

MERIDIAN SERVICE METROPOLITAN DISTRICT
El Paso County, Colorado

FINANCIAL STATEMENTS
December 31, 2016



RECEIVED

By the Office of the State Auditor at 8:38 am, Sep 27, 2017

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements:	
Statement of Net Position	1
Statement of Activities.....	2
Fund Financial Statements:	
Balance Sheet – Governmental Funds	3
Statement of Revenues, Expenditures and Change in Fund Balances - Governmental Funds	4
Reconciliation of the Statement of the Revenues, Expenditures and Change in Fund Balances - Governmental Funds to the Statement of Activities	5
General Fund – Statement of Revenues, Expenditures and Change in Fund Balance – Budget and Actual	6
Statement of Net Position – Proprietary Funds.....	7
Statement of Revenues, Expenses and Change in Fund Net Position – Proprietary Funds.....	8
Statement of Cash Flows – Proprietary Fund	9
Notes to Financial Statements.....	10

SUPPLEMENTARY INFORMATION

Capital Projects Fund – Schedule of Revenues, Expenditures and Change in Fund Balance (Deficit) – Budget and Actual.....	23
Water Fund – Schedule of Revenues, Expenditures and Change in Funds Available – Budget and Actual (Budgetary Basis)	24
Reconciliation of Budgetary Basis (Actual) to Statement of Revenues, Expenses and Change in Fund Net Position – Water Fund	25
Sewer Fund – Schedule of Revenues, Expenditures and Change in Funds Available – Budget and Actual (Budgetary Basis)	26
Reconciliation of Budgetary Basis (Actual) to Statement of Revenues, Expenses and Change in Fund Net Position – Sewer Fund	27

L. PAUL GOEDECKE P.C.

CERTIFIED PUBLIC ACCOUNTANTS

950 Wadsworth Blvd., Suite 240
LAKEWOOD, COLORADO 80214
TELEPHONE (303) 232 2866
FAX (303) 232 9452
lpgcpa@qwestoffice.net

Independent Auditor's Report

Board of Directors
Meridian Service Metropolitan District
El Paso County, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of Meridian Service Metropolitan 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 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 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Economic Dependency

The District has not yet established a revenue base sufficient to pay its operational expenditures. As discussed in Note 8, the District is dependent upon the Developer of the District's service area to provide funds for such expenditures.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities and each major fund of the Meridian Service Metropolitan District as of December 31, 2016, and the respective changes in financial position and, when applicable, cash flows and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted the 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 operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

L. Paul Goedecke P.C.

L. Paul Goedecke, P.C.
September 6, 2017

BASIC FINANCIAL STATEMENTS

MERIDIAN SERVICE METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
December 31, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments - restricted	\$ 1,335,542	\$ -	\$ 1,335,542
Accounts receivable - user fees	148,567	245,595	394,162
Accounts receivable - other	2,653	455,604	458,257
Due from other funds	-	1,884,508	1,884,508
Due from Meridian Ranch Metropolitan District	125,000	-	125,000
Prepaid expenses	90,662	-	90,662
Security deposit	2,000	-	2,000
Capital assets, net			
Park and recreation facilities	10,975,937	-	10,975,937
Vehicles and equipment	41,085	-	41,085
Construction in progress	166,504	-	166,504
Water and sewer facilities	-	29,319,379	29,319,379
Total assets	<u>12,887,950</u>	<u>31,905,086</u>	<u>44,793,036</u>
LIABILITIES			
Accounts payable	214,303	412,240	626,543
Due to Meridian Ranch Metropolitan District	-	84,000	84,000
Due to other funds	1,884,508	-	1,884,508
Noncurrent liabilities			
Due in more than one year	16,144,112	31,198,821	47,342,933
Total liabilities	<u>18,242,923</u>	<u>31,695,061</u>	<u>49,937,984</u>
NET POSITION			
Net investment in capital assets	(4,960,586)	(1,879,442)	(6,840,028)
Restricted for emergencies	61,000	-	61,000
Restricted for parks and recreation	63,115	-	63,115
Unrestricted	(518,502)	2,089,467	1,570,965
Total net position	<u>\$ (5,354,973)</u>	<u>\$ 210,025</u>	<u>\$ (5,144,948)</u>

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

**MERIDIAN SERVICE METROPOLITAN DISTRICT
STATEMENT OF ACTIVITIES
Year Ended December 31, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 2,100,232	\$ 1,485,032	\$ -	\$ -	\$ (615,200)	\$ -	\$ (615,200)
Interest on long-term debt	521,390	-	-	-	(521,390)	-	(521,390)
	<u>2,621,622</u>	<u>1,485,032</u>	<u>-</u>	<u>-</u>	<u>(1,136,590)</u>	<u>-</u>	<u>(1,136,590)</u>
Business-type activities:							
Water	5,122,365	1,695,152	-	1,928,200	-	(1,499,013)	(1,499,013)
Sewer	3,871,541	1,506,286	-	1,610,000	-	(755,255)	(755,255)
	<u>8,993,906</u>	<u>3,201,438</u>	<u>-</u>	<u>3,538,200</u>	<u>-</u>	<u>(2,254,268)</u>	<u>(2,254,268)</u>
Total	<u>\$ 11,615,528</u>	<u>\$ 4,686,470</u>	<u>\$ -</u>	<u>\$ 3,538,200</u>	<u>(1,136,590)</u>	<u>(2,254,268)</u>	<u>(3,390,858)</u>
General revenues:							
					23,184	-	23,184
					1,280,000	-	1,280,000
					<u>1,303,184</u>	<u>-</u>	<u>1,303,184</u>
					166,594	(2,254,268)	(2,087,674)
					(5,521,567)	2,464,293	(3,057,274)
					<u>\$ (5,354,973)</u>	<u>\$ 210,025</u>	<u>\$ (5,144,948)</u>

