

SOUTH MERIDIAN METROPOLITAN DISTRICT
Douglas 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
South Meridian Metropolitan District
Douglas County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of South Meridian Metropolitan District (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 South Meridian Metropolitan District, 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.

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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.

Darner Higgs & Associates, PC

Lakewood, Colorado
June 21, 2017

BASIC FINANCIAL STATEMENTS

**SOUTH MERIDIAN METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
December 31, 2016**

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 142,731
Cash and investments - Restricted	236,985
Receivable - County Treasurer	3,510
Property tax receivable	463,159
Capital assets, not being depreciated	
Parks and open space	857,007
Total assets	<u>1,703,392</u>
LIABILITIES	
Due to Meridian Metropolitan District	186,802
Payroll tax liability	352
Accrued bond interest payable	10,425
Due to County	193
Noncurrent liabilities	
Due within one year	145,000
Due in more than one year	4,685,000
Total liabilities	<u>5,027,772</u>
DEFERRED INFLOWS OF RESOURCES	
Property tax revenue	463,159
Total property tax revenue	<u>463,159</u>
NET POSITION	
Restricted for:	
Emergency reserves	4,400
Debt service	160,888
Unrestricted	(3,952,827)
Total net position	<u>\$ (3,787,539)</u>

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

**SOUTH MERIDIAN METROPOLITAN DISTRICT
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	\$ 145,861	\$ -	\$ -	\$ -	\$ (145,861)
Interest on long-term debt and related costs	279,087	-	-	-	(279,087)
	<u>\$ 424,948</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(424,948)</u>
General revenues:					
Property taxes					451,153
Specific ownership taxes					41,507
Net investment income					11,301
Total general revenues					<u>503,961</u>
Change in net position					79,013
Net position - Beginning					(3,866,552)
Net position - Ending					<u>\$ (3,787,539)</u>

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

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

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and investments	\$ 142,731	\$ -	\$ -	\$ 142,731
Cash and investments - Restricted	4,400	161,602	70,983	236,985
Receivable - County Treasurer	1,031	2,479	-	3,510
Property taxes receivable	132,300	330,859	-	463,159
TOTAL ASSETS	\$ 280,462	\$ 494,940	\$ 70,983	\$ 846,385
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Due to Meridian Metropolitan District	\$ 143,410	\$ 3,000	\$ 40,392	\$ 186,802
Payroll tax liability	352	-	-	352
Due to County	-	193	-	193
Total liabilities	143,762	3,193	40,392	187,347
 DEFERRED INFLOWS OF RESOURCES				
Property tax revenue	132,300	330,859	-	463,159
Total deferred inflows of resources	132,300	330,859	-	463,159
 FUND BALANCES				
Restricted for:				
Emergency reserves	4,400	-	-	4,400
Debt service	-	160,888	-	160,888
Capital projects	-	-	30,591	30,591
Assigned to:				
Subsequent year's expenditures	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	4,400	160,888	30,591	195,879
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	 \$ 280,462	 \$ 494,940	 \$ 70,983	

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

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

857,007

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

Accrued bond interest payable

(10,425)

Bonds payable

(4,830,000)

Net position of governmental activities

\$ (3,787,539)

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

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

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 132,784	\$ 318,369	\$ -	\$ 451,153
Specific ownership taxes	12,193	29,314	-	41,507
Net investment income	278	10,752	271	11,301
Total revenues	<u>145,255</u>	<u>358,435</u>	<u>271</u>	<u>503,961</u>
EXPENDITURES				
County Treasurer's fees	1,997	4,784	-	6,781
Board support	4,900	-	-	4,900
Miscellaneous	102	-	-	102
Operating expenses	138,487	-	-	138,487
Payroll tax expense	375	-	-	375
Debt service				
Bond interest - Series 2003B & 2004	-	22,220	-	22,220
Bond interest - Series 2016	-	46,935	-	46,935
Bond principal - Series 2016	-	150,000	-	150,000
Cost of issuance	-	94,215	-	94,215
Paying agent fees	-	3,000	-	3,000
Capital projects				
Miscellaneous expenses	-	-	102	102
Capital projects	-	-	40,392	40,392
Total expenditures	<u>145,861</u>	<u>321,154</u>	<u>40,494</u>	<u>507,509</u>
OTHER FINANCING SOURCES (USES)				
Bond issuance	-	4,980,000	-	4,980,000
Payment to refunding agent	-	(7,636,020)	-	(7,636,020)
Total other financing sources (uses)	<u>-</u>	<u>(2,656,020)</u>	<u>-</u>	<u>(2,656,020)</u>
NET CHANGE IN FUND BALANCES	(606)	(2,618,739)	(40,223)	(2,659,568)
FUND BALANCES - BEGINNING OF YEAR	<u>5,006</u>	<u>2,779,627</u>	<u>70,814</u>	<u>2,855,447</u>
FUND BALANCES - END OF YEAR	<u>\$ 4,400</u>	<u>\$ 160,888</u>	<u>\$ 30,591</u>	<u>\$ 195,879</u>

