

BROOMFIELD VILLAGE METROPOLITAN DISTRICT NO. 2

Financial Statements

Year Ended December 31, 2016

with

Independent Auditor's Report



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C O N T E N T S

	<u>Page</u>
<u>Independent Auditor's Report</u>	I
<u>Basic Financial Statements</u>	
Balance Sheet/Statement of Net Position - Governmental Funds	1
Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities - Governmental Funds	2
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	3
Notes to Financial Statements	4
<u>Supplemental Information</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Debt Service Fund	18



Hiratsuka & Associates, L.L.P.
Certified Public Accountants & Business Advisors

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Broomfield Village Metropolitan District No. 2
City and County of Broomfield, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Broomfield Village Metropolitan District No. 2 (the District), City and County of Broomfield, Colorado, 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 (U.S. GAAP); 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of Broomfield Village Metropolitan District No. 2, City and County of Broomfield, Colorado, as of December 31, 2016, and the respective changes in financial position and, where applicable, the respective budgetary comparison for the General Fund for the year then ended in conformity with U.S. GAAP.

Required Supplemental Information

Management has not presented Management's Discussion and Analysis that U.S. GAAP requires 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 (GASB), who considers it to be an

essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

U.S. GAAP require that the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service Fund 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 GASB, who consider is to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service Fund is the responsibility of management and was derived from and relate 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 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Hiratsuka & Associates, LLP

July 24, 2017
Wheat Ridge, Colorado

BROOMFIELD VILLAGE METROPOLITAN DISTRICT NO. 2

BALANCE SHEET/STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS December 31, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS					
Cash and investments	\$ 29,715	\$ -	\$ 29,715	\$ -	\$ 29,715
Cash and investments - restricted	2,176	661,866	664,042	-	664,042
Receivable county treasurer	-	2,861	2,861	-	2,861
Property taxes receivable	59,092	590,918	650,010	-	650,010
Receivable developer	6,737	-	6,737	-	6,737
Accounts receivable - City of Broomfield	-	61,665	61,665	-	61,665
Prepaid expenses	13,465	-	13,465	-	13,465
Capital assets, net of depreciation	-	-	-	6,694,648	6,694,648
Total Assets	<u>\$ 111,185</u>	<u>\$ 1,317,310</u>	<u>\$ 1,428,495</u>	<u>6,694,648</u>	<u>8,123,143</u>
LIABILITIES					
Accounts payable	\$ 52,093	\$ -	\$ 52,093	-	52,093
Payable county treasurer	-	-	-	-	-
Accrued interest on bonds	-	-	-	210,613	210,613
Long-term liabilities					
Due within one year	-	-	-	280,000	280,000
Due in more than one year	-	-	-	27,936,527	27,936,527
Total Liabilities	<u>52,093</u>	<u>-</u>	<u>52,093</u>	<u>28,427,140</u>	<u>28,479,233</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred gain on refunding	-	-	-	2,690,599	2,690,599
Deferred property taxes	59,092	590,918	650,010	-	650,010
Total Deferred Inflows of Resources	<u>59,092</u>	<u>590,918</u>	<u>650,010</u>	<u>2,690,599</u>	<u>3,340,609</u>
FUND BALANCE					
Nonspendable					
Prepays	13,465	-	13,465	(13,465)	-
Restricted for					
Emergencies	2,176	-	2,176	(2,176)	-
Debt service	-	726,392	726,392	(726,392)	-
Unassigned	(15,641)	-	(15,641)	15,641	-
Total Fund Balances	<u>-</u>	<u>726,392</u>	<u>726,392</u>	<u>(726,392)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 111,185</u>	<u>\$ 1,317,310</u>	<u>\$ 1,428,495</u>		
NET POSITION					
Net investment in capital assets				(21,732,492)	(21,732,492)
Restricted for:					
Emergencies				2,176	2,176
Debt service				515,779	515,779
Unrestricted				(2,482,162)	(2,482,162)
Total Net Position (Deficit)				<u>\$ (23,696,699)</u>	<u>\$ (23,696,699)</u>

The notes to the financial statements are an integral part of these statements.

