

**Glenwood Meadows Metropolitan District No. 3
Glenwood Springs, Colorado**

**Financial Statements
December 31, 2017**

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April 19, 2018

**Glenwood Meadows Metropolitan District No. 3
Financial Statements
December 31, 2017**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Glenwood Meadows Metropolitan District No. 3
Glenwood Springs, Colorado

We have audited the accompanying financial statements of the governmental activities and the general fund, of Glenwood Meadows Metropolitan District No. 3, as of and for the year ended December 31, 2017 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of Glenwood Meadows Metropolitan District No. 3, as of December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The District's Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Glenwood Meadows Metropolitan District No. 3's basic financial statements as a whole. The Schedule of Debt Service Requirements to Maturity on page 23 is presented for purposes of additional analysis and is not a required part of 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.

Reese Henry & Company, Inc.

Certified Public Accountants
Aspen, Colorado
April 12, 2018

**Glenwood Meadows Metropolitan District No. 3
Governmental Fund Balance Sheet/Statement of Net Position**

December 31, 2017

| | General Fund Balance Sheet | Adjustments | Statement of Net Position |
|-------------------------------------------------|-------------------------------------------|------------------------|--------------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ - | \$ - | \$ - |
| Restricted cash and investments | 1,252,642 | - | 1,252,642 |
| Public improvement fees receivable | 181,534 | - | 181,534 |
| Property and ownership tax receivable | 23,973 | - | 23,973 |
| Fees in lieu of tax receivable | 52,045 | - | 52,045 |
| Bond issue costs, net | - | 165,575 | 165,575 |
| Capital assets, net | - | 496,841 | 496,841 |
| TOTAL ASSETS | \$ 1,510,194 | \$ 662,416 | \$ 2,172,610 |
| LIABILITIES | | | |
| Accounts payable | \$ 1,450 | \$ - | \$ 1,450 |
| Accrued interest payable | - | 10,059,782 | 10,059,782 |
| Debt payable: | | | |
| Due within one year | - | 718,961 | 718,961 |
| Due in more than one year | - | 9,583,472 | 9,583,472 |
| TOTAL LIABILITIES | 1,450 | 20,362,215 | 20,363,665 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenue - taxes | 76,018 | - | 76,018 |
| FUND BALANCE | | | |
| Restricted: | | | |
| Contingency - TABOR 3% Reserve | 2,583 | (2,583) | - |
| Debt service - bond indenture reserve | 1,252,642 | (1,252,642) | - |
| Assigned | | | |
| Designated for subsequent years | - | - | - |
| Unassigned | 177,501 | (177,501) | - |
| TOTAL FUND BALANCE | 1,432,726 | (1,432,726) | - |
| TOTAL LIABILITIES AND FUND BALANCE | \$ 1,510,194 | | |
| NET POSITION | | | |
| Invested in capital assets, net of related debt | | - | - |
| Restricted for TABOR | | 2,583 | 2,583 |
| Restricted for bond indenture | | 1,252,642 | 1,252,642 |
| Unrestricted | | (19,522,298) | (19,522,298) |
| TOTAL NET POSITION | | \$ (18,267,073) | \$ (18,267,073) |

See accompanying notes and independent auditor's report.

**Glenwood Meadows Metropolitan District No. 3
Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balance/Statement of Activities**

December 31, 2017

| | Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance | | Statement of Activities |
|-----------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|--------------------|------------------------------------|
| | General Fund | Adjustments | |
| REVENUES | | | |
| Public improvement fees | \$ 1,830,695 | \$ - | \$ 1,830,695 |
| Taxes and fees in lieu of taxes | 73,915 | - | 73,915 |
| Interest | 3,085 | - | 3,085 |
| TOTAL REVENUES | 1,907,695 | - | 1,907,695 |
| EXPENDITURES/EXPENSES | | | |
| Administration | 18,486 | - | 18,486 |
| Intergovernmental agreement costs | 72,151 | - | 72,151 |
| Interest expense | 386,030 | 1,329,452 | 1,715,482 |
| Debt principal | 1,435,562 | (1,435,562) | - |
| Depreciation | - | 17,132 | 17,132 |
| Amortization | - | 20,484 | 20,484 |
| TOTAL EXPENDITURES/EXPENSES | 1,912,229 | (68,494) | 1,843,735 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES | (4,534) | 68,494 | 63,960 |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/EXPENSES AND OTHER | (4,534) | 4,534 | |
| CHANGE IN NET POSITION | | \$ (73,028) | |
| FUND BALANCE/NET POSITION | | | |
| Beginning of the year | 1,437,260 | | (18,331,033) |
| End of the year | \$ 1,432,726 | | \$ (18,267,073) |

See accompanying notes and independent auditor's report.

