

**MEADOWS METROPOLITAN DISTRICT NO. 1
Douglas County, Colorado**

**FINANCIAL STATEMENTS
December 31, 2017**

E

RECEIVED

Office of the State Auditor

June 19, 2018

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Position	1
Statement of Activities	2
Fund Financial Statements:	
Balance Sheet - Governmental Funds	3
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	4
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	5
General Fund - Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	6
Notes to Financial Statements	7
SUPPLEMENTARY INFORMATION	21
Debt Service Fund - Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	22
Capital Projects Fund - Conservation Trust Fund - Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	23
OTHER INFORMATION	24
Summary of Assessed Valuation, Mill Levy and Property Taxes Collected	25



SCHILLING & COMPANY, INC.

Certified Public Accountants

P.O. Box 631579
HIGHLANDS RANCH, CO 80163

PHONE: 720.348.1086

FAX: 720.348.2920

Independent Auditor's Report

Board of Directors
Meadows Metropolitan District No. 1
Douglas County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Meadows Metropolitan District No. 1 (District) 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 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 Meadows Metropolitan District No. 1, as of December 31, 2017, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our 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 listed in the table of contents is presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The other information listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

SCHILLING & COMPANY, INC.

Highlands Ranch, Colorado
May 21, 2018

BASIC FINANCIAL STATEMENTS

MEADOWS METROPOLITAN DISTRICT NO. 1
STATEMENT OF NET POSITION
December 31, 2017

	Governmental Activities
ASSETS	
Cash and investments	\$ 846,634
Cash and investments - Restricted	337,482
Due from District No. 4	36,209
Receivable - County Treasurer	11,362
Prepaid insurance	2,013
Accounts receivable	9,748
Property taxes receivable	1,715,523
Capital assets, net	109,298
Total assets	3,068,269
LIABILITIES	
Accounts payable	7,180
Due to District No. 4	29,123
Noncurrent liabilities	
Due in more than one year	141,684,824
Total liabilities	141,721,127
DEFERRED INFLOWS OF RESOURCES	
Deferred property tax revenue	1,715,523
Total deferred inflows of resources	1,715,523
NET POSITION	
Net investment in capital assets	109,298
Restricted for:	
Emergency reserve	3,800
Debt service	97,822
Capital projects	281,817
Unrestricted	(140,861,118)
Total net position	\$ (140,368,381)

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

MEADOWS METROPOLITAN DISTRICT NO. 1
STATEMENT OF ACTIVITIES
Year Ended December 31, 2017

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expenses)</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Changes in Net Position</u>
					<u>Governmental Activities</u>
Primary government:					
Government activities:					
General government	\$ 1,747,324	\$ -	\$ -	\$ 1,197	\$ (1,746,127)
Culture and recreation	-	-	34,705	-	34,705
Interest on long-term debt	10,692,304	-	3,354,391	-	(7,337,913)
	<u>\$ 12,439,628</u>	<u>\$ -</u>	<u>\$ 3,389,096</u>	<u>\$ 1,197</u>	<u>(9,049,335)</u>
General revenues:					
Property taxes					1,567,748
Specific ownership taxes					171,750
Interest income					3,415
Other income					100
Total general revenues					<u>1,743,013</u>
Change in net position					<u>(7,306,322)</u>
Net position - Beginning					(133,062,059)
Net position - Ending					<u>\$ (140,368,381)</u>

