

LARKRIDGE METROPOLITAN DISTRICT NO. 2
Adams County, Colorado

FINANCIAL STATEMENTS
December 31, 2016



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Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Larkridge Metropolitan District No. 2
Adams County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Larkridge Metropolitan District No. 2 (the District) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Larkridge Metropolitan District No. 2, as of December 31, 2016, and the respective changes in financial position thereof, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

I

Barnes Griggs & Associates, PC

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that 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 operation, economic, or historical context. Our opinion on the basic financial statements 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 the District's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Danner Higgs & Associates, PC

Lakewood, Colorado
June 9, 2017

BASIC FINANCIAL STATEMENTS

LARKRIDGE METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET POSITION
December 31, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 67,979
Cash and investments - Restricted	489,745
Interest receivable	29
Receivable - County Treasurer	1,853
Property tax receivables	21,892
Prepaid expenses	2,731
Total assets	<u>584,229</u>
LIABILITIES	
Accounts payable	1,362
Accrued loan interest payable	8,629
Noncurrent liabilities	
Due within one year	135,000
Due in more than one year	5,456,747
Total liabilities	<u>5,601,738</u>
DEFERRED INFLOWS OF RESOURCES	
Property tax revenue	21,892
Total deferred inflows of resources	<u>21,892</u>
NET POSITION	
Restricted for:	
Emergency reserves	3,100
Debt service	479,344
Unrestricted	(5,521,845)
Total net position	<u>\$ (5,039,401)</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

LARKRIDGE METROPOLITAN DISTRICT NO. 2
STATEMENT OF ACTIVITIES
Year Ended December 31, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Primary government:					
Government activities:					
General government	\$ 35,755	\$ -	\$ 85,759	\$ -	\$ 50,004
Interest and related costs on long-term debt	161,420	-	201,143	-	39,723
	<u>\$ 197,175</u>	<u>\$ -</u>	<u>\$ 286,902</u>	<u>\$ -</u>	<u>89,727</u>
General revenues:					
Property taxes					23,282
Specific ownership taxes					25,925
Net investment income					3,230
Total general revenues					<u>52,437</u>
Change in net position					142,164
Net position - Beginning					<u>(5,181,565)</u>
Net position - Ending					<u>\$ (5,039,401)</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

LARKRIDGE METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2016

	General	Debt Service	Total Governmental Funds
ASSETS			
Cash and investments	\$ 67,979	\$ -	\$ 67,979
Cash and investments - Restricted	3,100	486,645	489,745
Interest receivable	-	29	29
Receivable - County Treasurer	554	1,299	1,853
Property taxes receivable	6,544	15,348	21,892
Prepaid expense	2,731	-	2,731
TOTAL ASSETS	\$ 80,908	\$ 503,321	\$ 584,229
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 1,362	\$ -	\$ 1,362
Total liabilities	1,362	-	1,362
DEFERRED INFLOWS OF RESOURCES			
Property tax revenue	6,544	15,348	21,892
Total deferred inflows of resources	6,544	15,348	21,892
FUND BALANCES			
Nonspendable:			
Prepaid expense	2,731	-	2,731
Restricted:			
Emergency	3,100	-	3,100
Debt service	-	487,973	487,973
Assigned:			
Subsequent year's expenditures	32,610	-	32,610
Unassigned	34,561	-	34,561
Total fund balances	73,002	487,973	560,975
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 80,908	\$ 503,321	

Amounts reported for governmental activities in the statement of net position are different because:

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	
Loan payable	(3,825,000)
Accrued loan interest payable	(8,629)
Developer advance payable	(589,995)
Accrued interest on Developer advance	(1,176,752)
Net position of governmental activities	\$ (5,039,401)

These financial statements should be read only in connection with the accompanying notes to financial statements.

LARKRIDGE METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year Ended December 31, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
REVENUES			
Property taxes	\$ 6,959	\$ 16,323	\$ 23,282
Property taxes from TDA	85,759	201,143	286,902
Specific ownership taxes	7,749	18,176	25,925
Net investment income	-	3,230	3,230
Total revenues	<u>100,467</u>	<u>238,872</u>	<u>339,339</u>
EXPENDITURES			
Current			
Accounting	12,084	-	12,084
Audit	4,500	-	4,500
County Treasurer's fees	104	245	349
District management	8,065	-	8,065
Dues and subscriptions	347	-	347
Election	578	-	578
Insurance and bonds	2,932	-	2,932
Legal	6,947	-	6,947
Miscellaneous	198	525	723
Debt service			
Loan non-use fees	-	10,167	10,167
Principal payment - Loan	-	95,000	95,000
Interest expense - Loan	-	106,408	106,408
Total expenditures	<u>35,755</u>	<u>212,345</u>	<u>248,100</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>64,712</u>	<u>26,527</u>	<u>91,239</u>
OTHER FINANCING SOURCES (USES)			
Repay Developer advance	<u>(50,000)</u>	-	<u>(50,000)</u>
Total other financing sources (uses)	<u>(50,000)</u>	-	<u>(50,000)</u>
NET CHANGE IN FUND BALANCES	14,712	26,527	41,239
FUND BALANCES - BEGINNING OF YEAR	58,290	461,446	519,736
FUND BALANCES - END OF YEAR	<u>\$ 73,002</u>	<u>\$ 487,973</u>	<u>\$ 560,975</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**LARKRIDGE METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2016**