Glenwood Meadows Metropolitan District No. 3

Notes to Financial Statements

December 31, 2017

1. Summary of Significant Accounting Policies

Glenwood Meadows Metropolitan District No. 3 (the "District") is a quasi-municipal corporation and political subdivision of the State of Colorado created pursuant to the Special District Act for the purpose of financing and constructing public improvements and for dedicating, when appropriate, such public improvements to the City of Glenwood Springs, or to such other entity as may be appropriate for the use and benefit of the District's property owners. The creation of the District was ordered on January 23, 2004 by the Garfield County District Court after approval by the proposed District's electors at an election held for that purpose. The District is located in its entirety within the City of Glenwood Springs and Garfield County, Colorado.

The District's financial statements are prepared in accordance with United States generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the GASB Statement 62. The more significant accounting policies established by GAAP used by the District are discussed below.

A. Reporting Entity

The District is governed by an elected Board which is responsible for setting policy, appointing administrative personnel and adopting an annual budget in accordance with the provisions of the Colorado Special District Act. The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Consideration is also given to other organizations which are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria discussed above, the District is not financially accountable for any other entity, nor is the District a component unit of any other government.

Glenwood Meadows Metropolitan District No. 3

Notes to Financial Statements

December 31, 2017

B. Government-wide and Fund Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds).

i. Government-wide Financial Statements

In the government-wide Statement of Net Position, the governmental activities columns are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position are reported in three parts: invested in capital assets, net of related debt; restricted and unrestricted net position.

The government-wide focus is on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

ii. Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The fund focus is on current available resources and budget compliance.

The District reports all its activities and accounts for all financial resources through its General Fund which is the District's primary operating fund. The General Fund is the District's only fund.

C. Measurement Focus and Basis of Accounting

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues, expenditures, or expenses are recognized in the accounts and reported in the financial statements.

i. Long-term Economic Focus and Accrual Basis

Governmental activities in the government-wide financial statements use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

Glenwood Meadows Metropolitan District No. 3

Notes to Financial Statements

December 31, 2017

ii. Current Financial Focus and Modified Accrual Basis

The governmental fund financial statements use the current financial focus and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

D. Financial Statement Accounts

i. Cash and Cash Equivalents

Cash and cash equivalents are defined as deposits that can be withdrawn at any time without notice or penalty and investments with maturities of three months or less.

ii. Restricted Assets

Certain proceeds of the District's general obligation limited tax bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants to use in debt service.

iii. Capital Assets

Capital assets, which include land, buildings, and infrastructure assets, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

The District's capital assets are comprised entirely of infrastructure assets and are depreciated on a straight line basis over a period of 40 years.

iv. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position column. Also, bond issuance costs are deferred and amortized on a straight-line basis over the life of the bonds.

Glenwood Meadows Metropolitan District No. 3

Notes to Financial Statements

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v. *Fund Equity*

Fund Balance – The District presents its fund equity in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions where fund balances are categorized in one of five categories*. This Statement is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications and by clarifying the definitions of existing governmental fund types.

As a result fund balances are classified based on the extent to which the District is bound to honor constraints for the specific purposes on which amounts in the fund can be spent. In accordance with the Statement, fund balances are now classified in one of the five categories (not all categories were used to present the District's fund balance):

- *Nonspendable Fund Balance* – are amounts that cannot be spent because they are not in spendable form – such as inventory and prepaid insurance.
- *Restricted Fund Balance* – are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed Fund Balance* – are amounts that can only be used for specific purposes as a result of constraints imposed by the Board of Directors, the highest level of decision making authority. Committed amounts cannot be used for any other purpose unless the Board removes those constraints by taking the same type of action. Committed fund balances differ from restricted balances because constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.
- *Assigned Fund Balance* – are amounts a government intends to use for a specific purpose; intent can be expressed by the Board of Directors or by an official or body to which governing body delegates the authority.
- *Unassigned Fund Balance* – are amounts that are available for any purpose; these amounts are reported only in the General Fund.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When expenditures are incurred for which committed, assigned, and unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Directors has provided otherwise in its commitment

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Notes to Financial Statements

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or assignment actions.