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

**SOUTH MERIDIAN METROPOLITAN DISTRICT
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	\$ (2,659,568)
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Governmental funds report capital outlays as expenditures. In the statement of activities, capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful life of the asset. During the current period, there were no depreciable assets. Therefore, this is the amount of capital outlay in the current period.

Current year capital outlay	40,392
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The issuance of long-term debt (e.g., bonds, 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 bond principal payments - Series 2003B & 2004	7,536,000
Current year bond principal payment - Series 2016	150,000
Bond issuance	(4,980,000)

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 bond interest - Change in liability	<u>(7,811)</u>
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Changes in net position of governmental activities	<u><u>\$ 79,013</u></u>
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These financial statements should be read only in connection with
the accompanying notes to financial statements.

**SOUTH MERIDIAN METROPOLITAN DISTRICT
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2016**

	<u>Budget</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 132,525	\$ 132,525	\$ 132,784	\$ 259
Specific ownership taxes	11,930	11,930	12,193	263
Net investment income	300	800	278	(522)
Miscellaneous income	-	-	-	-
Total revenues	<u>144,755</u>	<u>145,255</u>	<u>145,255</u>	<u>-</u>
EXPENDITURES				
Country Treasurer's fees	1,988	1,988	1,997	(9)
Board support	6,500	6,500	4,900	1,600
Miscellaneous		200	102	98
Operating expenses	136,081	136,676	138,487	(1,811)
Payroll tax expense	497	497	375	122
Total expenditures	<u>145,066</u>	<u>145,861</u>	<u>145,861</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(311)	(606)	(606)	-
FUND BALANCES - BEGINNING OF YEAR	<u>4,711</u>	<u>5,006</u>	<u>5,006</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 4,400</u>	<u>\$ 4,400</u>	<u>\$ 4,400</u>	<u>\$ -</u>

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

SOUTH MERIDIAN METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 - DEFINITION OF REPORTING ENTITY

South Meridian Metropolitan District (the District), a quasi-municipal corporation and political sub-division of the State of Colorado, was organized by order and decree of the District Court for Douglas County on November 12, 1999, 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 Douglas County, Colorado. The District was organized to assist in the funding, integration, and coordination of metropolitan district services and facilities within and without its boundaries, which consist of approximately 200 acres. The basic charge of the District is to pay debt and fund operations per the Regional Facilities Agreement (see Note 9). It will derive its revenue principally from general property taxes.

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

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

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 except for the fiduciary activities. 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.

**SOUTH MERIDIAN METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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 60 days after the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. 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.

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

SOUTH MERIDIAN METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The District has amended its annual budget for the year ended December 31, 2016.

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.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items) are reported by the District. 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.

SOUTH MERIDIAN METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 net investment in capital assets.

The cost 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, if any, is computed using the straight-line method over the estimated economic useful lives.

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. Accordingly, the item, deferred property tax revenue, is reported in the governmental funds balance sheet and in the statement of net position. 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.

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.

**SOUTH MERIDIAN METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *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	\$ 142,731
Cash and investments - Restricted	<u>236,985</u>
Total cash and investments	<u><u>\$ 379,716</u></u>

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

Deposits with financial institutions	\$ 27,841
Investments	<u>351,875</u>
Total cash and investments	<u><u>\$ 379,716</u></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.

SOUTH MERIDIAN 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 and carrying balance of \$27,841.

Investments

The District has adopted a formal investment policy which 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
- . 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.

**SOUTH MERIDIAN METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

The District has invested in COLOTRUST, an external investment pool that records its investments at fair value and measures fair value using Level 2 inputs.

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

Investment	Maturity	Fair Value
Colorado Local Government Liquid Asset Trust (Colostrust)	Weighted average under 60 days	<u>\$ 351,875</u>

COLOTRUST

The District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust 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 Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust'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 the Trust. COLOTRUST is rated AAAM by Standard & Poor's.

