

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**El Paso County, Colorado**

**FINANCIAL STATEMENTS**  
**December 31, 2017**

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Office of the State Auditor

July 30, 2018

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## **Independent Auditor's Report**

Board of Directors

### **Meridian Ranch Metropolitan District**

El Paso County, Colorado

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Meridian Ranch Metropolitan 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **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 each major fund of the Meridian Ranch Metropolitan District 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 conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*L. Paul Goedecke P.C.*

L. Paul Goedecke, P.C.  
July 20, 2018

## **BASIC FINANCIAL STATEMENTS**

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**STATEMENT OF NET POSITION**  
**December 31, 2017**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and investments - restricted	\$ 2,157,791	\$ -	\$ 2,157,791
Accounts receivable - user fees	174,710	267,658	442,368
Due from other funds	-	2,042,503	2,042,503
Prepaid expenses	118,808	-	118,808
Security deposit	2,000	-	2,000
Capital assets, net			
Park and recreation facilities	11,192,843	-	11,192,843
Vehicles and equipment	48,964	-	48,964
Water and sewer facilities	-	28,446,436	28,446,436
Total assets	<u>13,695,116</u>	<u>30,756,597</u>	<u>44,451,713</u>
<b>LIABILITIES</b>			
Accounts payable	393,169	593,227	986,396
Deferred revenue	-	65,910	65,910
Due to other funds	2,042,503	-	2,042,503
Noncurrent liabilities			
Due in more than one year	11,777,316	32,230,918	44,008,234
Total liabilities	<u>14,212,988</u>	<u>32,890,055</u>	<u>47,103,043</u>
<b>NET POSITION</b>			
Net investment in capital assets	(535,509)	(3,784,482)	(4,319,991)
Restricted for emergencies	10,000	-	10,000
Restricted for parks and recreation	90,817	-	90,817
Unrestricted	(83,180)	1,651,024	1,567,844
Total net position	<u>\$ (517,872)</u>	<u>\$ (2,133,458)</u>	<u>\$ (2,651,330)</u>

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

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**Year Ended December 31, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 2,436,179	\$ 5,682,062	\$ -	\$ -	\$ 3,245,883	\$ -	\$ 3,245,883
Interest on long-term debt	405,503	-	-	-	(405,503)	-	(405,503)
	<u>2,841,682</u>	<u>5,682,062</u>	<u>-</u>	<u>-</u>	<u>2,840,380</u>	<u>-</u>	<u>2,840,380</u>
Business-type activities:							
Water	6,458,484	2,023,511	-	2,200,050	-	(2,234,923)	(2,234,923)
Sewer	4,091,739	2,112,679	-	1,870,500	-	(108,560)	(108,560)
	<u>10,550,223</u>	<u>4,136,190</u>	<u>-</u>	<u>4,070,550</u>	<u>-</u>	<u>(2,343,483)</u>	<u>(2,343,483)</u>
Total	<u>\$ 13,391,905</u>	<u>\$ 9,818,252</u>	<u>\$ -</u>	<u>\$ 4,070,550</u>	<u>2,840,380</u>	<u>(2,343,483)</u>	<u>496,897</u>
General revenues:							
					118,234	-	118,234
					1,878,487	-	1,878,487
					<u>1,996,721</u>	<u>-</u>	<u>1,996,721</u>
					4,837,101	(2,343,483)	2,493,618
					(5,354,973)	210,025	(5,144,948)
					<u>\$ (517,872)</u>	<u>\$ (2,133,458)</u>	<u>\$ (2,651,330)</u>

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

**MERIDIAN SERVICE METROPOLITAN DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2017**

	<b>General</b>	<b>Parks and Recreation</b>	<b>Capital Projects</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and investments - restricted	\$ 2,157,791	\$ -	\$ -	\$ 2,157,791
Accounts receivable - user fees	-	174,710	-	174,710
Prepaid expenses	13,570	105,238	-	118,808
Security deposit	2,000	-	-	2,000
<b>TOTAL ASSETS</b>	<b>\$ 2,173,361</b>	<b>\$ 279,948</b>	<b>\$ -</b>	<b>\$ 2,453,309</b>
 <b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 11,513	380,093	\$ 1,563	\$ 393,169
Due to other funds	2,144,421	(100,355)	(1,563)	2,042,503
Total liabilities	2,155,934	279,738	-	2,435,672
 <b>FUND BALANCES (DEFICIT)</b>				
Nonspendable				
Prepaid expenditures	13,570	105,238	-	118,808
Security deposit	2,000	-	-	2,000
Spendable				
Restricted:				
Emergency reserves	10,000	-	-	10,000
Parks and recreation	-	90,817	-	90,817
Unassigned	(8,143)	(195,845)	-	(203,988)
Total fund balances (deficit)	17,427	210	-	17,637
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,173,361</b>	<b>\$ 279,948</b>	<b>\$ -</b>	