Net Position – Net Position represent the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted where there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net position is reported as unrestricted.

2. Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of certain differences between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The Governmental Fund Balance Sheet/Statement of Net Position includes an adjustment column. Explanations of adjustments included in this column are as follows:

Long-term liabilities are not due and payable in the current period and are therefore not reported in the funds. Additionally, bond issue costs are not financial resources and are therefore not reported in the funds. The details of these adjustments are accrued interest and bonds payable of \$10,059,782 and \$10,302,433, respectively, and related 2014 note issue costs of \$242,390, less accumulated amortization of \$76,815.

Capital assets are not reported in the funds. However, the costs of those assets are capitalized in the Statement of Net Position and subject to depreciation over their estimated useful lives. The details of these adjustments are capitalized infrastructure of \$668,161, net of related accumulated depreciation of \$171,320.

B. Explanation of certain differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities include an adjustment column. Explanations of the adjustments included in this column are as follows:

Bond principal payments are expenses in the governmental funds, but result in a decrease in long-term liabilities in the Statement of Net Position. An adjustment of \$1,435,562 was made to eliminate these payments.

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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. Depreciation expense of \$17,132 was reported related to infrastructure assets retained by the District at December 31, 2017.

Certain expenses reported in the Statement of Activities do not require the use of current financial resources and are therefore not recorded as expenditures in governmental funds. An adjustment was made to record the change in accrued interest at December 31, 2017 of \$1,329,452.

Governmental funds report bond issue costs as expenditures when paid. However, in the Statement of Activities, the cost of those assets is allocated over the term of the underlying bonds as amortization expense. An adjustment were made to record related amortization costs of \$20,484 on the new note.

3. Stewardship, Compliance, and Accountability

A. Budgets and Budgetary Accounting

In the fall of each year, special districts typically formally adopt a budget with appropriations by fund for the ensuing year pursuant to the Colorado Local Budget Law.

Taxes levied in one year are collected in the succeeding year. Thus, taxes certified in 2017 will be collected in 2018. Taxes are due on January 1st in the year of collection; however, they may be paid in either one installment (no later than April 30th) or two equal installments (not later than February 28th and June 15th) without interest or penalty. Taxes which are not paid within the prescribed time bear interest at the rate of one percent (1%) per month until paid. Unpaid amounts and the accrued interest thereon become delinquent on June 15th.

The level of control in the budget at which expenditures exceed appropriations is at the fund level. All appropriations lapse at year end. 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.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District because it is at

Glenwood Meadows Metropolitan District No. 3

Notes to Financial Statements

December 31, 2017

present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. TABOR Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20; commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of any expiring tax, or tax policy change directly causing a net tax revenue gain to any local government.

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future fiscal years.

TABOR also requires local governments to establish an emergency reserve to be used for declared emergencies only. The reserve is calculated at 3% of fiscal year spending. Fiscal year spending excludes bonded debt service. As such, the District has no reserve at December 31, 2017 on amounts expended on non debt service items.

On November 4, 2003, the Glenwood Meadows Metropolitan Districts' voters approved an increase in the Districts' combined debt limit up to \$24,000,000 and the related increase in taxes up to an amount necessary to pay the Districts' debt. The debt is to be incurred for the acquisition, construction, or otherwise providing infrastructure, facilities, and other improvements, and mosquito control and for the provision of the operation services. All debt and tax increases constitute voter-approved revenue changes and are to be collected and spent by the District without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, and without limiting in any year the amount of other revenues that may be collected and spent by the District.

The District's management believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions, including the interpretation of how to calculate fiscal year spending limits, will require judicial interpretation.