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

Net change in fund balances - Total governmental funds	\$	41,239
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The issuance of long-term debt (e.g., bonds, loans, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Current year principal payment		95,000
Current year repayment of Developer advance		50,000

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued interest on Developer advance - Change in liability		(44,313)
Accrued interest on loan - Change in liability		<u>238</u>

Changes in net position of governmental activities	\$	<u><u>142,164</u></u>
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These financial statements should be read only in connection with
the accompanying notes to financial statements.

LARKRIDGE METROPOLITAN DISTRICT NO. 2
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2016

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property taxes	\$ 6,959	\$ 6,959	\$ -
Property taxes from TDA	85,759	85,759	-
Specific ownership tax	7,417	7,749	332
Total revenues	<u>100,135</u>	<u>100,467</u>	<u>332</u>
EXPENDITURES			
Accounting	25,000	12,084	12,916
Audit	5,000	4,500	500
County Treasurer's fees	104	104	-
District management	10,000	8,065	1,935
Dues and subscriptions	400	347	53
Election	1,000	578	422
Insurance and bonds	2,600	2,932	(332)
Legal	20,000	6,947	13,053
Miscellaneous	896	198	698
Contingency	10,000	-	10,000
Total expenditures	<u>75,000</u>	<u>35,755</u>	<u>39,245</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>25,135</u>	<u>64,712</u>	<u>39,577</u>
OTHER FINANCING SOURCES (USES)			
Repay Developer advance	(25,000)	(50,000)	(25,000)
Total other financing sources (uses)	<u>(25,000)</u>	<u>(50,000)</u>	<u>(25,000)</u>
NET CHANGE IN FUND BALANCES	135	14,712	14,577
FUND BALANCES - BEGINNING OF YEAR	50,431	58,290	7,859
FUND BALANCES - END OF YEAR	<u>\$ 50,566</u>	<u>\$ 73,002</u>	<u>\$ 22,436</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

LARKRIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 - DEFINITION OF REPORTING ENTITY

Larkridge Metropolitan District No. 2 (District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by order and decree of the District Court for Adams County on May 18, 2004, 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 Thornton, Colorado. The District was established to provide water, storm sewer and sanitary sewer, streets and traffic and safety protection, parks and recreation, transportation, mosquito control and other powers.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set 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. 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 District has no employees, and all operations and administrative functions are contracted.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies of the District are described as follows:

Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of net position reports all financial and capital resources of the District. The difference between the sum of assets and deferred outflows and the sum of liabilities and deferred inflows is reported as net position.

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.

LARKRIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Separate financial statements are provided for governmental funds. 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 related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Depreciation, if any, is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets and redemption of bonds, loans, notes and developer advances are recorded as a reduction in liabilities.

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 government considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes and specific ownership taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. The District determined that Developer advances are not considered as revenue susceptible to accrual. Expenditures, other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation is due.

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 general government, except those required to be accounted for in another fund.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of the governmental funds.

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. 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.

LARKRIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pooled 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 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.

Investments are carried at fair value.

Property Taxes

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

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflow of resources in the year they are levied and measurable. The unearned property tax revenues are recorded as revenue in the year they are available or collected.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position reports 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 government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category, *deferred property tax revenue*. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Equity

Net Position

For government-wide presentation purposes 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.

LARKRIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

- *Nonspendable fund balance* – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.
- *Restricted fund balance* – The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.
- *Committed fund balance* – The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by 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* – The portion of fund balance that is constrained by the government’s intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.
- *Unassigned fund balance* – The residual portion of fund balance that does not meet any of the criteria described above.

If more than one classification of fund balance is available for use when an expenditure is incurred, it is the District’s practice to use the most restrictive classification first.

