7.250%, consisting of term bonds issued in the original amount of \$3,869,000 due December 1, 2045. Under the 2016B Subordinate Indenture, any amount of principal of, or interest on the 2016B Bonds which remains unpaid on December 15, 2056, shall be deemed discharged.

Proceeds of the bonds were used to refund the 2007 Bonds, to repay the Developer for outstanding debt, and to fund remaining capital improvements. 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) Pledged District taxes from the ad valorem mill levy imposed by both the District and the Commercial District under the Capital Pledge Agreement, and (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 Residential and 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 2017 principal and interest repayment, the mill levy certified for debt service by the District was 45.980 mills. For collection year 2018, the District and the Commercial District levied 50.512 mills.

## VDW METROPOLITAN DISTRICT NO. 2

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

**NOTE 4: LONG-TERM DEBT**(Continued)

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>        |
|--------------------------------|----------------------|---------------------|---------------------|
| 2018                           | \$ 60,000            | \$ 679,870          | \$ 739,870          |
| 2019                           | 125,000              | 840,244             | 965,244             |
| 2020                           | 318,000              | 711,555             | 1,029,555           |
| 2021                           | 486,000              | 533,986             | 1,019,986           |
| 2022                           | 545,000              | 505,313             | 1,050,313           |
| 2023-2027                      | 3,415,000            | 1,950,431           | 5,365,431           |
| 2028-2032                      | 1,035,000            | 1,111,402           | 2,146,402           |
| 2033-2037                      | 1,700,000            | 890,825             | 2,590,825           |
| 2038-2042                      | 2,055,000            | 541,000             | 2,596,000           |
| 2043-2045                      | <u>1,440,000</u>     | <u>116,793</u>      | <u>1,556,793</u>    |
| Total                          | <u>\$ 11,179,000</u> | <u>\$ 7,881,419</u> | <u>\$19,060,419</u> |

**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.

**NOTE 5: RELATED PARTIES**

The developers of the property which constitutes the District are VDW Properties, LLC, and VDW Retail, LLC. The members of the Board 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.

VDW METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

**NOTE 6: 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, 2017. 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 7: 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, 2017, the Emergency Reserve of \$27,700 was recorded in the General Fund.

**NOTE 8: DEFICIT NET POSITION**

At December 31, 2017, the District reports a deficit net position in the amount of \$11,261,871. This deficit amount is the result of the District being responsible for the repayment of debt that was issued to refund debt and for public improvements which are conveyed to other governmental entities. The District expects to reduce the deficit net position as the debt is being repaid.

## **REQUIRED SUPPLEMENTAL INFORMATION**

## VDW METROPOLITAN DISTRICT NO. 2

GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
Year Ended December 31, 2017

|                               | 2017                            |            |                                    |                |
|-------------------------------|---------------------------------|------------|------------------------------------|----------------|
|                               | ORIGINAL<br>AND FINAL<br>BUDGET | ACTUAL     | VARIANCE<br>Positive<br>(Negative) | 2016<br>ACTUAL |
| REVENUES                      |                                 |            |                                    |                |
| Property Taxes                | \$ 147,401                      | \$ 147,401 | \$ -                               | \$ 260,973     |
| Specific Ownership Taxes      | 11,055                          | 13,757     | 2,702                              | 40,306         |
| Net Investment & Other Income | 15,000                          | 81         | (14,919)                           | 489            |
|                               |                                 |            |                                    |                |
| TOTAL REVENUES                | 173,456                         | 161,239    | (12,217)                           | 301,768        |
| EXPENDITURES                  |                                 |            |                                    |                |
| Current                       |                                 |            |                                    |                |
| General Government            |                                 |            |                                    |                |
| Service Fees - District No. 1 | 155,508                         | 158,289    | (2,781)                            | 291,718        |
| County Treasurer's Fee        | 2,948                           | 2,950      | (2)                                | 10,050         |
| Contingency                   | 15,000                          | -          | 15,000                             | -              |
|                               |                                 |            |                                    |                |
| TOTAL EXPENDITURES            | 173,456                         | 161,239    | 12,217                             | 301,768        |
|                               |                                 |            |                                    |                |
| NET CHANGE IN FUND BALANCE    | -                               | -          | -                                  |                |
|                               |                                 |            |                                    |                |
| FUND BALANCE, Beginning       | -                               | -          | -                                  | -              |
|                               |                                 |            |                                    |                |
| FUND BALANCE, Ending          | \$ -                            | \$ -       | \$ -                               | \$ -           |

See the accompanying independent auditors' report.