Glenwood Meadows Metropolitan District No. 3

Notes to Financial Statements

December 31, 2017

4. Detailed Notes on All Funds

A. Deposits and Investments

The District's deposits are entirely covered by federal depository insurance ("FDIC") or by collateral held under Colorado's Public Deposit Protection Act ("PDPA"). The FDIC insures the first \$250,000 of the District's deposits at each financial institution. Deposit balances over \$250,000 are collateralized as required by PDPA. The carrying amount of the District's demand deposits was zero at year end. At year end, the District had the following deposits and investments with the following maturities:

| <u>Type</u> | <u>Standard & Poors Rating</u> | <u>Carrying Amount</u> | <u>Maturities</u> | |
|-----------------------------------------|--------------------------------------------|----------------------------|-------------------------------|---------------------------------|
| | | | <u>Less than one year</u> | <u>Less than five years</u> |
| Deposits | Not rated | \$ - | \$ - | - |
| Cash and investments held by trustee | Not rated | \$ 1,252,642 | \$ 1,252,642 | - |
| <u>Financial Statement Captions</u> | | | | |
| Cash and cash equivalents | | \$ - | | |
| Restricted cash and investments | | <u>1,252,642</u> | | |
| | | <u>\$ 1,252,642</u> | | |

The District has not adopted a formal investment policy; however, the District follows state statutes regarding investments. 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. Local government securities, corporate and bank securities and guaranteed investment contracts not purchased with bond proceeds, are limited to maturities of three years or less.

The District's management of restricted cash and investments (through the loan agreement with lender), is handled by the lender. The Custodian agreement allows the lender to make any and all investments permitted by the provisions of the agreement through its own investment department or that of its affiliates.

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The District generally limits its concentration of investments to those investments which are believed to have minimal credit risk; minimal interest rate risk and no foreign currency risk.

Interest Rate Risk. As a means of limiting its exposure to interest rate risk, the District coordinates its investment maturities to closely match cash flow needs in meeting the required bond covenants even though the maturity of the investment is over twenty years. As a result the District has limited its interest rate risk.

Credit Risk. Colorado statutes specify instruments in which local governments may invest, including:

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

The District's general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

Concentration of Credit Risk. The District places no limit on the amount that it may invest in any one issuer.

Glenwood Meadows Metropolitan District No. 3

Notes to Financial Statements

December 31, 2017

B. Capital assets

Capital asset activity for the year ended December 31, 2017 is as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|----------------------------------------------------|------------------------------|--------------------|------------------|---------------------------|
| Capital assets being depreciated: | | | | |
| Infrastructure | \$ 668,161 | \$ - | \$ - | \$668,161 |
| Total capital assets being depreciated | 668,161 | - | - | 668,161 |
| Less accumulated depreciation: | | | | |
| Infrastructure | (154,188) | (17,132) | - | (171,320) |
| Total accumulated depreciation | (154,188) | (17,132) | - | (171,320) |
| Total capital assets being depreciated, net | \$ 513,973 | \$ (17,132) | \$ - | \$496,841 |

C. Long-term Debt

i. Revenue Note Series 2014

The District borrowed \$9,025,000 on March 13, 2014, with interest at 3.15% and monthly payments of \$76,149. The note was issued by the District for the purposes of refinancing the District’s Series 2004 Bonds.

Principal and interest is due monthly. The note is a limited tax general obligations of the District, payable from Public Improvement Fees (“PIF Revenue”) pledged toward debt service on the bonds. Additionally, ad valorem taxes will be imposed, at a rate not to exceed an amount necessary to meet any shortfall between PIF Revenue collected by the District and amounts required to meet the annual debt service of the bonds.

ii. Junior Public Improvement Fee Revenue Bonds, Series 2005B

The District issued \$796,011 of Junior Public Improvement Fee Revenue Bonds dated February 15, 2005 and bearing interest of 12% per annum. The bonds are subordinate to the Revenue Note Series 2014 (the “Senior Note”) and the Series 2005 A Subordinate Public Improvement Fee Revenue Bonds (the “Subordinate Bonds”) and no interest or principal payments are required unless and until all debt service and funding requirements of the Senior Bonds and Subordinate Bonds have

Glenwood Meadows Metropolitan District No. 3
Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balance/Statement of Activities

For the Year Ended December 31, 2017

been met for any given period. The bonds were issued by the District for the purposes of paying a portion of the costs of acquisition and construction of certain improvements and facilities with and without the District, providing capitalized interest for the Senior Bonds and paying costs of issuance of these bonds. All unexpended Bond proceeds are held by a trustee. The bonds mature on January 1, 2026. Unpaid interest for any period remains outstanding and payable, accrued interest compounds annually on January 1 and accrues interest at the bond's stated interest rate.