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

**MERIDIAN SERVICE METROPOLITAN DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2016**

	General	Capital Projects	Total Governmental Funds
ASSETS			
Cash and investments - restricted	\$ 1,335,542	\$ -	\$ 1,335,542
Accounts receivable - user fees	148,567	-	148,567
Accounts receivable - other	2,653	-	2,653
Due from Meridian Ranch Metropolitan District	125,000	-	125,000
Prepaid expenses	90,662	-	90,662
Security deposit	2,000	-	2,000
TOTAL ASSETS	\$ 1,704,424	\$ -	\$ 1,704,424
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 207,107	\$ 7,196	\$ 214,303
Due to other funds	1,496,827	387,681	1,884,508
Total liabilities	1,703,934	394,877	2,098,811
 FUND BALANCES (DEFICIT)			
Nonspendable			
Prepaid expenditures	90,662	-	90,662
Security deposit	2,000	-	2,000
Spendable			
Restricted:			
Emergency reserves	61,000	-	61,000
Parks and recreation	63,115	-	63,115
Unassigned	(216,287)	(394,877)	(611,164)
Total fund balances (deficit)	490	(394,877)	(394,387)
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,704,424	\$ -	

Amounts reported for governmental activities in the Statement of Net

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Capital assets 11,183,526

Long-term liabilities, including developer advances, are not due and payable in the current period and, therefore, are not reported in the funds.

Developer advances payable (11,059,841)

Interest payable on developer advances (5,084,271)

Net position of governmental activities \$ (5,354,973)

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

MERIDIAN SERVICE METROPOLITAN DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2016

	General	Capital Projects	Total Governmental Funds
REVENUES			
Park and recreation open space fees	\$ 1,150,338	\$ -	\$ 1,150,338
Street lighting fees	78,820	-	78,820
Reimbursed expenditures	36,690	160,000	196,690
Falcon Freedom Days	30,987	-	30,987
Lease income	14,166	-	14,166
Miscellaneous	9,018	-	9,018
IGA revenue from Meridian Ranch Metropolitan District (CTF)	-	22,923	22,923
Interest	3,230	2,044	5,274
Total revenues	1,323,249	184,967	1,508,216
EXPENDITURES			
General government	1,732,172	15,474	1,747,646
Capital expenditures	269,447	845,789	1,115,236
Total expenditures	2,001,619	861,263	2,862,882
EXCESS OF EXPENDITURES OVER REVENUES	(678,370)	(676,296)	(1,354,666)
OTHER FINANCING SOURCES			
Transfer from Water Fund	400,000	-	400,000
Transfer from Sewer Fund	-	880,000	880,000
Developer advances	-	1,522,000	1,522,000
Total other financing sources	400,000	2,402,000	2,802,000
NET CHANGE IN FUND BALANCES	(278,370)	1,725,704	1,447,334
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	278,860	(2,120,581)	(1,841,721)
FUND BALANCE (DEFICIT) - END OF YEAR	\$ 490	\$ (394,877)	\$ (394,387)

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

**MERIDIAN SERVICE METROPOLITAN DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGE IN FUND BALANCES - GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2016**

A reconciliation reflecting the differences between the governmental funds net change in fund balances and change in net position reported for governmental activities in the Statement of Activities as follows:

Net change in fund balances - Total governmental funds	\$ 1,447,334
<p>Government funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital outlays	1,115,236
Depreciation	(352,586)
<p>Government funds recognize advances as revenue and repayments as expenses. However, these are not reflected on the Statement of Activities.</p>	
Developer advances	(1,522,000)
<p>Government funds recognize interest expense when paid. However, the Statement of Activities recognized these costs when incurred.</p>	
Accrued interest payable - change in liability	(521,390)
Change in net position - Governmental activities	\$ 166,594

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

MERIDIAN SERVICE METROPOLITAN DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
Year Ended December 31, 2016