NOTE 4 - CAPITAL ASSETS

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

	<u>Balance at December 31, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at December 31, 2016</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Landscaping and parks	\$ 756,302	\$ 40,392	\$ -	\$ 796,694
Sculptures	60,313	-	-	60,313
Total capital assets, not being depreciated	<u>\$ 816,615</u>	<u>\$ 40,392</u>	<u>\$ -</u>	<u>\$ 857,007</u>

**SOUTH MERIDIAN METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Upon completion, certain assets were transferred to Meridian Metropolitan District (Meridian Metro) pursuant to a Regional Facilities Agreement. Most other assets will be transferred to Douglas County for maintenance responsibilities upon completion and acceptance. The costs of all capital assets transferred to other governmental entities were removed from the District's financial records.

NOTE 5 - 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:

	Balance at December 31, 2015	Additions	Reductions	Balance at December 31, 2016	Due Within One Year
Governmental Activities:					
General obligation bonds payable					
2003B Bonds	\$ 4,747,000	\$ -	\$4,747,000	\$ -	\$ -
2004 Bonds	2,789,000	-	2,789,000	-	-
2016 Bonds	-	4,980,000	150,000	4,830,000	145,000
Total bonds payable	<u>\$ 7,536,000</u>	<u>\$4,980,000</u>	<u>\$7,686,000</u>	<u>\$ 4,830,000</u>	<u>\$ 145,000</u>

General Obligation Bonds

\$7,197,000 Limited Tax General Obligation Refunding Bonds, Series 2003B, dated November 14, 2003, consists of bonds without coupons in authorized minimum denominations of \$500,000 with a LIBOR variable interest rate, not to exceed 6.5%, annual interest due semi-annually on June 1 and December 1, beginning December 1, 2004, and principal due on December 1, 2019. The bonds are subject to prior redemption by the District. The entire bond issue was sold to a related party. The LIBOR rate at December 31, 2016, was 0.9342%.

The Series 2003B bonds were advance refunded and defeased with the issuance of the Series 2016 bonds.

\$2,800,000 Limited Tax General Obligation Bonds, Series 2004, dated October 5, 2004, consists of bonds without coupons in authorized minimum denominations of \$500,000 with a LIBOR variable interest rate, not to exceed 6.5%, due semi-annually on June 1 and December 1, beginning June 1, 2005, and principal due on December 1, 2020. The bonds are subject to prior redemption by the District. The entire bond issue was sold to a related party. The LIBOR rate at December 31, 2016, was 0.9342%.

**SOUTH MERIDIAN METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

The bonds were secured and payable from the Pledged Revenue consisting of monies derived by the District from the following sources, net of any collection costs: 1) property taxes from the Limited Mill Levy, net of collection and Operations and Maintenance costs, 2) specific ownership taxes attributable to the Limited Mill Levy, and 3) any other legally available monies which the District determines to be treated as Pledged Revenue. Limited Mill Levy means an ad valorem mill levy imposed upon all taxable property in the District each year in an amount sufficient to pay the Operations and Maintenance Expenses and the principal and interest on the bonds as the same become due and payable, provided that the mill levy shall not exceed 50 mills. The District's total mill levy for 2016 collection was 49.000.

The Series 2004 bonds were refunded and paid with the issuance of the Series 2016 bonds.

\$4,980,000 General Obligation Refunding Bonds, dated July 18, 2016, with interest of 2.59%, due annually through 2036. The Bonds have been issued by the District for the purpose of providing funds for refunding of the Series 2003B Bonds and Series 2004 Bonds. The Bonds are subject to redemption on any date prior to December 1, 2026, at the option of the District, in whole or in part, at a redemption price equal to the par amount thereof, plus a Prepayment Fee, plus accrued interest to the redemption date.

The estimated annual requirement to amortize the remaining bonds is as follows:

	Governmental Activities		
	Principal	Interest	Total
2017	\$ 145,000	\$ 125,097	\$ 270,097
2018	150,000	121,341	271,341
2019	170,000	117,457	287,457
2020	185,000	113,053	298,053
2021	190,000	108,262	298,262
2022-2026	1,090,000	462,445	1,552,445
2027-2031	1,315,000	309,764	1,624,764
2032-2036	1,585,000	126,004	1,711,004
	\$ 4,830,000	\$ 1,483,423	\$ 6,313,423

Refunding

With the issuance of the Series 2016 bonds, on July 18, 2016, the District advance refunded and defeased (debt legally satisfied) \$4,747,000 of the Series 2003B bonds dated November 14, 2003, with a LIBOR variable interest rate not to exceed 6.5% and refunded and paid \$2,789,000 of the Series 2004 bonds dated October 5, 2004, with a LIBOR variable interest rate not to exceed 6.5%. The defeased bonds are not considered a liability of the District since sufficient funds in the amount of \$7,640,785 were deposited with a trustee and invested in U.S. government securities for the purpose of paying the principal and interest of the defeased bonds until the call date, at which point the bonds will be repaid in its entirety from the remaining funds in the escrow account. The bonds were redeemed on December 1, 2016.