iii. Taxable Subordinate Reimbursement Revenue Note, Series 2005

District No. 1 issued \$174,731 of Subordinate Reimbursement Revenue Note dated September 19, 2005 and bearing interest of 12% per annum. The note is subordinate to the Bonds held by District No. 3 and no interest or principal payments are required unless and until the District has available funds not pledged for repayment of such Bonds. Interest on the note compound annually on January 15 of each year, commencing as of January 15, 2006 at the annual rate of 12%. This note was transferred to District No. 3 in March, 2014.

iv. Taxable Junior Reimbursement Revenue Note, Series 2005

District No. 1 issued a combined total of \$3,963,954 of Junior Reimbursement Revenue Note since September 30, 2005 (increased from time to time as additional advances and performance of services were received). The note is subordinate to the Bonds held by District No. 3, the Subordinate Reimbursement Revenue Note, series 2005 and no interest or principal payments are required unless and until the District has available funds not pledged for repayment of such Bonds and Note. Interest on the note compound annually on January 15 of each year, commencing as of January 15, 2006 at the annual rate of 12%. The note was transferred to District No. #3 in March 2014 after a principal reduction of \$406,589, leaving a note balance of \$3,557,365.

Glenwood Meadows Metropolitan District No. 3

Notes to Financial Statements

December 31, 2017

Changes to long-term debt during the year ended December 31, 2017 were as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> | <u>Amount Paid January 2018</u> |
|--------------------------------------------------------|------------------------------|------------------|-----------------------|---------------------------|-----------------------------------------|
| Senior Lien ANB Note Payable | \$ 7,209,889 | \$ - | \$ (696,660) | \$ 6,513,229 | \$ 58,724 |
| Junior Series 2005B Rev Bond | 796,011 | - | (738,903) | 57,108 | 57,108 |
| Taxable Subordinate Reimb Revenue | 174,731 | - | - | 174,731 | 174,731 |
| Taxable Junior Reimbursement Revenue Note, Series 2005 | 3,557,365 | - | - | 3,557,365 | - |
| | <u>\$ 11,737,996</u> | <u>\$ -</u> | <u>\$ (1,435,563)</u> | <u>\$ 10,302,433</u> | <u>\$ 290,563</u> |

Annual debt service requirements to maturity for revenue note and taxable junior revenue bonds are as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|----------------------|----------------------|----------------------|
| 2018 | 718,961 | 194,826 | 913,787 |
| 2019 | 741,939 | 171,849 | 913,788 |
| 2020 | 765,215 | 148,573 | 913,788 |
| 2021 | 790,105 | 123,682 | 913,787 |
| 2022 | 815,356 | 98,432 | 913,788 |
| 2023 - 2025 | 2,605,617 | 135,745 | 2,741,362 |
| 2026 | 3,865,149 | 10,042,560 | 13,907,709 |
| | <u>\$ 10,302,342</u> | <u>\$ 10,915,667</u> | <u>\$ 21,218,009</u> |

5. Other Information

A. Risk Management

Except as provided within the Colorado Governmental Immunity Act, the District may be exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; or injuries to employees. The District is insured for such risks as a member of the Colorado Special Districts Property and Liability Pool ("Pool").

Glenwood Meadows Metropolitan District No. 3

Notes to Financial Statements

December 31, 2017

The Pool is an organization created by intergovernmental agreement to provide property and general liability, automobile physical damage and liability, public officials liability and boiler and machinery coverage to its members. The Pool provides coverage for property claims up to the values declared and liability coverage for claims up to \$1,000,000.

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 and public official's 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.

A summary of audited statutory basis financial information for the Pool as of and for the year ended December 31, 2016 (the latest audited information available) is as follows:

| | |
|--------------------------|-----------------------------|
| Assets | <u>\$ 52,645,796</u> |
| Liabilities | \$ 28,757,242 |
| Capital and surplus | <u>23,888,554</u> |
| Total | <u>\$ 52,645,796</u> |
| Revenue | \$ 18,932,979 |
| Underwriting expenses | <u>14,100,230</u> |
| Underwriting gain (loss) | 4,832,749 |
| Other income | <u>405,790</u> |
| Net income | <u>\$ 5,238,539</u> |

B. Related Party Transactions

All members of the District's Board of Directors have a financial interest in Glenwood Meadows, LLC (the "Owner"), a Colorado limited liability company that owns the majority of WMG Meadows, LLC ("WMG") through another entity Glenwood Meadows WMG, LLC. WMG owns a significant portion of real property (shopping center) within the District. The Owner also owns other significant lodging and commercial real properties through other entities that are within the District or other related Districts (GMMD No. 1 and GMMD No. 2).