	<u>Original Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with Budget - Positive (Negative)</u>
REVENUES			
Parks and recreation open space fees	\$ 1,175,921	\$ 1,150,338	\$ (25,583)
Interest and other income	-	3,230	3,230
Reimbursed expenditures	-	36,690	36,690
Street lighting fees	76,095	78,820	2,725
IGA revenue - Meridian Ranch Metropolitan District	140,000	-	(140,000)
Falcon Freedom Days donations	25,000	30,987	5,987
Miscellaneous	-	9,018	9,018
Lease income - AT&T	16,125	14,166	(1,959)
Total revenues	<u>1,433,141</u>	<u>1,323,249</u>	<u>(109,892)</u>
EXPENDITURES			
General and administrative			
Accounting and management	38,000	37,580	420
Audit	5,000	20,351	(15,351)
Director fees	6,500	4,600	1,900
Dues and memberships	3,700	1,637	2,063
Insurance	20,800	21,480	(680)
Legal	50,000	39,228	10,772
Election	6,000	-	6,000
Marketing/District events	25,000	31,720	(6,720)
Falcon Freedom Days	50,000	34,317	15,683
Miscellaneous	5,000	1,320	3,680
Operations and maintenance			
Landscaping	425,000	574,887	(149,887)
Recreation center operations/maintenance	840,000	685,319	154,681
Repairs and maintenance	25,000	31,087	(6,087)
Utilities - recreation center	120,000	143,917	(23,917)
Utilities - street lights	90,000	86,750	3,250
Office rental and utilities	50,500	17,979	32,521
Capital outlay			
Landscape replacement	30,000	46,480	(16,480)
District office tenant finish and furniture	150,000	199,047	(49,047)
Vehicle purchase	35,000	23,920	11,080
Transfer to Replacement Reserve (5%)	58,796	-	58,796
Total expenditures	<u>2,034,296</u>	<u>2,001,619</u>	<u>32,677</u>
EXCESS OF EXPENDITURES OVER (UNDER) REVENUES	<u>(601,155)</u>	<u>(678,370)</u>	<u>(77,215)</u>
OTHER FINANCING SOURCES			
Transfer from Water Fund	565,000	400,000	(165,000)
Total other financing sources	<u>565,000</u>	<u>400,000</u>	<u>(165,000)</u>
NET CHANGE IN FUND BALANCE	(36,155)	(278,370)	(242,215)
FUND BALANCE - BEGINNING OF YEAR	<u>38,083</u>	<u>278,860</u>	<u>240,777</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,928</u>	<u>\$ 490</u>	<u>\$ (1,438)</u>

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

MERIDIAN SERVICE METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2016

	Water Fund	Sewer Fund	Total
ASSETS			
Current assets:			
Due from other funds	\$ 1,873,852	\$ 10,656	\$ 1,884,508
Accounts receivable - user fees	144,798	100,797	245,595
Accounts receivable - other	363,359	92,245	455,604
Total current assets	2,382,009	203,698	2,585,707
Capital assets:			
Capital assets, not being depreciated	257,085	-	257,085
Capital assets, being depreciated	28,086,127	15,166,670	43,252,797
Total capital assets	28,343,212	15,166,670	43,509,882
Less accumulated depreciation	(9,784,246)	(4,406,257)	(14,190,503)
Total capital assets (net of accumulated depreciation)	18,558,966	10,760,413	29,319,379
Total assets	\$ 20,940,975	\$ 10,964,111	\$ 31,905,086
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 251,992	\$ 160,248	\$ 412,240
Facility fees payables - Meridian Ranch Metropolitan District	42,000	42,000	84,000
Noncurrent liabilities :			
Developer advances payable and accrued interest	27,810,919	3,387,902	31,198,821
Total liabilities	28,104,911	3,590,150	31,695,061
NET POSITION (DEFICIT)			
Invested in capital assets, net of related debt	(9,251,953)	7,372,511	(1,879,442)
Unrestricted	2,088,017	1,450	2,089,467
Total net position (deficit)	(7,163,936)	7,373,961	210,025
TOTAL LIABILITIES AND NET POSITION	\$ 20,940,975	\$ 10,964,111	\$ 31,905,086

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

MERIDIAN SERVICE METROPOLITAN DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended December 31, 2016

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES			
Service charges	\$ 1,567,939	\$ 868,898	\$ 2,436,837
Meter services	110,675	-	110,675
Total operating revenues	<u>1,678,614</u>	<u>868,898</u>	<u>2,547,512</u>
OPERATING EXPENSES			
Cost of services			
Water operations	525,582	-	525,582
Sewer operations	-	370,687	370,687
Lift station operations	-	133,503	133,503
Engineering	90,441	23,360	113,801
Permits	600	-	600
Repairs and maintenance	206,676	236,722	443,398
Administrative and general expenses			
Accounting and management	139,270	28,738	168,008
Insurance	47,069	14,073	61,142
Legal	117,992	9,674	127,666
Miscellaneous	15,115	14,327	29,442
Depreciation	945,239	505,555	1,450,794
Loss on disposal of assets	27,859	-	27,859
Total operating expenses	<u>2,115,843</u>	<u>1,336,639</u>	<u>3,452,482</u>
OPERATING LOSS	<u>(437,229)</u>	<u>(467,741)</u>	<u>(904,970)</u>
NONOPERATING REVENUES AND (EXPENSES)			
Reimbursed expenditures	1,538	67,888	69,426
Facilities fees - Meridian Ranch Metropolitan District	1,610,000	1,610,000	3,220,000
Facilities fees - Latigo Trail	318,200	-	318,200
Facilities fees - Sterling Ranch	-	569,500	569,500
Interest expense - Developer advances	(962,022)	(72,902)	(1,034,924)
Facilities fees reimbursement - IGA Meridian Ranch	(1,582,000)	(1,582,000)	(3,164,000)
Interest income - Latigo Trail agreement	15,000	-	15,000
Facilities fees reimbursement - IGA Latigo Trails	(62,500)	-	(62,500)
Total nonoperating revenues (expenses)	<u>(661,784)</u>	<u>592,486</u>	<u>(69,298)</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	<u>(1,099,013)</u>	<u>124,745</u>	<u>(974,268)</u>
OTHER FINANCING USES			
Transfer to General Fund	(400,000)	-	(400,000)
Transfer to Capital Fund	-	(880,000)	(880,000)
Total other financing uses	<u>(400,000)</u>	<u>(880,000)</u>	<u>(1,280,000)</u>
CHANGE IN NET POSITION	<u>(1,499,013)</u>	<u>(755,255)</u>	<u>(2,254,268)</u>
NET POSITION - BEGINNING OF YEAR	<u>(5,664,923)</u>	<u>8,129,216</u>	<u>2,464,293</u>
NET POSITION - END OF YEAR	<u>\$ (7,163,936)</u>	<u>\$ 7,373,961</u>	<u>\$ 210,025</u>