BROOMFIELD VILLAGE METROPOLITAN DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS

For the Year Ended December 31, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES					
Accounting and audit	\$ 10,632	\$ -	\$ 10,632	\$ -	\$ 10,632
Insurance	13,377	-	13,377	-	13,377
Legal	12,181	-	12,181	-	12,181
Parking structure maintenance	24,960	-	24,960	-	24,960
Treasurer's fees	890	8,895	9,785	-	9,785
Bond principal - GO Bonds Series 2003	-	260,000	260,000	(260,000)	-
Bond interest - GO Bonds Series 2003	-	471,563	471,563	(1,354)	470,209
Bond principal - Series 2011	-	45,000	45,000	(45,000)	-
Bond interest - Series 2011	-	448,802	448,802	(203,339)	245,463
Urban Renewal - TIF	393	3,928	4,321	-	4,321
Trustee/paying agent fees	-	4,500	4,500	-	4,500
Depreciation	-	-	-	434,248	434,248
Total Expenditures	<u>62,433</u>	<u>1,242,688</u>	<u>1,305,121</u>	<u>(75,445)</u>	<u>1,229,676</u>
GENERAL REVENUES					
Property taxes	59,688	596,883	656,571	-	656,571
Specific ownership taxes	-	36,484	36,484	-	36,484
Interest income	-	1,465	1,465	-	1,465
Total General Revenues	<u>59,688</u>	<u>634,832</u>	<u>694,520</u>	<u>-</u>	<u>694,520</u>
INTERGOVERNMENTAL REVENUES					
Sales tax revenues	-	343,770	343,770	-	343,770
Total Intergovernmental revenues	<u>-</u>	<u>343,770</u>	<u>343,770</u>	<u>-</u>	<u>343,770</u>
Total revenues	<u>59,688</u>	<u>978,602</u>	<u>1,038,290</u>	<u>-</u>	<u>1,038,290</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES					
	(2,745)	(264,086)	(266,831)	75,445	(191,386)
OTHER FINANCING SOURCES (USES)					
Developer advance	2,745	-	2,745	(2,745)	-
Transfer to other funds	-	-	-	-	-
Transfer from other funds	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>2,745</u>	<u>-</u>	<u>2,745</u>	<u>(2,745)</u>	<u>-</u>
CHANGE IN FUND BALANCE	-	(264,086)	(264,086)	72,700	
CHANGE IN NET POSITION					(191,386)
FUND BALANCE/DEFICIT NET POSITION					
BEGINNING OF YEAR - RESTATED	-	990,478	990,478	(24,495,791)	(23,505,313)
END OF YEAR	<u>\$ -</u>	<u>\$ 726,392</u>	<u>\$ 726,392</u>	<u>\$ (24,423,091)</u>	<u>\$ (23,696,699)</u>

The notes to the financial statements are an integral part of these statements.

BROOMFIELD VILLAGE METROPOLITAN DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
GENERAL FUND

For the Year Ended December 31, 2016

	Original & Final		Variance
	<u>Budget</u>	<u>Actual</u>	Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 59,321	\$ 59,688	\$ 367
Total Revenues	<u>59,321</u>	<u>59,688</u>	<u>367</u>
EXPENDITURES			
Accounting and audit	12,300	10,632	1,668
Insurance	12,000	13,377	(1,377)
Legal	25,000	12,181	12,819
Miscellaneous expense	155	-	155
Parking structure maintenance	20,000	24,960	(4,960)
Treasurer's fees	890	890	-
Urban Renewal - TIF		393	(393)
Emergency reserve	<u>2,110</u>	<u>-</u>	<u>2,110</u>
Total Expenditures	<u>72,455</u>	<u>62,433</u>	<u>10,022</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(13,134)	(2,745)	10,389
OTHER FINANCING SOURCES (USES)			
Developer advance	<u>13,134</u>	<u>2,745</u>	<u>(10,389)</u>
Total Other Financing Sources (Uses)	<u>13,134</u>	<u>2,745</u>	<u>(10,389)</u>
CHANGE IN FUND BALANCE	-	-	-
FUND BALANCE - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of these statements.