Glenwood Meadows Metropolitan District No. 3

Notes to Financial Statements

December 31, 2017

Glenwood Meadows Metropolitan District No. 1 (the "Service District") and Glenwood Meadows Metropolitan District No. 2 has the same Board of Directors as the District.

The District's (and the related Districts') Board of Directors had previously filed a conflict of interest disclosure to the Colorado Secretary of State. The last recorded filing in March, 2014 updated the previously filed disclosures covering the nature of the aforementioned related party transactions. The Districts' Board of Directors periodically confirm and update (if necessary) the conflict of interest disclosure.

C. Public Improvement Fee Agreement

The District entered into the Public Improvement Fee Agreement (the "PIF Agreement") in 2004 which generally provides that the developer of the commercial retail space within the District will obligate retailers within the development to impose, collect and remit a PIF on all eligible sales. Furthermore, the PIF Agreement assigns to the District any and all interests the developer may have in PIF revenue. The District is obligated under the PIF Agreement to pledge, use and apply all PIF revenue collected for the payment of (i) bonded debt service as required, (ii) certain reimbursable expenses, (iii) certain public improvements and organization costs, and (iv) other expenses related to the provision of any public improvement and services necessary for commercial development within the District. The PIF Agreement shall terminate upon the later of (i) the date on which the debt has been fully paid or (ii) December 31 of the twentieth year following the opening of 300,000 square feet of retail space within the District.

The agreement also calls for Public Improvement Fees collected (net of collection fees) in excess of required debt service to retire the District's debt to be payable directly to service the related public improvements costs obligations incurred by the Service District (District No. 1) for the remaining term of the Bond Indenture. District No. 1's debt was transferred to District No. 3 in March, 2014. As of December 31, 2017, District No. 3 has combined principal and accrued interest obligations of \$20,362,215 outstanding.

D. Intergovernmental Agreement – City Improvements

In July 2004, the District entered into an Intergovernmental Agreement (the "City IGA") with the City of Glenwood Springs, Colorado (the "City"). Under the City IGA, the City agreed to construct or cause to be constructed certain infrastructure improvements. The District agreed to pay for these improvements with proceeds from the issuance of the Bonds remitted to the City totaling \$2,350,000. Additionally, the District has agreed to construct or cause to be constructed certain other infrastructure improvements to be paid for in their entirety by the District. The District conveyed \$15,786,676 of improvements to the City of Glenwood Springs in 2008 and all improvements

Glenwood Meadows Metropolitan District No. 3

Notes to Financial Statements

December 31, 2017

constructed under this agreement have been conveyed as of December 31, 2008 resulting in the significant negative net position on the District's financial statements.

E. Intergovernmental Agreement – District Facilities and Services

In July 2004, the District entered into an Intergovernmental Agreement (the "District IGA") with Glenwood Meadows Metropolitan District #1 (the "Service District") for the provision of District construction and operation services. The District IGA generally provides that the District will pay to the Service District over a period of years the costs of the provision of certain services. The District IGA states that the obligation to pay the amounts required there under is a general obligation debt of the District subject to certain limitations, and as such the question of whether the District should enter into and perform the Agreement was submitted at an election called for such purpose and held on November 4, 2003. The question was approved by the electorate. The District IGA also obligates the District to levy, certify, and collect an operating mill levy of five mills unless otherwise authorized by the Service District. All property taxes, specific ownership taxes and other operating revenue collected by the District are to be remitted to the Service District under the District IGA.

In return for the payment of the monies required to be paid under the Agreement, the Service District agrees to (i) acquire or construct certain public improvements, and (ii) thereafter provide for their operation and maintenance until such time as the improvements are transferred to the City or other entity. Any monies received in excess of expenses by the Service District shall be retained and used by the Service District to repay any advances received from the developers or other sources. For the year ended December 31, 2017, the District remitted \$52,045 to the Service District representing taxes collected in 2016.

F. Prior Period Adjustment

The District accrues interest on debt outstanding during the year. Interest was over-accrued by \$207,273 during the past two years and therefore the net position is understated. The beginning net position balance was increased and accrued interest payable was decreased by \$207,273 for the cumulative effect of this adjustment.