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

**MERIDIAN SERVICE METROPOLITAN DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended December 31, 2016**

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,650,784	\$ 1,197,644	\$ 2,848,428
Payments to vendors	(1,138,739)	(976,148)	(2,114,887)
Net cash provided by operating activities	<u>512,045</u>	<u>221,496</u>	<u>733,541</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Reimbursed expenditures	(361,821)	32,504	(329,317)
Facilities fees - Meridian Ranch Metropolitan District	1,610,000	1,610,000	3,220,000
Facilities fees - Sterling Ranch	318,200	569,500	887,700
Interest income - Latigo Trails	15,000	-	15,000
Transfers to other funds	(400,000)	-	(400,000)
Loss on disposal of assets	27,859	-	27,859
Acquisition of capital assets	(105,283)	-	(105,283)
Facilities fees paid -IGA Latigo	(62,500)	(880,000)	(942,500)
Facilities fees paid- IGA Meridian Ranch	(1,553,500)	(1,553,500)	(3,107,000)
Net cash used in capital and related financing activities	<u>(512,045)</u>	<u>(221,496)</u>	<u>(733,541)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	-	-	-
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	-	-	-
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Net loss from operations	\$ (437,229)	\$ (467,741)	\$ (904,970)
Adjustments to reconcile net loss from operations to net cash provided by operating activities:			
Depreciation	945,239	505,555	1,450,794
Effects of changes in operating assets and liabilities:			
Increase in amount due from other funds	(25,229)	333,620	308,391
Increase in accounts receivable	(2,601)	(4,874)	(7,475)
Increase (decrease) in accounts payable	31,865	(145,064)	(113,199)
Net cash provided by operating activities	<u>\$ 512,045</u>	<u>\$ 221,496</u>	<u>\$ 733,541</u>

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

MERIDIAN SERVICE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1 – DEFINITION OF REPORTING ENTITY

Meridian Service Metropolitan District (the District or Meridian Service), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized on May 5, 1998 concurrently with Meridian Ranch Metropolitan District (collectively, the Districts) to provide water and wastewater service, street improvements, safety protection, parks and recreation facilities, drainage, landscape, mosquito control, transportation and television relay for public and private purposes by any available means. The Districts also have limited fire protection powers in a cooperative manner with Falcon Fire Protection District. The District is intended to be the operating district related to Meridian Ranch Metropolitan District (Meridian Ranch), the financing district (see Note 9).

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. For the most part, the effect of interfund activity has been removed from these statements. Both statements distinguish between governmental activities, which normally are supported by taxes and intergovernmental revenues, and business type activities, which rely to a significant extent on fees and charges for support.

The statement of net position reports all financial and capital resources of the District. The difference between the assets and liabilities of the District 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

**MERIDIAN SERVICE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Separate financial statements are provided for the governmental funds and proprietary funds. Major individual governmental and enterprise 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.

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 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 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:

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 Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of major capital equipment and facilities.

The District reports the following major proprietary funds:

The Water Fund accounts for the water operations that are financed and operated in a manner where the intent of the District is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Sewer Fund accounts for the sewer operations that are financed and operated in a manner where the intent of the District is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

MERIDIAN SERVICE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balances

The District's governmental fund balances may consist of five classifications based on the relative strength of spending constraints:

Non-spendable fund balance – The portion of fund balance that cannot be spent because it is either not in spendable form (such as inventory) or is legally or contractually required to be maintained intact.

Restricted fund balance – The portion of fund balance constrained to being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions or enabling legislation.

Committed fund balance – The portion of fund balance constrained for specific purposes according to limitations imposed by the District's highest level of decision making authority, the Board of Directors prior to the end of the current fiscal year. 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 above criteria.

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

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.

For the year ended December 31, 2016, supplementary appropriations approved by the District modified the appropriation from \$2,771,183 to \$3,294,238 in the Sewer Fund.

MERIDIAN SERVICE METROPOLITAN DISTRICT
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.

Cash Equivalents

For purposes of the statement of cash flows, the District considers cash deposits and highly liquid investments (included restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

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 revenue in the year they are levied and measurable. The deferred property tax revenues are recorded as revenue in the year they are available or collected.

Capital Assets

Capital assets, which include property, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, water and sewer facilities and similar items), are reported in the applicable governmental or business-type 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Capital assets which are anticipated to be conveyed to other governmental entities are recorded as construction in progress, and are not included in the calculation of invested in capital assets, net of related debt component of the District's net assets.

**MERIDIAN SERVICE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The costs of normal maintenance and repairs that do not add to the value of the asset 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. Depreciation expense has been computed using the straight-line method over the following estimated economic useful lives:

Park and recreation facilities	40 years
Water facilities	30 years
Sewer facilities	30 years
Vehicles and equipment	5–15 years

Facilities Fees

A water tap fee and a sewer tap fee per single family equivalent unit are charged against properties within the District. The facilities fee is due at the time of issuance of a building permit.