BROOMFIELD VILLAGE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Broomfield Village Metropolitan District No. 2 (“District”), located in the City and County of Broomfield, Colorado (“Broomfield”), conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized as a quasi-municipal organization established under the State of Colorado Special District Act. The District’s service area is located entirely within the limits of Broomfield. The District has the power to provide water, sanitation, storm drainage, streets, traffic and safety controls, park and recreation improvements and other related improvements for the benefit of the taxpayers and service users within the boundaries of the District. The District was organized concurrently with Broomfield Village Metropolitan District No. 1 (“District No.1”). The District was established to finance the construction, operation and maintenance of the facilities located within the District and District No. 1. All of the improvements were constructed by District No.1. The District’s Service Plan required District No.1 to convey the constructed improvements to Broomfield or other entities for ownership and maintenance. On August 16, 2006, District No. 1 deeded all capital assets not previously conveyed to Broomfield to the District by way of a Special Warranty Deed for \$10. Concurrently, District No. 1 was dissolved. Upon the dissolution of District No. 1, the District serves as both the financing district and the servicing district. As such, the District is responsible for the financing activities and for providing day to day operations and administrative management.

The District's primary revenues are property taxes and sales tax revenues. The District is governed by an elected Board of Directors.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets forth the financial accountability of a governmental organization’s elected governing body as the basic criterion for including a possible component governmental organization in a primary government’s legal entity.

BROOMFIELD VILLAGE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency. The pronouncements also require including a possible component unit if it would be misleading to exclude it.

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

The District is not financially accountable for any other organization. The District has no component units as defined by the GASB.

Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34 - Special Purpose Governments.

The government-wide financial statements (i.e. the governmental funds balance sheet/statement of net position and the governmental funds statement of revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District. The statement of net position reports all financial and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

BROOMFIELD VILLAGE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Budgetary Accounting

Budgets are adopted on a GAAP basis for the governmental funds. In accordance with the State Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated. The appropriation is at the total fund expenditures level and lapses at year end.

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2016, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the District are reported at fair value.

BROOMFIELD VILLAGE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

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 minimum number of bank accounts. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

Estimates

The preparation of these financial statements in conformity with GAAP requires the District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any items that qualify for reporting under this category at December 31, 2016.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two types of items that qualify for reporting in this category. Deferred property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available and a deferred gain on refunding that is reported in the government-wide statement of net position. A deferred gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Gain on Refunding

The gain on refunding from the District's bonds is being amortized over the terms of the bonds using the straight line method. Accumulated amortization of gain on refunding amounted to \$975,868 at December 31, 2016.

BROOMFIELD VILLAGE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

Capital Assets

Capital assets are reported in the applicable governmental activities columns 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 two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. On August 16, 2006, District No. 1 transferred all of the capital assets constructed by District No.1 to the District by way of Special Warranty Deed. The capital assets have been recorded at their book value net of accumulated depreciation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Parking Structure	30 years
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Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes are recorded initially as deferred inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

BROOMFIELD VILLAGE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

Fund Equity

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications make the nature and extent of the constraints placed on a government's fund balance more transparent:

Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form (such as inventory or prepaids) or are legally or contractually required to be maintained intact.

The nonspendable fund balance in the General Fund in the amount of \$13,465 represents prepaid expenditures.

Restricted Fund Balance

The restricted fund balance includes amounts restricted for a specific purpose by external parties such as grantors, bondholders, constitutional provisions or enabling legislation.

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$2,176 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$726,392 is restricted for the payment of the debt service costs associated with the District's Bonds (see Note 4).