G. Subsequent Events

The District's management has evaluated subsequent events through April 12, 2018, the date which the District's financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

Glenwood Meadows Metropolitan District No. 3
General Fund
Schedule of Revenues and Expenditures - Budget and Actual

For the Year Ended December 31, 2017

| | Original & Final Budget | Actual | Variance Positive (Negative) |
|----------------------------------------------------|--------------------------------------------|----------------------------|---------------------------------------------|
| Revenues and Other Financing Sources: | | | |
| Public improvement fees | \$ 1,861,100 | \$ 1,830,696 | \$ (30,404) |
| Interest | 2,500 | 3,085 | 585 |
| Taxes: | | | |
| Property | 20,164 | 20,151 | (13) |
| Specific ownership | 1,613 | 1,660 | 47 |
| Fees in lieu of taxes | 52,103 | 52,103 | - |
| Total Revenues and Other Financing Sources | <u>1,937,480</u> | <u>1,907,695</u> | <u>(29,785)</u> |
| Expenditures and Other Financing Uses: | | | |
| Administration | 22,000 | 18,486 | 3,514 |
| Intergovernmental agreement costs | 86,490 | 72,150 | 14,340 |
| Bond interest | | | |
| ANB loan interest | 217,092 | 217,127 | (35) |
| Junior bond interest | 913,296 | 168,903 | 744,393 |
| Principal payment | | | |
| ANB loan principal | 696,696 | 696,660 | 36 |
| Junior bond principal | - | 738,903 | (738,903) |
| Reserve for contingency | 10,000 | - | 10,000 |
| Tabor emergency fund | 1,410 | - | 1,410 |
| Total Expenditures and Other Financing Uses | <u>\$ 1,946,984</u> | <u>\$ 1,912,229</u> | <u>\$ 33,345</u> |

See auditor's report and accompanying notes to financial statements.

SUPPLEMENTARY INFORMATION

**Glenwood Meadows Metropolitan District No. 3
Schedule of Debt Service Requirements to Maturity**

December 31, 2017

| Debt and Interest Maturing in the Year Ending <u>December 31,</u> | \$9,025,000 | | \$796,011 | | \$174,731 | | \$3,963,954 | | | |
|----------------------------------------------------------------------------------|----------------------------|--------------------------|------------------------------------------------------------|------------------------|------------------------------------------------------------------|--------------------------|-------------------------------------------------------------|----------------------------|-----------------------------|-----------------------------|
| | Revenue Note, Series 2014 | | Junior Public Improvement Revenue Bonds Series 2005B | | Taxable Subordinate Reimbursement Revenue Note Series 2005 | | Taxable Junior Reimbursement Revenue Note Series 2005 | | Total | |
| | Interest Rate of 3.15% | | Interest Rate of 12% | | Interest Rate of 12% | | Interest Rate of 12% | | | |
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2018 | 718,961 | 194,826 | 57,108 | 6,853 | 174,731 | 641,405 | - | - | 950,800 | 843,084 |
| 2019 | 741,939 | 171,849 | - | - | - | - | - | - | 741,939 | 171,849 |
| 2020 | 765,215 | 148,573 | - | - | - | - | - | - | 765,215 | 148,573 |
| 2021 | 790,105 | 123,682 | - | - | - | - | - | - | 790,105 | 123,682 |
| 2022 | 815,356 | 98,432 | - | - | - | - | - | - | 815,356 | 98,432 |
| 2023 | 841,414 | 72,374 | - | - | - | - | - | - | 841,414 | 72,374 |
| 2024 | 868,154 | 45,633 | - | - | - | - | - | - | 868,154 | 45,633 |
| 2025 | 896,049 | 17,738 | - | - | - | - | - | - | 896,049 | 17,738 |
| 2026 | 75,945 | 203 | - | - | - | - | 3,557,365 | 9,394,099 | 3,633,310 | 9,394,302 |
| Total | <u>\$ 6,513,138</u> | <u>\$ 873,310</u> | <u>\$ 57,108</u> | <u>\$ 6,853</u> | <u>\$ 174,731</u> | <u>\$ 641,405</u> | <u>\$ 3,557,365</u> | <u>\$ 9,394,099</u> | <u>\$ 10,302,342</u> | <u>\$ 10,915,667</u> |

See auditor's report and accompanying notes to financial statements.