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 cash equivalents	\$ 1,335,542
Total cash and cash equivalents	<u>\$ 1,335,542</u>

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

Deposits with financial institutions	\$ 416,205
Investments - COLOTRUST	<u>919,337</u>
Total cash and investments	<u>\$ 1,335,542</u>

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.

**MERIDIAN SERVICE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

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 \$573,102 and a carrying balance of \$416,205.

Investments

The District has not adopted a formal investment policy, however, the District follows state statutes regarding investments.

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

- Obligations of the United States and certain U.S. government agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market mutual funds
- Guaranteed investment contracts
- * Local government investment pools

The District generally limits its concentration of investments to those noted with an asterisk (*) above, which are believed to have minimal credit risk; minimal interest rate risk and no foreign currency risk.

The local government investment pools include the Colorado Local Government Liquid Assets Trust (ColoTrust) rated AAAM by S&P Global Ratings.

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

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
Colorado Liquid Asset Trust	Less than one year	\$919,337

COLOTRUST

During 2016, the District invested in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commission administers and enforces all State statutes governing Colotrust. Colotrust operates similarly to a money market fund and each share is equal in value to \$1.00.

MERIDIAN SERVICE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Colotrust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities 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. A designated custodial bank serves as custodian for the Colotrust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for Colotrust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by Colotrust. As of December 31, 2016, the District has \$919,337 invested in COLOTRUST PLUS+. ColoTrust is rated AAAM by S&P Global Ratings.

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 (PFM funds Governmental Select series) and 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. Colorado State statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest. The District has invested in COLOTRUST, an external investment pool that records its investments at fair value and is categorized as a level 2 investment.

MERIDIAN SERVICE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 4 – CAPITAL ASSETS

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

Governmental activities:	Balance at December 31, 2015	Additions	Transfers	Disposals/ Retirements	Balance at December 31, 2016
Capital assets being depreciated:					
Park and recreation facilities	\$ 8,184,971	\$ 924,812	\$ 4,463,527	\$ -	\$ 13,573,310
Vehicles and equipment	37,900	23,920	-	-	61,820
Total capital assets being depreciated	<u>8,222,871</u>	<u>948,732</u>	<u>4,463,527</u>	<u>-</u>	<u>13,635,130</u>
Less accumulated depreciation for:					
Park and recreation facilities	2,254,309	343,064	-	-	2,597,373
Vehicles and equipment	11,213	9,522	-	-	20,735
Total accumulated depreciation	<u>2,265,522</u>	<u>352,586</u>	<u>-</u>	<u>-</u>	<u>2,618,108</u>
Total capital assets being depreciated, net	<u>5,957,349</u>	<u>596,146</u>	<u>4,463,527</u>	<u>-</u>	<u>11,017,022</u>
Capital assets not being depreciated:					
Construction in progress	4,463,527	166,504	(4,463,527)	-	166,504
Total capital assets, not being depreciated	<u>4,463,527</u>	<u>166,504</u>	<u>(4,463,527)</u>	<u>-</u>	<u>166,504</u>
Governmental activities capital assets, net	<u>\$ 10,420,876</u>	<u>\$ 762,650</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,183,526</u>
Business-type activities:	Balance at December 31, 2015	Additions	Transfers	Disposals/ Retirements	Balance at December 31, 2016
Capital assets being depreciated:					
Water system facilities	\$ 28,015,667	\$ 105,283	\$ -	\$ (34,823)	\$ 28,086,127
Sewer system facilities	15,166,670	-	-	-	15,166,670
Total capital assets being depreciated	<u>43,182,337</u>	<u>105,283</u>	<u>-</u>	<u>(34,823)</u>	<u>43,252,797</u>
Less accumulated depreciation for:					
Water system facilities	8,845,971	945,239	-	(6,964)	9,784,246
Sewer system facilities	3,900,702	505,555	-	-	4,406,257
Total accumulated depreciation	<u>12,746,673</u>	<u>1,450,794</u>	<u>-</u>	<u>(6,964)</u>	<u>14,190,503</u>
Total capital assets being depreciated, net	<u>30,435,664</u>	<u>(1,345,511)</u>	<u>-</u>	<u>(27,859)</u>	<u>29,062,294</u>
Capital assets not being depreciated:					
Water purchase	257,085	-	-	-	257,085
Total capital assets not being depreciated	<u>257,085</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>257,085</u>
Business-type activities capital assets, net	<u>\$ 30,692,749</u>	<u>\$ (1,345,511)</u>	<u>\$ -</u>	<u>\$ (27,859)</u>	<u>\$ 29,319,379</u>

**MERIDIAN SERVICE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs of the District as follows:

Governmental activities:	
Vehicles and equipment	\$ 9,522
Park and recreation facilities	<u>343,064</u>
Total depreciation expense – Governmental activities	<u>\$ 352,586</u>
Business-type activities:	
Water	\$ 945,239
Sewer	<u>505,555</u>
Total depreciation expense – Business-type activities	<u>\$ 1,450,794</u>