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

**MEADOWS METROPOLITAN DISTRICT NO. 1
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2017**

	General	Debt Service	Conservation Trust	Total Governmental Funds
ASSETS				
Cash and investments	\$ 846,634	\$ -	\$ -	\$ 846,634
Cash and investments - Restricted	3,800	61,613	272,069	337,482
Due from District No. 4	-	36,209	-	36,209
Receivable - County Treasurer	11,362	-	-	11,362
Prepaid insurance	2,013	-	-	2,013
Property taxes receivable	1,715,523	-	-	1,715,523
Accounts receivable	-	-	9,748	9,748
TOTAL ASSETS	\$ 2,579,332	\$ 97,822	\$ 281,817	\$ 2,958,971
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 7,180	\$ -	\$ -	\$ 7,180
Due to District No. 4	29,123	-	-	29,123
Total liabilities	36,303	-	-	36,303
DEFERRED INFLOWS OF RESOURCES				
Deferred property tax revenue	1,715,523	-	-	1,715,523
Total deferred inflows of resources	1,715,523	-	-	1,715,523
FUND BALANCES				
Nonspendable for:				
Prepaid expenses	2,013	-	-	2,013
Restricted for:				
Emergency reserve	3,800	-	-	3,800
Debt service	-	97,822	-	97,822
Capital projects	-	-	281,817	281,817
Assigned:				
Capital improvements	493,142	-	-	493,142
Unassigned:				
General government	328,551	-	-	328,551
Total fund balances	827,506	97,822	281,817	1,207,145
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 2,579,332	\$ 97,822	\$ 281,817	

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

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

Bonds payable	(30,730,000)
Accrued interest payable - Bonds	(110,954,824)

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

109,298

Net position of governmental activities

\$ (140,368,381)

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

MEADOWS METROPOLITAN DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Conservation Trust</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 1,567,748	\$ -	\$ -	\$ 1,567,748
Specific ownership taxes	171,750	-	-	171,750
Intergovernmental revenue - District No. 4	-	3,354,391	-	3,354,391
Conservation Trust entitlement	-	-	34,705	34,705
Development fees	1,197	-	-	1,197
Interest income	1,995	884	536	3,415
Other income	100	-	-	100
Total revenues	<u>1,742,790</u>	<u>3,355,275</u>	<u>35,241</u>	<u>5,133,306</u>
EXPENDITURES				
Current				
Accounting	26,472	-	-	26,472
Intergovernmental expenditure - District No. 4	1,617,435	-	-	1,617,435
Audit	3,700	-	-	3,700
County Treasurer's fees	23,529	-	-	23,529
Capital improvements	20,000	-	-	20,000
Community support	20,000	-	-	20,000
Directors' fees	1,100	-	-	1,100
Dues and membership	369	-	-	369
Insurance	2,013	-	-	2,013
Legal	4,280	-	-	4,280
Banking fees	-	-	25	25
Records storage	84	-	-	84
Debt service				
Bond interest	-	3,393,040	-	3,393,040
Capital outlay				
Parks and recreation	-	-	22,071	22,071
Total expenditures	<u>1,718,982</u>	<u>3,393,040</u>	<u>22,096</u>	<u>5,134,118</u>
NET CHANGE IN FUND BALANCES	23,808	(37,765)	13,145	(812)
FUND BALANCES - BEGINNING OF YEAR	<u>803,698</u>	<u>135,587</u>	<u>268,672</u>	<u>1,207,957</u>
FUND BALANCES - END OF YEAR	<u>\$ 827,506</u>	<u>\$ 97,822</u>	<u>\$ 281,817</u>	<u>\$ 1,207,145</u>

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

**MEADOWS METROPOLITAN DISTRICT NO. 1
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2017**

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

Net change in fund balances - Total governmental funds	\$	(812)
--	----	-------

Governmental funds report capital outlay 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 costs of any depreciable asset over the estimated useful life of the asset.

Depreciation		(6,246)
--------------	--	---------

Certain expenses, including accrued interest on bonds, reported in the statement of activities, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued interest on bonds - Change in liability		<u>(7,299,264)</u>
---	--	--------------------

Change in net position of governmental activities	\$	<u><u>(7,306,322)</u></u>
---	----	---------------------------