NOTE 3 - CASH AND INVESTMENTS

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

Statement of net position:

Cash and investments	\$ 67,979
Cash and investments - Restricted	<u>489,745</u>
Total cash and investments	<u>\$ 557,724</u>

LARKRIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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

Deposits with financial institutions	\$ 10,979
Certificate of deposits	126,507
Investments	420,238
Total cash and investments	\$ 557,724

Deposits with Financial Institutions

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 regulators. 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 for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least 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.

At December 31, 2016, the District's cash deposits had a bank balance of \$142,748 and a carrying balance of \$137,486.

Investments

The District has adopted a formal investment policy that follows state statutes regarding investments.

The District generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk or investment custodial risk disclosure requirements for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

- . Obligations of the United States, certain U.S. government agency securities and securities of the World Bank
- . General obligation and revenue bonds of U.S. local government entities
- . Certain certificates of participation
- . Certain securities lending agreements
- . Bankers' acceptances of certain banks

LARKRIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

- . Commercial paper
- . Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- . Certain money market funds
- . Guaranteed investment contracts
- * Local government investment pools

Fair Value Measurement and Application

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; and Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds (PFM Funds Governmental Select series); 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.

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

Investment	Maturity	Fair Value
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted average under 60 days	<u>\$ 420,238</u>

CSAFE

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE) (the Trust), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE is rated AAAM by Standard & Poor's.

LARKRIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 4 - LONG-TERM OBLIGATIONS

The following is an analysis of the changes in the District's long-term obligations for the year ended December 31, 2016:

	<u>Balance at December 31, 2015</u>	<u>Additions</u>	<u>Retirement of Long-Term Obligations</u>	<u>Balance at December 31, 2016</u>	<u>Due Within One Year</u>
Loan - 2014	\$ 3,920,000	\$ -	\$ 95,000	\$ 3,825,000	\$ 135,000
Facilities Acquisition and Reimbursement Agreement	639,995	-	50,000	589,995	-
Accrued interest	1,132,439	44,313	-	1,176,752	-
	<u>\$ 5,692,434</u>	<u>\$ 44,313</u>	<u>\$ 145,000</u>	<u>\$ 5,591,747</u>	<u>\$ 135,000</u>

The details of the District's long-term obligations are as follows:

Loan Agreement – 2014

On December 15, 2014, the District issued a \$4,010,000 Limited Tax (Convertible to Unlimited Tax) Refunding Improvement Loan and a \$2,000,000 Limited Tax (Convertible to Unlimited Tax) Advancing Improvement Loan (hereinafter, collectively, the "2014 Refunding Loan"). The 2014 Refunding Loan is due on December 15, 2024, and bears interest at a fixed rate of 2.67% for the first 5 years and 65.000001% of USSW5 (as defined in the agreement) plus 1.25% thereafter. The District drew an initial \$4,010,000 of loan proceeds in 2014.

The \$2,000,000 Advancing Improvement Loan is issued under a promissory note, and as of December 31, 2016, no funds have been advanced. The interest rate on this promissory note is the sum of (a) 65.000001% of the One-Month LIBOR plus (b) 1.625 stated as a percentage. A Non-Use Fee of 0.5% per annum is payable in arrears on June 1 and December 1 each year on the unfunded advanced amount available. Advances under the promissory note are subject to specific requirements as outlined in the loan agreement. The 2014 Refunding Loan may be prepaid in whole or in part on any date without penalty or premium.

The 2014 Refunding Loan is secured by the Pledged Revenue and all monies and earnings thereon held in the funds or accounts created under the terms of the loan agreement. Pledged Revenue consists of revenues derived from the imposition of the Required Mill Levy, net of any costs of collection, whether received pursuant to the Tax Increment Sharing Agreement with the Thornton Development Authority, the portion of the specific ownership tax collected as a result of the imposition of the Required Mill Levy, and any other legally available funds, which the District determines, in its sole discretion, to apply to the payment of principal and/or interest on the 2014 Refunding or replenishment of the Reserve Fund.

The District is required to impose a mill levy at the rate necessary to generate ad valorem property tax revenue which will be sufficient to generate an amount equal to the Estimated Debt Requirements (as defined in the 2014 Loan Agreement) for the next succeeding year and to replenish the Reserve Fund to the Reserve Requirement. The loans and interest are payable from the net revenue of a maximum debt mill levy of 50.000 mills, which may be adjusted for changes in the method of calculated assessed valuation in the State.

LARKRIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)

Loan proceeds were used to pay off the balance of the 2007 Loan, fund certain project costs, pay related costs and expenses and, together with monies in the funds and accounts relating to the 2007 Loan, fund the Reserve Fund in the amount of the Reserve Requirement.