**SOUTH MERIDIAN METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

Authorized Debt

On November 2, 1999, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$40,000,000 at a maximum net effective interest rate not to exceed 15% per annum. At December 31, 2016, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	Authorized	Authorization Used					Authorization Remaining
	November 2, 1999	Series 1999 Bonds	Series 2000 Bonds	Series 2003A & 2003B Bonds	Series 2004 Bonds	Series 2016 Bonds	
Street improvements	\$ 7,000,000	\$ 1,200,000	\$ 3,214,000	\$ -	\$ 1,278,220	\$ -	\$ 1,307,780
Parks and recreation	3,000,000	500,000	1,265,000	-	658,420	-	576,580
Sewer	3,000,000	600,000	761,000	-	474,294	-	1,164,706
Water	3,000,000	600,000	1,230,000	-	389,066	-	780,934
Transportation	7,000,000	100,000	530,000	-	-	-	6,370,000
TV relay	2,000,000	-	-	-	-	-	2,000,000
Refunding	15,000,000	-	-	265,000	-	4,980,000	9,755,000
	<u>\$40,000,000</u>	<u>\$ 3,000,000</u>	<u>\$ 7,000,000</u>	<u>\$ 265,000</u>	<u>\$ 2,800,000</u>	<u>\$ 4,980,000</u>	<u>\$ 21,955,000</u>

In the future, the District may issue a portion or all of the remaining authorized but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District's service area.

NOTE 6 - NET POSITION

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

Restricted assets include net position 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:	
Emergency reserves	\$ 4,400
Debt service	160,888
Total restricted net position	<u>\$ 165,288</u>

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

**SOUTH MERIDIAN METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 7 - RELATED PARTY TRANSACTIONS

The Developer of the property within the District is Shea Colorado, LLC and its affiliates (Shea or Developer). Three of the five Board members of the District are employed by or provide services to a business or businesses that are involved with, may become involved with, or are directly and substantially affected by the activities of the District, and all Board members own real property that is located in the District. These relationships and ownerships, in certain circumstances, may give the appearance that conflicting interests could affect their official activities as Board members but as a general matter they do not disqualify them to serve as Board members. As and when required by law, each affected Board member files a written disclosure of any potential conflicts of interest with the District and the Colorado Secretary of State, and they refrain from voting on affected matters unless allowed by law.

The Developer, through various related entities, may perform certain maintenance and management functions for the District. The District did not incur any related costs directly to the Developer during 2016. However, amounts were paid to Meridian Metropolitan District pursuant to the Regional Facilities Agreement. Meridian Metropolitan District has contracted with the Developer to provide certain management and maintenance functions.

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 personnel; or natural disasters.

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 - REGIONAL FACILITIES AGREEMENT

The District entered into a Regional Facilities Agreement, dated January 1, 1999, with Meridian Metropolitan District (Meridian). The agreement calls for Meridian to provide operation and maintenance services to the District for all facilities, as well as construction and administrative services for the District. The District pays Meridian for the services according to terms outlined in the agreement. Also, according to the terms of the agreement, Meridian shall assume ownership of all facilities. The agreement remains in full force and effect until terminated by either party upon the provision of one year's written notice, provided however that the District remains liable for obligations of the District existing at the time of termination. The amount due to Meridian as of December 31, 2016, was \$186,802.

**SOUTH MERIDIAN METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 10 - TAX, SPENDING, AND DEBT LIMITATION

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 which apply to the State of Colorado and all local governments.

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

On November 2, 1999, a majority of the District's electors authorized the District to collect and spend or retain in a reserve \$1,000,000 in property taxes as adjusted for inflation and local growth plus other revenue of the District, including specific ownership taxes, interest income, tap fees, and grants, 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