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

**MEADOWS METROPOLITAN DISTRICT NO. 1
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2017**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Property taxes	\$ 1,567,871	\$ 1,567,748	\$ (123)
Specific ownership taxes	156,787	171,750	14,963
Development fees, net	-	1,197	1,197
Interest income	1,500	1,995	495
Other income	100	100	-
Total revenues	<u>1,726,258</u>	<u>1,742,790</u>	<u>16,532</u>
EXPENDITURES			
Current			
Accounting	24,000	26,472	(2,472)
Intergovernmental expenditure - District No. 4	1,602,111	1,617,435	(15,324)
Audit	3,600	3,700	(100)
County Treasurer's fees	23,518	23,529	(11)
Community support	20,000	20,000	-
Directors' fees	2,000	1,100	900
Dues and membership	400	369	31
Insurance	2,100	2,013	87
Legal	12,000	4,280	7,720
Miscellaneous	36,300	-	36,300
Payroll taxes	130	84	46
Capital improvements	792,078	20,000	772,078
Total expenditures	<u>2,518,237</u>	<u>1,718,982</u>	<u>799,255</u>
NET CHANGE IN FUND BALANCES	(791,979)	23,808	815,787
FUND BALANCES - BEGINNING OF YEAR	<u>795,779</u>	<u>803,698</u>	<u>7,919</u>
FUND BALANCES - END OF YEAR	<u>\$ 3,800</u>	<u>\$ 827,506</u>	<u>\$ 823,706</u>

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

MEADOWS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 - ORGANIZATION AND REPORTING ENTITY

Organization

Meadows Metropolitan District No. 1 (District), a quasi-municipal corporation, was organized on July 11, 1985, and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Douglas County, Colorado, and is entirely within the Town of Castle Rock (Town). The District was established primarily to finance the construction of water, sewer and drainage systems, street improvements, safety control, park and recreational systems and transportation facilities. At the time of completion of all the facilities and repayment of the bonds issued by District Nos. 1, 2 and 7, the Town may require that the Districts initiate dissolution procedures.

The District is one of seven similar contiguous metropolitan districts formed as a part of the Meadows Project (Project).

Meadows Metropolitan District No. 4 (District No. 4) is the Master District, which is responsible for the construction of the entire Project improvements and the allocation to each of the related districts of its proportional share of the costs incurred. The District has entered into a Regional Facilities Cost Sharing Agreement (see Note 7), whereby District No. 4 annually sets assessments to the other districts and collects all operating revenues except for property taxes and certain restricted revenues of the related districts.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens, and fiscal dependency.

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

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

MEADOWS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-wide and Fund Financial Statements

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

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

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

Separate financial statements are provided for governmental funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes and intergovernmental revenues. 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.

MEADOWS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 - Conservation Trust Fund is used to account for financial resources to be used for the acquisition or construction and maintenance of recreational facilities.

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 and other financing uses 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.

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.

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 30 or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August, and generally, sale of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

MEADOWS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 taxes are recorded as revenue in the year they are available or collected.

Capital Assets

Capital assets, which include property and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Depreciation expense has been computed using the straight-line method over the following estimated economic useful life:

Equipment (mobile stage)	20 years
--------------------------	----------

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 and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Accordingly, the item, *deferred property tax revenue*, is deferred and recognized as an inflow of resources in the period that the amount becomes 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.

In the government-wide financial statement, fund equity is classified as net position. Net position may be classified into three components: net investment in capital assets; restricted; and unrestricted.

MEADOWS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance

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

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

If more than one classification of fund balances 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, 2017, are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments	\$ 846,634
Cash and investments - Restricted	<u>337,482</u>
Total cash and investments	<u>\$ 1,184,116</u>

MEADOWS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Cash and investments as of December 31, 2017, consist of the following:

Deposits with financial institutions	\$ 1,122,503
Investments	<u>61,613</u>
Total cash and investments	<u>\$ 1,184,116</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.

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, 2017, the District's cash deposits had a bank and a carrying balance of \$1,122,503.