The District's long-term obligations, excluding Developer advances, will mature as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 135,000	\$ 103,546	\$ 238,546
2018	140,000	99,892	239,892
2019	145,000	96,101	241,101
2020	150,000	92,429	242,429
2021	155,000	88,116	243,116
2022-2024	3,100,000	238,836	3,338,836
	<u>\$3,825,000</u>	<u>\$ 718,920</u>	<u>\$4,543,920</u>

Authorized Debt

On May 4, 2004, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$35,085,000 at an interest rate not to exceed 12% per annum. On May 6, 2008, a majority of the qualified electors of the District authorized the issuance of additional indebtedness in an amount not to exceed \$136,000,000 at an interest rate not to exceed 18% per annum. On May 8, 2012, a majority of the qualified electors of the District authorized the issuance of additional indebtedness in an amount not to exceed \$136,000,000 at an interest rate not to exceed 18% per annum. At December 31, 2016, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	<u>May 4, 2004</u> <u>Authorization</u>	<u>May 6, 2008</u> <u>Authorization</u>	<u>May 8, 2012</u> <u>Authorization</u>	<u>Reinstatement</u> <u>of May 4, 2004</u> <u>Authorization</u>	<u>2007 Loan</u>	<u>2014 Loan</u>	<u>Authorized</u> <u>But</u> <u>Unissued</u>
Street improvements	\$ 5,254,772	\$ 15,000,000	\$ 15,000,000	\$ 500,000	\$ 668,533	\$ 2,891,075	\$ 32,195,164
Water	1,124,512	15,000,000	15,000,000	750,000	1,124,512	46,278	\$ 30,703,722
Sanitary sewer	4,815,716	15,000,000	15,000,000	800,000	3,406,955	-	\$ 32,208,761
Park and recreation	-	15,000,000	15,000,000	-	-	-	\$ 30,000,000
Transportation	-	15,000,000	15,000,000	-	-	-	\$ 30,000,000
Mosquito control	-	15,000,000	15,000,000	-	-	-	\$ 30,000,000
Safety	-	15,000,000	15,000,000	-	-	-	\$ 30,000,000
Operations	500,000	1,000,000	1,000,000	-	-	-	\$ 2,500,000
Refunding	11,695,000	15,000,000	15,000,000	-	-	3,072,647	\$ 38,622,353
IGA	11,695,000	15,000,000	15,000,000	-	-	-	\$ 41,695,000
	<u>\$ 35,085,000</u>	<u>\$136,000,000</u>	<u>\$ 136,000,000</u>	<u>\$ 2,050,000</u>	<u>\$ 5,200,000</u>	<u>\$ 6,010,000</u>	<u>\$ 297,925,000</u>

LARKRIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)

The District's Service plan establishes a mill levy cap of 50.000 mills for debt service (the Mill Levy Cap). The Mill Levy Cap may be increased or decreased to reflect any change in law for calculating assessed valuation on property for taxation purposes.

The District's Service Plan establishes a limit on the issuance of debt in the amount of \$15,000,000. Any increase in the debt limit will be considered a material modification of the District's Service Plan which would require approval from the City of Thornton.

In the future, the District may issue a portion 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.

NOTE 5 - NET POSITION

The District has net position consisting of two components - restricted, and unrestricted.

Restricted net position includes assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net position as of December 31, 2016, as follows:

	Governmental Activities
Restricted net position:	
Emergencies	\$ 3,100
Debt service	479,344
Total restricted net position	\$ 482,444

The District has a deficit in unrestricted net position. This deficit amount is a result of the District being responsible for the repayment of both the loan issued and developer advances received for public improvements, which were conveyed to other governmental entities and which costs were removed from the District's financial records.

NOTE 6 - DISTRICT AGREEMENTS

Tax Increment Sharing Agreement

The District has entered into the Tax Increment Sharing Agreement with the Thornton Development Authority (Authority), dated as of June 9, 2004, regarding the sharing of Tax Increment Revenues generated within the District. The Tax Increment Sharing Agreement provides that in consideration for the District providing public improvements and services, the Authority agrees that the portion of revenues which it receives as a result of ad valorem property tax increments, which are attributable to the District's current and future levy of ad valorem taxes on property within the Development and encompassed by the Urban Renewal Plan, shall be segregated upon receipt and shall be remitted by the Authority to the District within 45 days of the end of each quarter. The District will use such property tax revenue primarily to pay debt service on the Loan.

LARKRIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 7 - RELATED PARTY

The Developer of the property which constitutes the District is Jordon Perlmutter & Co. Jordon Perlmutter & Co. has an interest in the Landowner (defined below). The members of the Board of Directors are employees, owners or are otherwise associated with Jordon Perlmutter & Co. and the Landowner, and may have conflicts of interest in dealing with the District.