NOTE 5 – LONG-TERM OBLIGATIONS

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

	Balance at December 31, 2015	Additions	Reductions	Balance at December 31, 2016	Due Within One Year
Governmental activities:					
Developer advances	\$ 9,537,841	\$ 1,522,000	\$ -	\$ 11,059,841	\$ -
Interest accrued - Developer advances	<u>4,562,881</u>	<u>523,026</u>	<u>(1,636)</u>	<u>5,084,271</u>	<u>-</u>
Total governmental activities	<u>14,100,722</u>	<u>2,045,026</u>	<u>(1,636)</u>	<u>16,144,112</u>	<u>-</u>
Business-type activities:					
Developer advances	20,641,929	-	-	20,641,929	-
Interest accrued - Developer advances	<u>9,521,968</u>	<u>1,034,924</u>	<u>-</u>	<u>10,556,892</u>	<u>-</u>
Total business activities	<u>30,163,897</u>	<u>1,034,924</u>	<u>-</u>	<u>31,198,821</u>	<u>-</u>
	<u>\$ 44,264,619</u>	<u>\$ 3,079,950</u>	<u>\$ (1,636)</u>	<u>\$ 47,342,933</u>	<u>\$ -</u>

Developer Advances

On March 20, 2001, the District entered into a Reimbursement Agreement with GTL Development, Inc. (Developer) to reimburse the Developer for advances made on behalf of the District for operations, maintenance and capital infrastructure costs, along with accrued interest from the date of receipt of the advance at the rate of 5%.

As of December 31, 2016, outstanding Developer advances totaled \$31,701,770 and accumulated accrued interest totaled \$15,641,163.

MERIDIAN SERVICE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

Authorized Debt

On November 7, 2000, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$170,000,000 at an interest rate not to exceed 16% per annum.

At December 31, 2016, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	<u>Amount Authorized on November 7, 2000</u>	<u>Remaining at December 31, 2016</u>
Street improvements	\$ 29,435,000	\$ 29,435,000
Water	35,765,000	35,765,000
Sanitation	7,320,000	7,320,000
Safety protection	1,740,000	1,740,000
Park and recreation	7,620,000	7,620,000
Mosquito control	1,305,000	1,305,000
Television relay and translation	1,055,000	1,055,000
Public transportation	260,000	260,000
Operations	500,000	500,000
Refunding	85,000,000	85,000,000
	<u>\$ 170,000,000</u>	<u>\$ 170,000,000</u>

NOTE 6 – NET POSITION

The District's net position consists of three components – invested in capital assets, net of related debt, restricted and unrestricted. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2016, the District had a deficit investment in capital assets, net of related debt of \$6,840,028 calculated as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Invested in capital assets, net of related debt:			
Capital assets, net	\$ 11,183,526	\$ 29,319,379	\$ 40,502,905
Noncurrent portion of long-term obligations	(16,144,112)	(31,198,821)	(47,342,933)
Invested in capital asset, net of related debt	<u>\$ (4,960,586)</u>	<u>\$ (1,879,442)</u>	<u>\$ (6,840,028)</u>

Restricted assets include net 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.

**MERIDIAN SERVICE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 6 – NET POSITION (CONTINUED)

The District's unrestricted net position at December 31, 2016 totaled \$1,570,965 comprised of (\$518,502) in the governmental activities and \$2,089,467 in the business-type activities. The deficit amount in the governmental activities is a result of the District being responsible for the repayment of debt for public improvements which were conveyed to other governmental entities and which costs were removed from the District's financial records.

NOTE 7 – FUND EQUITY

At December 31, 2016, the District reported the following classifications of fund equity.

Nonspendable Fund Balance

The nonspendable fund balance in the General Fund in the amount of \$92,662 represent prepaid expenditures for the ensuing future year and is therefore not in a spendable form.

Restricted Fund Balance

The restricted fund balance in the General Fund in the amount of \$61,000 is comprised of the Emergency Reserves that have been provided for by Article X, Section 20 of the Constitution of the State of Colorado (see Note 13).

The restricted fund balance in the General Fund in the amount of \$63,115 is comprised of Conservation Trust Funds and is to be used exclusively for parks and recreation.

Capital Projects Fund

The District anticipates funding the deficit balance of \$394,877 in the Capital Projects Fund through receipt of future developer advances.

NOTE 8 – ECONOMIC DEPENDENCY

The District has not yet established a revenue base sufficient to pay operational expenditures. Until an independent revenue base is established, continuation of operations in the District will be dependent upon funding by the Developer.

NOTE 9 – INTERGOVERNMENTAL AGREEMENT

Meridian Service Agreement

The District entered into an Intergovernmental Agreement with Meridian Ranch on July 17, 2001 to set forth rights and obligations of the Districts pursuant to their respective service plans. The Districts agree that the facilities described in the service plans are needed by the District and that such facilities will benefit the residents and property owners in both Districts in terms of cost, quality and level of service.

**MERIDIAN SERVICE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 9 – INTERGOVERNMENTAL AGREEMENT (CONTINUED)

Each of the Districts agree that the District will own (subject to potential transfer to other governmental entities or authorities) operate, maintain and construct facilities benefiting both Districts, and that Meridian Ranch will contribute to the costs of construction, operation, and maintenance of such facilities.

In this regard, Meridian Ranch agreed to issue limited tax general obligation bonds, or if bonds are not issued, Meridian Ranch has agreed to pledge its ad valorem tax revenue at the times and in the amounts required to meet its obligations subject to a 50.000 mill cap (2001 equivalency). If bonds are issued, Meridian Ranch will transfer the net proceeds of the bonds to the District. Any and all bond proceeds received by the District will be applied to the payment of public infrastructure costs or will be utilized to pay all or a portion of Meridian Ranch’s outstanding bonds. To assist in the repayment of Meridian Ranch’s subordinate bonds, the District may transfer revenue collected from facilities fees and/or user fees to Meridian Ranch. The water taps from Latigo Trails (described in Note 10) are not included in fees transferred to Meridian Ranch.