Investments

The District has not adopted a formal investment policy; however, the District 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

MEADOWS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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

As of December 31, 2017, the District had the following non-categorized investments:

Investment	Maturity	Amount
Morgan Stanley Treasury Securities Fund	Weighted average under 60 days	\$ <u>61,613</u>
		\$ <u>61,613</u>

Morgan Stanley Institutional Liquidity Funds

The debt service money that is included in the trust accounts at United Missouri Bank is invested in the Morgan Stanley Institutional Liquidity Funds' Treasury Securities Portfolio. This portfolio is a money market fund that is managed by Morgan Stanley Investment Management and each share is equal in value to \$1.00. The fund is AAAM rated and invests exclusively in U.S. Treasury obligations and repurchase agreements collateralized by U.S. Treasury securities. The average maturity of the underlying securities is 90 days or less.

The fund records its investments based in amortized costs. The District records its investment in fund using the net asset value method. There are no unfunded commitments, the redemption frequency is daily and there is not redemption notice period.

MEADOWS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 4 - CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2017 follows:

	<u>Balance at January 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at December 31, 2017</u>
Governmental activities				
Capital assets, being depreciated:				
Equipment (mobile stage)	\$ 124,913	\$ -	\$ -	\$ 124,913
Total capital assets, being depreciated	<u>124,913</u>	<u>-</u>	<u>-</u>	<u>124,913</u>
Less accumulated depreciation for:				
Equipment (mobile stage)	(9,369)	(6,246)	-	(15,615)
Total accumulated depreciation	<u>(9,369)</u>	<u>(6,246)</u>	<u>-</u>	<u>(15,615)</u>
Total capital assets, being depreciated, net	<u>\$ 115,544</u>	<u>\$ (6,246)</u>	<u>\$ -</u>	<u>\$ 109,298</u>

Depreciation expense of \$6,246 was charged to the general government activities of the District for the year ended December 31, 2017.

NOTE 5 - LONG-TERM OBLIGATIONS

The District's transactions relating to long-term debt during 2017 were as follows:

	<u>Balance January 1, 2017</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance December 31, 2017</u>	<u>Due Within One Year</u>
General Obligation					
Bonds Series					
1989A	\$ 30,730,000	\$ -	\$ -	\$ 30,730,000	\$ -
Accrued interest	<u>103,655,560</u>	<u>10,692,304</u>	<u>3,393,040</u>	<u>110,954,824</u>	<u>-</u>
	<u>\$134,385,560</u>	<u>\$ 10,692,304</u>	<u>\$ 3,393,040</u>	<u>\$141,684,824</u>	<u>\$ -</u>

Additions to accrued interest include current interest, accrued interest and compounded interest.

MEADOWS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

The detail of the District's long-term debt is as follows:

General Obligation Bonds, Series 1989A

The General Obligation Bonds, Series 1989A, are characterized as general obligation bonds with a "capped mill levy". Effective June 1, 2002, District Nos. 1 through 7 (inclusive) entered into the First Amendment to the Amended and Restated Indenture of Trust, which states that the remaining payments to the bond holders on the Series 1989 General Obligation Bonds will be made on a quarterly basis, instead of semi-annually. Therefore, interest of 7.999% is payable quarterly on March 1, June 1, September 1 and December 1 of each year. Any interest that is due and not paid at the end of each quarter is charged interest at a rate of 7.999% per annum. Unpaid current interest becomes accrued interest on December 1 of each year. Accrued interest compounds annually on December 1 of each year. The District's required payment on the bonds is limited to the proceeds generated from the limited mill levy of 35 mills and certain other revenues less priority expenses (see Note 7).

The bonds mature as of June 1, 2029. Interest will not accrue after the forty-year term. However, the Project will continue to set the limited mill levy until the bonds and accrued interest are paid in full. The Project is not entitled to prepay the bonds during the forty-year term. However, the Project may maintain a sinking fund for future principal payments, provided that all accrued and current interest has been paid. Priority of principal repayment can be assigned among and between the bondholders. Revenues received by the Project will be disbursed for the following (in order of priority):

1. Priority expenses (see Note 7)
2. Current interest
3. Accrued interest from and after March 5, 1993
4. Accrued interest from September 1, 1989, through March 4, 1993, amounting to \$15,659,228
5. Principal
6. Capital improvements

During 2017, under the terms of Regional Facilities Cost Sharing Agreement (see Note 7), District No. 4 computed District No. 1's net revenues available for debt service to be \$3,354,391.