Facilities Acquisition and Reimbursement Agreement

The District and Thornton 164, LLC (the Landowner) have entered into an Amended and Restated Facilities Acquisition and Reimbursement Agreement dated November 13, 2007, as further amended November 28, 2012 (the Agreement). Pursuant to the Agreement, the Landowner has agreed to advance funds to the District for the construction of Project Improvements (as such term is defined in the Agreement). The District has agreed to reimburse the Landowner for funds advanced under the Agreement, together with interest thereon at the rate of 7% per annum, from the proceeds of the bonds to the extent of the amounts advanced for the Project Improvements. During 2016, the District repaid \$50,000 to the Landowner under the Agreement. As of December 31, 2016, outstanding advances under the Agreement totaled \$589,995 and accrued interest totaled \$1,176,752.

NOTE 8 - 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 acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool). 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 any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property, public officials' liability and workers compensation 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 the 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 9 - TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR), contains tax, spending, revenue and debt limitations that 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.

LARKRIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 9 - TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

On May 8, 2012, a majority of the District's electors authorized the District to collect and spend or retain in a reserve the full amount of all currently levied taxes and fees of the District annually, without regard to any limitations under TABOR.

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.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTARY INFORMATION

LARKRIDGE METROPOLITAN DISTRICT NO. 2
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2016

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Property taxes	\$ 16,323	\$ 16,323	\$ -
Property taxes from TDA	201,143	201,143	-
Specific ownership tax	17,397	18,176	779
Net investment income	700	3,230	2,530
Total revenues	<u>235,563</u>	<u>238,872</u>	<u>3,309</u>
EXPENDITURES			
County Treasurer's fees	245	245	-
Principal payment - Loan	95,000	95,000	-
Interest expense - Loan	104,664	106,408	(1,744)
Miscellaneous	1,000	525	475
Loan non-use fees	10,000	10,167	(167)
Contingency	46,091	-	46,091
Total expenditures	<u>257,000</u>	<u>212,345</u>	<u>44,655</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(21,437)</u>	<u>26,527</u>	<u>47,964</u>
FUND BALANCES - BEGINNING OF YEAR	<u>461,723</u>	<u>461,446</u>	<u>(277)</u>
FUND BALANCES - END OF YEAR	<u>\$ 440,286</u>	<u>\$ 487,973</u>	<u>\$ 47,687</u>

LARKRIDGE METROPOLITAN DISTRICT NO. 2
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2016

\$4,010,000 Refunding and Improvement Loan
Series 2014

**Interest rate - 2.67% for first 5 years, 65.000001% of USSW5 *
plus 1.625, stated as a percentage thereafter**

Dated December 15, 2014

Interest Payable June 1 and December 1

Principal Due December 1

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 135,000	\$ 103,546	\$ 238,546
2018	140,000	99,892	239,892
2019	145,000	96,101	241,101
2020	150,000	92,429	242,429
2021	155,000	88,116	243,116
2022	160,000	83,920	243,920
2023	165,000	79,588	244,588
2024	2,775,000	75,328	2,850,328
	<u>\$ 3,825,000</u>	<u>\$ 718,920</u>	<u>\$ 4,543,920</u>

* as defined in the 2014 Loan Agreement

LARKRIDGE METROPOLITAN DISTRICT NO. 2
SUMMARY OF ASSESSED VALUATION, MILL LEVY AND
PROPERTY TAXES COLLECTED
December 31, 2016

Year Ended December 31,	Prior Year Gross Assessed Valuation for Current Year Property Tax Levy	Prior Year Net Assessed Valuation for Current Year Property Tax Levy	Mills Levied		Total Property Taxes		Percentage Collected to Levied
			General	Debt Service	Levied	Collected	
2012	\$ 5,784,310	\$ 456,530	13.750	32.250	\$ 21,000	\$ 26,922	128.2% (1)
2013	\$ 7,578,290	\$ 556,550	13.750	32.250	\$ 25,601	\$ 25,567	99.9%
2014	\$ 7,259,690	\$ 533,150	13.750	32.250	\$ 24,524	\$ 24,525	100.0%
2015	\$ 7,206,280	\$ 533,390	13.750	32.250	\$ 24,535	\$ 24,519	99.9%
2016	\$ 6,838,120	\$ 506,140	13.750	32.250	\$ 23,282	\$ 23,282	100.0%
Estimated for the year ending December 31, 2017	\$ 6,309,020	\$ 475,910	13.750	32.250	\$ 21,892		

Notes:

(1) - Due to the County increasing the oil & gas assessed valuation after the mill levy was certified, actual property tax collection was greater than the amount levied.