During 2016, the District transferred a total of \$3,164,000 (226 water/ sewer taps at \$14,000 each) to Meridian Ranch to assist in the repayment of the subordinate bonds issued by Meridian Ranch.

NOTE 10 – LATIGO TRAILS AGREEMENT

Latigo Trails Agreement

The District entered into a water service agreement (Water Agreement) dated August 1, 2001 which was subsequently assigned to Falcon Latigo, LLC (Falcon Latigo) effective June 12, 2009. Under the terms of the assignment, Falcon Latigo will pay for the balance of the Water Agreement water taps pursuant to the amended Latigo Trails Water Agreement minimum water tap take down and payment schedule as follows:

<u>Due Date</u>	<u>Number of Water Taps</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Due</u>
12/31/2017	25	250,000	15,000	265,000
12/31/2018	5	50,000	3,000	53,000
	<u>30</u>	<u>\$ 300,000</u>	<u>\$ 18,000</u>	<u>\$ 318,000</u>

The fees set forth in the table above are based on a tap fee of \$10,000 per tap. In the event that the District increases its tap fees, the \$10,000 tap fee set forth in the table above will increase proportionally. In 2016, the tap fee increased to \$12,728.

The District has entered into an agreement to reimburse RMBG LLC #1 \$2,500 per water tap received under the Water Agreement.

During 2016, the District received \$318,200 from Falcon Latigo pursuant to the Water Agreement and reimbursed RMBG LLC #1 \$62,500.

MERIDIAN SERVICE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 11 – RELATED PARTIES

Some of the members of the Board of Directors are affiliated with or are employees of developers of land within the District. These members may have conflicts of interest with respect to certain transactions which come before the Board.

NOTE 12 – 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 13 – TAX, SPENDING AND DEBT LIMITATION

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.

On November 7, 2000, a majority of the District's electors authorized the District to collect and spend or retain in a reserve any and all revenue annually from any revenue source other than ad valorem taxes.

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 and qualifications as an Enterprise will require judicial interpretation.

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

SUPPLEMENTARY INFORMATION

MERIDIAN SERVICE METROPOLITAN DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE (DEFICIT)
BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
Year Ended December 31, 2016

	Original Budgeted Amounts	Actual	Variance with Budget - Positive (Negative)
REVENUES			
Developer advances	\$ 2,200,000	\$ 1,522,000	\$ (678,000)
IGA revenue - Meridian Ranch Metropolitan District (CTF)	15,476	22,923	7,447
Interest	-	2,044	2,044
Reimbursed expenditure	-	160,000	160,000
Total revenues	<u>2,215,476</u>	<u>1,706,967</u>	<u>(508,509)</u>
EXPENDITURES			
Accounting and management	-	15,474	(15,474)
Legal	10,000	-	10,000
Developer reimbursement	990,000	-	990,000
Contingency	90,000	-	90,000
Capital projects			
Recreation center design and construction	1,800,000	569,028	1,230,972
Guthrie inline booster station	518,000	5,095	512,905
Indoor pool equipment	62,500	110,257	(47,757)
SCADA upgrade	23,500	-	23,500
Filter plant expansion	263,500	161,409	102,091
Total expenditures	<u>3,757,500</u>	<u>861,263</u>	<u>2,896,237</u>
EXCESS OF EXPENDITURES OVER (UNDER)			
REVENUES	<u>(1,542,024)</u>	<u>845,704</u>	<u>2,387,728</u>
OTHER FINANCING SOURCES			
Transfer from Sewer Fund	990,000	880,000	(110,000)
Total other financing sources	<u>990,000</u>	<u>880,000</u>	<u>(110,000)</u>
NET CHANGE IN FUND BALANCE	(552,024)	1,725,704	2,277,728
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	<u>573,858</u>	<u>(2,120,581)</u>	<u>(2,694,439)</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ 21,834</u>	<u>\$ (394,877)</u>	<u>\$ (416,711)</u>

MERIDIAN SERVICE METROPOLITAN DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUNDS AVAILABLE
BUDGET AND ACTUAL (BUDGETARY BASIS)
WATER FUND
Year Ended December 31, 2016

	Original Budgeted Amounts	Actual	Variance with Final Budget - Positive (Negative)
REVENUES			
Water fees	\$ 1,500,000	\$ 1,567,939	\$ -
Meter service	54,625	110,675	-
Facilities fees - Meridian Ranch Metropolitan District	805,000	1,610,000	-
Facilities fees - Latigo Trail	306,828	318,200	-
Interest income - Latigo Trail	15,000	15,000	-
Reimbursed expenditures	-	1,538	-
Total revenues	<u>2,681,453</u>	<u>3,623,352</u>	<u>-</u>
EXPENDITURES			
General and administrative			
Accounting and management	170,000	139,270	730
Consulting	10,000	-	-
Insurance	50,000	47,069	431
Legal	175,000	117,992	508
Office expense	18,000	9,181	319
Miscellaneous	15,000	5,934	66
Operations and maintenance			
Engineering	80,000	90,441	59
Facilities fees paid - IGA Meridian Ranch Metropolitan District	805,000	1,582,000	28,000
Latigo reimbursement	62,500	62,500	-
Permits and fees	5,000	600	-
Repairs and maintenance	200,000	206,676	324
Water operations	450,000	525,582	418
Capital projects			
Handheld meter reading system	7,500	-	1,000
Pump	-	105,283	217
Other			
Transfer to Replacement Reserve (5%)	75,000	-	78,397
Contingency	620,000	-	-
Total expenditures	<u>2,743,000</u>	<u>2,892,528</u>	<u>110,469</u>
EXCESS OF REVENUE OVER EXPENDITURES	<u>(61,547)</u>	<u>730,824</u>	<u>110,469</u>
OTHER FINANCING USES			
Transfer to General Fund	<u>(565,000)</u>	<u>(400,000)</u>	<u>-</u>
Total other financing uses	<u>(565,000)</u>	<u>(400,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>(626,547)</u>	<u>330,824</u>	<u>110,469</u>
FUNDS AVAILABLE - BEGINNING OF YEAR	<u>641,886</u>	<u>1,757,193</u>	<u>-</u>
FUNDS AVAILABLE - END OF YEAR	<u>\$ 15,339</u>	<u>\$ 2,088,017</u>	<u>\$ 110,469</u>