Committed Fund Balance

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by a formal action of the government's highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.

Assigned Fund Balance

Assigned fund balance includes amounts the District intends to use for a specific purpose. Intent can be expressed by the District's Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund; all funds can report negative amounts.

BROOMFIELD VILLAGE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2016

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District reports three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District will use the most restrictive net position first.

Note 2: Cash and Investments

As of December 31, 2016, cash and investments are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and investments	\$ 29,715
Cash and investments – Restricted	<u>664,042</u>
Total	\$ <u>693,757</u>

Cash and investments as of December 31, 2016 consist of the following:

Deposits with financial institutions	\$ 133
Investments – COLOTRUST	35,760
Investments – Federated Treasury Obligations Fund	<u>657,864</u>
	\$ <u>693,757</u>

BROOMFIELD VILLAGE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

Deposits

Custodial Credit Risk

The Colorado Public Deposit Protection Act, (PDPA) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool 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 aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

The District follows state statutes for deposits. None of the District's deposits were exposed to custodial credit risk.

Investments

Investment Valuation

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 unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds, money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee); and CSAFE which record their investments at amortized cost.

The District has the following recurring fair value measurements as of December 31, 2016:

An external investment pool that records its investments at fair value. The investment in COLOTRUST is categorized as a Level 2 Investment.

Credit Risk

The District has not adopted a formal investment policy; however the District follows state statutes regarding investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

BROOMFIELD VILLAGE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2016

As of December 31, 2016, the District had the following investments:

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust (“COLOTRUST”) is rated AAAM by Standard & Poor’s with a weighted average maturity of under 60 days, a Level 2 investment under the fair value hierarchy. COLOTRUST is an investment trust/joint ventures established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The trusts operate similarly to a money market fund with each share maintaining a value of \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. Designated custodian banks provide safekeeping and depository services to the trusts. Substantially all securities owned by the trusts are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians’ internal records identify the investments owned by COLOTRUST. At December 31, 2016, the District had \$35,760 invested in COLOTRUST.

Federated Treasury Obligation Fund

At December 31, 2016, the District had \$657,864 invested in the Federated Treasury Obligation Fund. The fund is rated AAAM by Standard & Poor’s with a weighted average maturity of under one year and is a governmental money market fund which is not required to be measured at fair value. These funds are held by the trustee for the Bonds.

Custodial and Concentration of Credit Risk

None of the District’s investments are subject to custodial or concentration of credit risk.

Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2016 follows:

Governmental Type Activities:	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016
<u>Capital assets being depreciated:</u>				
Parking structure	\$ 13,027,430	\$ -	\$ -	\$ 13,027,430
Less accumulated depreciation	(5,898,534)	(434,248)	-	(6,332,782)
Total capital assets being depreciated	<u>\$ 7,128,896</u>	<u>\$ (434,248)</u>	<u>\$ -</u>	<u>\$ 6,694,648</u>

BROOMFIELD VILLAGE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2016

Note 4: Long Term Debt

A description of the long-term obligations as of December 31, 2016, is as follows:

General Obligation Limited Tax Refunding and Improvement Bonds - Series 2003

On December 3, 2003, the District issued \$9,715,000 of General Obligation Limited Tax Refunding and Improvement Bonds, Series 2003 (Series 2003 Bonds), to refund the General Obligation Limited Mill Levy Bonds, Series 2000B, and to provide funds to reimburse the Developer for certain obligations. The Series 2003 Bonds are term bonds due December 1, 2032, with mandatory sinking fund payments starting December 1, 2004, and increasing annually thereafter. The Series 2003 Bonds bear interest at 6.25%, to be paid on June 1 and December 1 of each year. Accrued interest at December 31, 2016 totaled \$37,943 for the Series 2003 Bonds.