Interest on the bonds accrues and is determinable in each year, but a failure to pay accrued interest because of lack of revenue does not constitute a default. Thus, the actual amounts of payments to be made in future years will depend on future revenues and cannot be predicted with certainty.

MEADOWS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

Regional Facilities Cost Sharing Agreement (see Note 7)

The District is liable for a portion of the total general obligation debt incurred by the other related districts constituting the Project. At December 31, 2017, the total outstanding bond debt (for District Nos. 1, 2 and 7) was \$70,000,000 plus accrued and compounding interest of \$253,308,825. The ultimate amount payable by the District is not determinable because the amounts to be paid in future years for both principal and interest are determined annually based on revenues and relative changes in assessed valuations among the seven districts.

The District relies on the development of the entire Project to provide revenues and cash flows sufficient to allow the District to pay its debt service obligations and those of District Nos. 2 and 7 in future years. System development fees and property taxes will depend on future development and cannot be predicted with certainty.

Debt Authorization

As of December 31, 2017, the District has no authorized but unissued debt.

NOTE 6 - NET POSITION

The District's net position consisting of three components – net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2017, the District had net investment in capital assets totaling \$109,298.

Restricted net position includes assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net position as of December 31, 2017, as follows:

	Governmental Activities
Restricted net position:	
Emergency reserves (see Note 11)	\$ 3,800
Debt service (see Note 5)	97,822
Conservation Trust Fund	281,817
Total restricted net position	\$ 383,439

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 and compounding accrued interest for the construction of public improvements conveyed to other government entities.

MEADOWS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 7 - REGIONAL FACILITIES COST SHARING AGREEMENT

In September 1988, the District and the other six related districts entered into a Regional Facilities Cost Sharing Agreement. In 1993, the restated Fifth Amendment to this agreement was executed, and in 1994, the Sixth Amendment to this agreement became operational. The intent of these agreements is to have an equal mill levy throughout the Project and to participate fairly and equitably in the joint funding of operations and maintenance of the Project, the associated debt service costs of the Project, and the financing of Project facilities as defined in the intergovernmental agreement with the Town (see Note 8).

District No. 4 has been specified to coordinate and manage the operations and debt service payments of the districts. District No. 4 receives the system development fees and other revenues of the Project (District Nos. 1 through 7) and collects property taxes and interest on behalf of District Nos. 2 through 7. The District collects its own property taxes, interest and Conservation Trust Fund entitlements.

Priority expenses of the Project include the following: costs of revenue collection, operations and maintenance expenses in an amount not to exceed \$200,000 per year, water service fees, and the cost of the landscape maintenance contract. Of the \$200,000 for operations and maintenance, \$50,000 (\$100,530 in 2017 as adjusted for inflation) is designated to be spent by District No. 1 for District No. 1's administration. The remainder (\$287,000 in 2017 as adjusted for inflation) is to be spent by District No. 4 as Master District for the Project.

Normal debt service related costs such as paying agent fees and trustee fees and bond issuance costs have not been included in priority expenses. Written notice to this effect was provided to the bondholders.

Priority expenses are allocated to the districts as administration charges based upon each individual district's percentage of assessed valuation to the total assessed valuation of the Project.

The Project revenues collected by District No. 4, to the extent not required to fund priority expenses and capital improvements of the Project approved by the bondholders, are to be allocated to District Nos. 1, 2 and 7's debt service requirements, based upon the percentage of the bonds issued and outstanding of District Nos. 1, 2 and 7.

Property taxes and other revenues of the other districts in the Project which are in excess of the individual districts' allocated share of priority expenses are to be allocated to District Nos. 1, 2 and 7's debt service requirements in the same manner as described above.