**SOUTH MERIDIAN METROPOLITAN DISTRICT
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2016**

	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 318,616	\$ 318,616	\$ 318,369	\$ (247)
Specific ownership taxes	28,680	28,680	29,314	634
Net investment income	5,000	9,000	10,752	1,752
Total revenues	<u>352,296</u>	<u>356,296</u>	<u>358,435</u>	<u>2,139</u>
EXPENDITURES				
Country Treasurer's fees	4,779	4,779	4,784	(5)
Bond interest - Series 2003B & 2004	50,000	25,000	22,220	2,780
Bond interest - Series 2016	-	50,000	46,935	3,065
Bond principal - Series 2003B & 2004	1,501,000	-	-	-
Bond principal - Series 2016	-	150,000	150,000	-
Cost of issuance	-	100,000	94,215	5,785
Paying agent fees	4,500	4,500	3,000	1,500
Total expenditures	<u>1,560,279</u>	<u>334,279</u>	<u>321,154</u>	<u>13,125</u>
OTHER FINANCING SOURCES (USES)				
Bond issuance	-	4,980,000	4,980,000	-
Payment to refunding agent	-	(7,640,785)	(7,636,020)	4,765
Total other financing sources (uses)	<u>-</u>	<u>(2,660,785)</u>	<u>(2,656,020)</u>	<u>4,765</u>
NET CHANGE IN FUND BALANCES	(1,207,983)	(2,638,768)	(2,618,739)	20,029
FUND BALANCES - BEGINNING OF YEAR	<u>2,778,463</u>	<u>2,779,627</u>	<u>2,779,627</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 1,570,480</u>	<u>\$ 140,859</u>	<u>\$ 160,888</u>	<u>\$ 20,029</u>

**SOUTH MERIDIAN METROPOLITAN DISTRICT
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2016**

	<u>Budget</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Net investment income	\$ 150	\$ 150	\$ 271	\$ 121
Total revenues	<u>150</u>	<u>150</u>	<u>271</u>	<u>121</u>
EXPENDITURES				
Miscellaneous expenses	-	-	102	(102)
Capital projects	<u>10,000</u>	<u>45,000</u>	<u>40,392</u>	<u>4,608</u>
Total expenditures	<u>10,000</u>	<u>45,000</u>	<u>40,494</u>	<u>4,506</u>
NET CHANGE IN FUND BALANCES	(9,850)	(44,850)	(40,223)	4,627
FUND BALANCES - BEGINNING OF YEAR	<u>70,822</u>	<u>70,814</u>	<u>70,814</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 60,972</u>	<u>\$ 25,964</u>	<u>\$ 30,591</u>	<u>\$ 4,627</u>

**SOUTH MERIDIAN METROPOLITAN DISTRICT
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2016**

Bonds and Interest Maturing in the Year Ending December 31,	\$ 4,980,000 General Obligation Refunding Tax-Free Loan Issue - Series 2016 Dated July 20, 2016 Interest Rate - 2.59% Interest Payable June 1 and December 1 Principal Payable December 1		
	Principal	Interest	Total
2017	\$ 145,000	\$ 125,097	\$ 270,097
2018	150,000	121,341	271,341
2019	170,000	117,457	287,457
2020	185,000	113,053	298,053
2021	190,000	108,262	298,262
2022	200,000	103,341	303,341
2023	210,000	98,161	308,161
2024	220,000	92,722	312,722
2025	225,000	87,024	312,024
2026	235,000	81,197	316,197
2027	245,000	75,110	320,110
2028	255,000	68,764	323,764
2029	260,000	62,160	322,160
2030	275,000	55,426	330,426
2031	280,000	48,304	328,304
2032	295,000	41,051	336,051
2033	305,000	33,411	338,411
2034	320,000	25,512	345,512
2035	325,000	17,223	342,223
2036	340,000	8,807	348,807
	\$ 4,830,000	\$ 1,483,423	\$ 6,313,423

**SOUTH MERIDIAN METROPOLITAN DISTRICT
SUMMARY OF ASSESSED VALUATION,
MILL LEVY AND PROPERTY TAXES COLLECTED
December 31, 2016**

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>	<u>Mills Levied</u>		<u>Total Property Taxes</u>		<u>Percent Collected to Levied</u>
		<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Levied</u>	<u>Collected</u>	
2012	\$ 36,035,070	8.231 (a)	32.468	\$ 1,112,584	\$ 970,116	87.2%
2013	\$ 32,097,820	15.134 (b)	32.468	\$ 1,043,975	\$ 1,039,097	99.5%
2014	\$ 33,120,872	7.000	39.000	\$ 1,129,557	\$ 1,116,028	98.8%
2015	\$ 32,812,520	9.000	40.000	\$ 1,166,477	\$ 1,166,159	100.0%
2016	\$ 39,725,680	9.000	10.000	\$ 451,141	\$ 451,153	100.0%
Estimated for calendar year ending December 31, 2017	\$ 41,239,460	9.000	10.000	\$ 463,159		

NOTE:

Property taxes collected in any one year may include collection of delinquent property taxes levied in prior years.

(a) Includes 1.881 mills for refunds and abatements.

(b) Includes 8.784 mills for refunds and abatements.

The general and debt service mill levies are not levied equally against all taxable assessed values included above and may vary among taxing jurisdictions. The percent collected to levied is net of property tax abatements charged to the District which are attributable to previous years collections.