The Series 2003 Bonds are payable solely from a mill levy of not more than 46 mills. The Series 2003 Bonds maturing on or after December 1, 2015 are subject to redemption prior to maturity at the option of the District, on December 1, 2013, through November 30, 2014 with a premium of 1% and callable on December 1, 2014 and thereafter with no premium. The net effect of the refunding transaction resulted in an extension of the maturity from 2020 to 2032.

The District's annual debt service requirements for the Series 2003 Bonds are as follows at an interest rate of 6.25%:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 280,000	\$ 455,312	\$ 735,312
2018	295,000	437,813	732,813
2019	315,000	419,375	734,375
2020	335,000	399,687	734,687
2021	355,000	378,750	733,750
2022 - 2026	2,130,000	1,532,813	3,662,813
2027 - 2031	2,885,000	778,436	3,663,436
2032	690,000	43,125	733,125
	<u>\$ 7,285,000</u>	<u>\$ 4,445,311</u>	<u>\$ 11,730,311</u>

Special Obligation Revenue Bonds – Series 2011

On March 23, 2011, the District issued \$22,600,000 of Special Revenue Variable Rate Refunding Bonds, Series 2011 to refund the Special Obligation Revenue Bonds, Series 2003A, 2003B and 2003C. The Bonds are cash flow bonds due July 1, 2032.

BROOMFIELD VILLAGE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2016

The Series 2011 Bonds bear variable interest at a rate equal to LIBOR plus 1.50% (150 basis points), but not in excess of 8.50% per annum (the "Interest Rate"), calculated on the basis of a 360-day year of twelve 30-day months. Interest on the Bonds shall be payable to the extent of Pledged Revenue available therefore on each July 1 and January 1, commencing on July 1, 2011. The initial Interest Rate will be established as of the date of issuance of the Bonds, and shall apply until the first interest payment date. Thereafter, the Interest Rate shall be determined and reset as of each July 1 and January 1.

The Bonds are subject to mandatory redemption prior to maturity, as a whole or in integral multiples of \$5,000, on any July 1, upon payment of par plus accrued interest, without redemption premium to the extent that the pledged revenue available exceeds the amount required to pay the interest on the bonds on July 1st.

The Series 2011 Bonds are subject to redemption prior to maturity at the option of the District on any interest payments date upon payment of par accrued interest plus a redemption premium of 1%.

The Series 2011 Bonds are payable solely from payments of certain sales tax receipts to be made to the District by Broomfield pursuant to the Amended Sales Tax Reimbursement Agreement.

Due to the uncertainty of the timing of the principal and interest on the Series 2011 Bonds, a schedule of the timing of these payments is not available.

Developer Advance

On October 23, 2013 the District entered into to an Operations Funding Agreement with Flatiron Marketplace 2013, L.P., ("Flatiron"), whereby Flatiron agreed to provide advances to the District for Operations and Maintenance costs up to \$40,000. This agreement has an initial termination date of December 31, 2014, but may be renewed on an annual basis pursuant to an annual review. A renewal is currently being discussed by the parties.

The following is an analysis of changes in long-term debt for the period ending December 31, 2016:

	<u>Balance</u> <u>1/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2016</u>	<u>Current</u> <u>Portion</u>
General Obligation					
Limited Tax Series 2003	\$ 7,545,000	\$ -	\$ 260,000	\$ 7,285,000	\$ 280,000
Special Obligation					
Series 2011	20,920,000	-	45,000	20,875,000	-
Developer note	<u>53,782</u>	<u>2,745</u>	<u>-</u>	<u>56,527</u>	<u>-</u>
	<u>\$ 28,518,782</u>	<u>\$ 2,745</u>	<u>\$ 305,000</u>	<u>\$ 28,216,527</u>	<u>\$ 280,000</u>

BROOMFIELD VILLAGE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

Debt Authorization

As of December 31, 2016, the District had remaining voted debt authorization of approximately \$84,465,000. The District has not budgeted to issue any new debt during 2017. In the future, the District may issue a portion or all of the remaining authorized, but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District's service area, however, as of the date of this audit, the amount and timing of any debt issuances is not determinable.