MEADOWS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 8 - INTERGOVERNMENTAL AGREEMENT - TOWN OF CASTLE ROCK

The District, together with the related contiguous districts, entered into an Intergovernmental Agreement (Agreement) with the Town, dated December 1, 1991, and as amended on October 1, 1993, and December 12, 1996. The Agreement defines the responsibilities of the Town and the District with regard to the development of infrastructure, provision of services, maintenance responsibilities and collection of system development fees. Additionally, the Town has oversight responsibilities and powers as to the District's future debt transactions and the District's ability to impose and collect future fees.

The District has transferred title to its facilities, water rights and wastewater system capacity to the Town. The Districts do not have any commitment to develop additional facilities to serve the Project, other than those described below.

The Town currently maintains and operates the District facilities, except for maintaining certain landscaping. The Town charges users directly for water, sewer and irrigation water. The Town retains a 0.25% administrative fee to cover its cost of collection on all system development fees it collects on behalf of the Districts.

The District's landscape responsibilities relate to the maintenance of public street right-of-way, which is the landscaping between the right-of-way and the street curbing, as well as within street medians.

The Agreement further provides that when the water or wastewater capacities are fully utilized, the Districts and Town may agree that the Town will finance the development of additional water or wastewater capacity, and consequently, the Town will be entitled to recover its costs, including interest, from system development fees currently being collected by the Town. In 2007, the wastewater capacity maximum was reached and the Town started to keep a portion of the wastewater system development fee.

The Project had an obligation to provide financial support in the amount of \$500,000 for the East Plum Creek Trail. The Town had directly deposited, into an escrow held by a trustee for District No. 4, system development fees totaling \$500,000 in satisfaction of the East Plum Creek Trail obligation. Interest income generated from the escrow is allocated to District Nos. 1, 2 and 7 to be used for debt service. In 2009, the Project (through District No. 4, the Operating District) remitted \$435,284 to the Town in connection with the East Plum Creek Trail and \$1,000 to the Trustee for fees related to managing the account. As of December 31, 2017, the remaining balance in the East Plum Creek Trail escrow account, net of Trustee fees, was \$57,238.

MEADOWS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 8 - INTERGOVERNMENTAL AGREEMENT - TOWN OF CASTLE ROCK
(CONTINUED)

On June 16, 2015, the Agreement was amended ("Third Amendment to Master Intergovernmental Agreement"). Among other items, the third amendment to the Agreement provides that, after July 1, 2015, a portion of the system development fee that is being retained by the Town (capital reserve fee) will be imposed as a District Fee and collected by the Town and remitted to the Districts. The capital reserve fee may be increased by the Districts at the rate of not more than 5% per annum, compounded on each January 1 through the term of the Agreement. For 2017, the district increased its capital reserve fee by 5%. Additionally, the third amendment to the Agreement amended the allocation of the system development fee as follows: (i) the Town will retain the treatment component of the water system development fee when the demand for municipal water within the Project exceeds 7,548 SFEs, and (ii) beginning on July 1, 2015, the Town will retain 90% of the wastewater system development fee; provided that if the treatment component is less than 90%, the Town's retained portion shall reduce to reflect such actual treatment component percentage; however, if the treatment component is higher than 90%, the Town shall never retain more than 90% of the wastewater system development fee. As of December 31, 2017, the District had a total count of 6,497 SFEs used.

For building permits issued within the boundaries of the District only, builders pay an additional system development fee in the amount of \$1,200. The District uses this additional revenue for the improvement of its streets right of way and irrigation facilities, which are District's obligation under the Agreement. It is the intention of the District to utilize the revenue generated from the \$1,200 system development fee in defraying costs related to improving streets and irrigation facilities so that tax revenues are used for other operational costs and, primarily, to satisfy its obligation to pay the principal and accrued interest on the 1989 Bonds (see Note 5). The cumulative revenues generated from the \$1,200 system development fees, net of eligible expenditures, are reflected as a Fund Balance Assigned for Capital Improvements on page 3. As of December 31, 2017, the District had one vacant lot left to build and anticipates only one more collection of the system development fee.