Funds available at December 31, 2016 is computed as follows:

Current assets	\$ 2,382,009
Current liabilities	(293,992)
	<u>\$ 2,088,017</u>

**MERIDIAN SERVICE METROPOLITAN DISTRICT
RECONCILIATION OF BUDGETARY BASIS TO STATEMENT OF
REVENUES, EXPENSES AND CHANGE IN FUND NET POSITION
WATER FUND
Year Ended December 31, 2016**

Revenues (budgetary basis)	\$ 3,623,352
Revenues per Statement of Revenues, Expenses and Change in Fund Net Position	3,623,352
Expenditures (budgetary basis)	2,892,528
Other financing uses (budgetary basis)	400,000
Depreciation	945,239
Loss on disposal of assets	27,859
Capital outlay	(105,283)
Interest expense - Developer advances	962,022
Expenses per Statement of Revenues, Expenses and Change in Fund Net Position	5,122,365
Change in net assets per Statement of Revenues, Expenses and Change in Fund Net Position	\$ (1,499,013)

MERIDIAN SERVICE METROPOLITAN DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUNDS AVAILABLE
BUDGET AND ACTUAL (BUDGETARY BASIS)
SEWER FUND
Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Sewer fees	\$ 831,972	\$ 868,898	\$ 868,898	\$ -
Reimbursed expenditures	70,000	67,888	67,888	-
Facilities fees - Meridian Ranch Metropolitan District	805,000	1,610,000	1,610,000	-
Sterling Ranch	990,000	569,500	569,500	-
Total revenues	<u>2,696,972</u>	<u>3,116,286</u>	<u>3,116,286</u>	<u>-</u>
EXPENDITURES				
General and administrative				
Accounting and management	35,000	28,738	28,738	-
Insurance	15,000	14,100	14,073	27
Legal	20,000	10,000	9,674	326
Office expense	6,500	8,900	8,834	66
Miscellaneous	2,500	5,500	5,493	7
Operations and maintenance				
Engineering	25,000	23,400	23,360	40
Facilities fees paid - IGA Meridian Ranch				
Metropolitan District	805,000	1,582,000	1,582,000	-
Repairs and maintenance	95,000	237,000	236,722	278
Sewer operations	325,000	371,000	370,687	313
Lift station costs - shared	120,000	98,600	98,600	-
Lift station costs - Meridian Service Metropolitan District	150,000	35,000	34,903	97
Contingency	100,000	-	-	-
Total expenditures	<u>1,699,000</u>	<u>2,414,238</u>	<u>2,413,084</u>	<u>1,154</u>
EXCESS OF REVENUE OVER (UNDER)				
EXPENDITURES	<u>997,972</u>	<u>702,048</u>	<u>703,202</u>	<u>1,154</u>
OTHER FINANCING USES				
Transfer to Replacement Reserve (5%)	(41,599)	-	-	-
Transfer to Special Sewer Reserve Fund	(40,584)	-	-	-
Transfer to Capital Projects Fund	(990,000)	(880,000)	(880,000)	-
Total other financing uses	<u>(1,072,183)</u>	<u>(880,000)</u>	<u>(880,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(74,211)	(177,952)	(176,798)	1,154
FUNDS AVAILABLE - BEGINNING OF YEAR	<u>88,326</u>	<u>178,248</u>	<u>178,248</u>	<u>-</u>
FUNDS AVAILABLE - END OF YEAR	<u>\$ 14,115</u>	<u>\$ 296</u>	<u>\$ 1,450</u>	<u>\$ 1,154</u>

Funds available at December 31, 2016 is computed as follows:

Current assets	\$ 203,698
Current liabilities	(202,248)
	<u>\$ 1,450</u>

**MERIDIAN SERVICE METROPOLITAN DISTRICT
RECONCILIATION OF BUDGETARY BASIS TO STATEMENT OF
REVENUES, EXPENSES AND CHANGE IN FUND NET POSITION
SEWER FUND
Year Ended December 31, 2016**

Revenues (budgetary basis)	\$ 3,116,286
Revenues per Statement of Revenues, Expenses and Change in Fund Net Position	3,116,286
Expenditures (budgetary basis)	2,413,084
Other financing uses - budgetary basis	880,000
Depreciation	505,555
Interest expense - Developer advances	72,902
Expenses per Statement of Revenues, Expenses and Change in Fund Net Position	3,871,541
Change in net assets per Statement of Revenues, Expenses and Change in Fund Net Position	\$ (755,255)