## **INDIVIDUAL FUND SCHEDULES**

## VDW METROPOLITAN DISTRICT NO. 2

CAPITAL PROJECTS FUND  
BUDGETARY COMPARISON SCHEDULE  
Year Ended December 31, 2017

|                                                 | 2017               |                 |          | VARIANCE               | 2016         |
|-------------------------------------------------|--------------------|-----------------|----------|------------------------|--------------|
|                                                 | ORIGINAL<br>BUDGET | FINAL<br>BUDGET | ACTUAL   | Positive<br>(Negative) | ACTUAL       |
| REVENUES                                        |                    |                 |          |                        |              |
| Other Governmental Revenues                     | \$ -               | \$ -            | \$ -     | \$ -                   | \$ 30        |
| EXPENDITURES                                    |                    |                 |          |                        |              |
| Current                                         |                    |                 |          |                        |              |
| General Government                              |                    |                 |          |                        |              |
| Contingency                                     | -                  | -               | -        | -                      | -            |
| TOTAL EXPENDITURES                              | -                  | -               | -        | -                      | -            |
| EXCESS OF REVENUES OVER<br>(UNDER) EXPENDITURES | -                  | -               | -        | -                      | 30           |
| OTHER FINANCING SOURCES (USES)                  |                    |                 |          |                        |              |
| Proceeds from Issuance of Debt                  | -                  | -               | -        | -                      | 11,363,474   |
| Costs of Issuance                               | -                  | -               | -        | -                      | (429,078)    |
| Transfer to District No. 1                      | -                  | (15,383)        | (15,383) | -                      | (10,753,542) |
| Transfers Out                                   | -                  | -               | -        | -                      | (165,501)    |
| TOTAL OTHER FINANCING<br>SOURCES (USES)         | -                  | (15,383)        | (15,383) | -                      | 15,353       |
| NET CHANGE IN FUND BALANCE                      | -                  | (15,383)        | (15,383) | -                      | 15,383       |
| FUND BALANCE, Beginning                         | -                  | 15,383          | 15,383   | -                      | -            |
| FUND BALANCE, Ending                            | \$ -               | \$ -            | \$ -     | \$ -                   | \$ 15,383    |

See the accompanying independent auditors' report.

## VDW METROPOLITAN DISTRICT NO. 2

DEBT SERVICE FUND  
BUDGETARY COMPARISON SCHEDULE  
Year Ended December 31, 2017

|                                                 | 2017                            |            |                                    |                |
|-------------------------------------------------|---------------------------------|------------|------------------------------------|----------------|
|                                                 | ORIGINAL<br>AND FINAL<br>BUDGET | ACTUAL     | VARIANCE<br>Positive<br>(Negative) | 2016<br>ACTUAL |
| REVENUES                                        |                                 |            |                                    |                |
| Property Taxes                                  | \$ 522,247                      | \$ 522,246 | \$ (1)                             | \$ 241,016     |
| Specific Ownership Taxes                        | 39,169                          | 48,741     | 9,572                              | -              |
| Service Fees - District No. 3                   | 184,790                         | 188,637    | 3,847                              | 93,889         |
| Net Investment Income                           | 25,000                          | 971        | (24,029)                           | 10             |
|                                                 |                                 |            |                                    |                |
| TOTAL REVENUES                                  | 771,206                         | 760,595    | (10,611)                           | 334,915        |
| EXPENDITURES                                    |                                 |            |                                    |                |
| Current                                         |                                 |            |                                    |                |
| General Government                              | -                               |            |                                    |                |
| Service Fees - District No. 1                   | 83,888                          | 83,888     | -                                  | 77,443         |
| Treasurer's Fees                                | 10,445                          | 10,451     | (6)                                | -              |
| Trustee and Paying Agent Fees                   | -                               | 5,500      | (5,500)                            | -              |
| Contingency                                     | 25,000                          | -          | 25,000                             | -              |
| Debt Service                                    |                                 |            |                                    |                |
| Principal                                       | 60,000                          | 60,000     | -                                  | 95,000         |
| Interest and Other Fiscal Charges               | 273,713                         | 273,712    | 1                                  | 188,612        |
|                                                 |                                 |            |                                    |                |
| TOTAL EXPENDITURES                              | 453,046                         | 433,551    | 19,495                             | 361,055        |
|                                                 |                                 |            |                                    |                |
| EXCESS OF REVENUES OVER<br>(UNDER) EXPENDITURES | 318,160                         | 327,044    | 8,884                              | (26,140)       |
| OTHER FINANCING SOURCES (USES)                  |                                 |            |                                    |                |
| Transfers In                                    | -                               | -          | -                                  | 165,501        |
|                                                 |                                 |            |                                    |                |
| TOTAL OTHER FINANCING<br>SOURCES (USES)         | -                               | -          | -                                  | 165,501        |
|                                                 |                                 |            |                                    |                |
| NET CHANGE IN FUND BALANCE                      | 318,160                         | 327,044    | 8,884                              | 139,361        |
|                                                 |                                 |            |                                    |                |
| FUND BALANCE, Beginning                         | 139,553                         | 139,361    | (192)                              | -              |
|                                                 |                                 |            |                                    |                |
| FUND BALANCE, Ending                            | \$ 457,713                      | \$ 466,405 | \$ 8,692                           | \$ 139,361     |

See the accompanying independent auditors' report.