Note 5: Related Party

All of the Board of Directors are either employees of, or consultants to, the owner of the majority of the property within the District.

The District and the landowner have entered into a management agreement with the landowner where the landowner has agreed to provide management services to the District for a fee equal to 15% of the annual maintenance costs. The District incurred total management fees of \$0 during the year ended December 31, 2016.

Note 6: Tax, Spending and Debt Limitations

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer Bill of Rights (TABOR) contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

A majority of the District's electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X Section 20 of the Colorado Constitution.

BROOMFIELD VILLAGE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

Note 7: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The Colorado Special Districts Property and Liability Pool (the Pool) is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for auto, public officials' liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other 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: District Agreement

Intergovernmental Agreement – Broomfield

The District and Broomfield have entered into an Intergovernmental Agreement as required by Broomfield's Code and the District's Service Plan. The District entered into the agreement with Broomfield to define the arrangements for the construction of facilities within the Districts. The District issued revenue bonds to pay for the facilities. Broomfield agreed to set aside 65% of its sales and use taxes collected within the service areas of the District to help pay for the facilities constructed by the Districts. Broomfield's obligation to pay such taxes ends in 2032 or when the costs of the facilities have been reimbursed.

The District is required to fund, on an annual basis, the amount of actual service costs that it would be capable of funding through property tax revenue and other fee revenue.

Note 9: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

The Government Funds Balance Sheet/Statement of Net Position includes an adjustments column. The adjustments have the following elements:

- 1) Capital improvements used in government activities are not financial resources and, therefore are not reported in the funds; and,
- 2) long-term liabilities such as bonds payable and accrued bond interest payable are not due and payable in the current period and, therefore, are not in the funds.

BROOMFIELD VILLAGE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2016

The Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities includes an adjustments column. The adjustments have the following elements:

- 1) Governmental funds report capital outlays as expenditures; however, in the Statement of Activities, the costs of those assets are held as construction in process pending transfer to other governmental entities or depreciated over their useful lives;
- 2) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities; and,
- 3) governmental funds report the repayment of bond principal as expenditures; however, these are reported as reductions in long-term liabilities on the Statement of Net Position.

SUPPLEMENTAL INFORMATION

BROOMFIELD VILLAGE METROPOLITAN DISTRICT NO. 2

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
DEBT SERVICE FUND

For the Year Ended December 31, 2016

	Original & Final		Variance
	<u>Budget</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
REVENUES			
Sales tax revenues	\$ 800,000	\$ 343,770	\$ (456,230)
Property taxes	593,205	596,883	3,678
Specific ownership taxes	36,243	36,484	241
Interest income	<u>100</u>	<u>1,465</u>	<u>1,365</u>
Total Revenues	<u>1,429,548</u>	<u>978,602</u>	<u>(450,946)</u>
EXPENDITURES			
Bond principal - GO Bonds Series 2003	260,000	260,000	-
Bond interest - GO Bonds Series 2003	471,563	471,563	-
Bond principal - Series 2011	400,000	45,000	355,000
Bond interest - Series 2011	340,000	448,802	(108,802)
Urban Renewal - TIF	-	3,928	(3,928)
Trustee/paying agent fees	18,898	4,500	14,398
Treasurer's fees	<u>10,051</u>	<u>8,895</u>	<u>1,156</u>
Total Expenditures	<u>1,500,512</u>	<u>1,242,688</u>	<u>257,824</u>
 CHANGE IN FUND BALANCE	 (70,964)	 (264,086)	 (193,122)
 FUND BALANCE - BEGINNING OF YEAR	 <u>1,059,349</u>	 <u>990,478</u>	 <u>(68,871)</u>
 FUND BALANCE - END OF YEAR	 <u>\$ 988,385</u>	 <u>\$ 726,392</u>	 <u>\$ (261,993)</u>

The notes to the financial statements are an integral part of these statements.