NOTE 9 - RELATED PARTIES

At December 31, 2017, Castle Rock Bonds L.L.C. was the owner of a portion of the bonds issued by District Nos. 1, 2 and 7. Castle Rock Development Company is the owner of a majority of the undeveloped real property in District Nos. 2 through 7. Castle Rock Bonds L.L.C. and Castle Rock Development Company are related companies.

MEADOWS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 10 - RISK MANAGEMENT

Districts Nos. 1 through 7 are exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool). The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The Districts pay annual premiums to the Pool for liability and public officials' liability 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 11 - TAX, SPENDING AND DEBT LIMITATIONS

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

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

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

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

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

SUPPLEMENTARY INFORMATION

**MEADOWS METROPOLITAN DISTRICT NO. 1
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2017**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Intergovernmental revenue -			
District No. 4	\$ 3,692,284	\$ 3,354,391	\$ (337,893)
Interest income	35	884	849
Total revenues	<u>3,692,319</u>	<u>3,355,275</u>	<u>(337,044)</u>
EXPENDITURES			
Debt service			
Bond interest	<u>3,692,319</u>	<u>3,393,040</u>	<u>299,279</u>
Total expenditures	<u>3,692,319</u>	<u>3,393,040</u>	<u>299,279</u>
NET CHANGE IN FUND BALANCES	-	(37,765)	(37,765)
FUND BALANCES - BEGINNING OF YEAR	<u>-</u>	<u>135,587</u>	<u>135,587</u>
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ 97,822</u>	<u>\$ 97,822</u>

**MEADOWS METROPOLITAN DISTRICT NO. 1
CAPITAL PROJECTS FUND - CONSERVATION TRUST FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2017**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Conservation Trust entitlement	\$ 40,000	\$ 34,705	\$ (5,295)
Interest income	300	536	236
Total revenues	<u>40,300</u>	<u>35,241</u>	<u>(5,059)</u>
EXPENDITURES			
Capital outlay			
Parks and recreation	311,348	22,071	289,277
Banking fees	-	25	(25)
Total expenditures	<u>311,348</u>	<u>22,096</u>	<u>289,252</u>
NET CHANGE IN FUND BALANCES	(271,048)	13,145	284,193
FUND BALANCES - BEGINNING OF YEAR	<u>271,048</u>	<u>268,672</u>	<u>(2,376)</u>
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ 281,817</u>	<u>\$ 281,817</u>

OTHER INFORMATION

**MEADOWS METROPOLITAN DISTRICT NO. 1
SUMMARY OF ASSESSED VALUATION, MILL LEVY AND
PROPERTY TAXES COLLECTED
December 31, 2017**

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>	<u>Mills Levied (A)</u>		<u>Total Property Taxes</u>		<u>Percent Collected to Levied</u>
		<u>General</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2013	\$ 37,904,310	7.441	27.559	\$ 1,326,651	\$ 1,326,597	99.99%
2014	\$ 37,478,010	7.441	27.559	\$ 1,311,730	\$ 1,311,730	100.00%
2015	\$ 37,428,180	7.441	27.559	\$ 1,309,986	\$ 1,308,788	99.91%
2016	\$ 44,578,110	6.596	28.404	\$ 1,560,234	\$ 1,560,143	99.99%
2017	\$ 44,796,320	6.596	28.404	\$ 1,567,871	\$ 1,567,748	99.99%
Estimated for year ending December 31, 2018	\$ 49,014,960	6.381	28.619	\$ 1,715,523		

NOTE:

Property taxes collected in any one year include collection of delinquent property taxes assessed in prior years. Information received from the County Treasurer does not permit identification of specific year of assessment.

(A) The District levied 35 mills in total as required by the General Obligation Bonds, Series 1989A.