Amounts reported for governmental activities in the Statement of Net

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

Capital assets 11,241,807

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

Developer advances payable (6,287,542)

Interest payable on developer advances (5,489,774)

Net position of governmental activities **\$ (517,872)**

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

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**Year Ended December 31, 2017**

	<u>General</u>	<u>Parks and Recreation</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Park and recreation open space fees	\$ -	\$ 1,399,833	\$ -	\$ 1,399,833
Street lighting fees	-	94,415	-	94,415
Reimbursed expenditures	4,000	8,228	-	12,228
Falcon Freedom Days	32,500	-	-	32,500
Lease income	17,334	-	-	17,334
Miscellaneous	24,288	76,612	-	100,900
IGA revenue from Meridian Ranch Metropolitan District	140,000	26,866	3,972,299	4,139,165
Interest	-	690	3,231	3,921
Total revenues	<u>218,122</u>	<u>1,606,644</u>	<u>3,975,530</u>	<u>5,800,296</u>
<b>EXPENDITURES</b>				
General government	279,435	-	-	279,435
Parks and recreation	-	1,772,556	-	1,772,556
Capital expenditures	21,750	420,719	-	442,469
Total expenditures	<u>301,185</u>	<u>2,193,275</u>	<u>-</u>	<u>2,494,460</u>
<b>EXCESS OF EXPENDITURES OVER (UNDER) REVENUES</b>	<u>(83,063)</u>	<u>(586,631)</u>	<u>3,975,530</u>	<u>3,305,836</u>
<b>OTHER FINANCING SOURCES</b>				
Transfer from (to) Capital Projects Fund	100,000	321,841	(421,841)	-
Transfer from Water Fund	-	132,500	813,487	945,987
Transfer from Sewer Fund	-	132,500	800,000	932,500
Developer reimbursement	-	-	(4,772,299)	(4,772,299)
Total other financing sources	<u>100,000</u>	<u>586,841</u>	<u>(3,580,653)</u>	<u>(2,893,812)</u>
<b>NET CHANGE IN FUND BALANCES</b>	16,937	210	394,877	412,024
<b>FUND BALANCE (DEFICIT) - BEGINNING OF YEAR</b>	<u>490</u>	<u>-</u>	<u>(394,877)</u>	<u>(394,387)</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 17,427</u>	<u>\$ 210</u>	<u>\$ -</u>	<u>\$ 17,637</u>

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

**MERIDIAN SERVICE METROPOLITAN DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGE IN FUND BALANCES - GOVERNMENTAL  
FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended December 31, 2017**

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

Net change in fund balances - Total governmental funds	\$	412,024
<p>Government funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlays		442,469
Depreciation		(384,188)
<p>Government funds recognize advances as revenue and repayments as expenses. However, these are not reflected on the Statement of Activities.</p>		
Developer advances		4,772,299
<p>Government funds recognize interest expense when paid. However, the Statement of Activities recognized these costs when incurred.</p>		
Accrued interest payable - change in liability		(405,503)
Change in net position - Governmental activities	\$	4,837,101

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

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**Year Ended December 31, 2017**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Reimbursed expenditures	\$ 48,000	\$ 48,000	\$ 4,000	\$ (44,000)
IGA revenue - Meridian Ranch	140,000	140,000	140,000	-
Falcon Freedom Days donations	30,000	30,000	32,500	2,500
Miscellaneous	10,205	10,205	24,288	14,083
Lease income - AT&T	16,125	16,125	17,334	1,209
Total revenues	<u>244,330</u>	<u>244,330</u>	<u>218,122</u>	<u>(26,208)</u>
<b>EXPENDITURES</b>				
General and administrative				
Audit	5,000	15,000	15,229	(229)
Director fees	6,500	6,500	5,200	1,300
Dues and memberships	2,000	2,000	2,002	(2)
Insurance	-	500	442	58
Legal	-	7,000	6,523	477
Election	-	-	10	(10)
Marketing/District events	40,000	40,000	40,309	(309)
Falcon Freedom Days	40,000	62,000	61,610	390
Miscellaneous	1,000	6,000	6,231	(231)
Operations and maintenance				
General operations - Administration	-	86,000	85,583	417
Repairs and maintenance	-	-	4,337	(4,337)
Office rental and utilities	40,000	52,000	51,959	41
Capital outlay				
Vehicle purchase	35,000	35,000	21,750	13,250
Total expenditures	<u>169,500</u>	<u>312,000</u>	<u>301,185</u>	<u>10,815</u>
<b>EXCESS OF EXPENDITURES OVER (UNDER) REVENUES</b>	<u>74,830</u>	<u>(67,670)</u>	<u>(83,063)</u>	<u>(15,393)</u>
<b>OTHER FINANCING SOURCES</b>				
Transfer from Capital Projects Fund	377,814	100,000	100,000	-
Total other financing sources	<u>377,814</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	452,644	32,330	16,937	(15,393)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>(419,072)</u>	<u>490</u>	<u>490</u>	<u>-</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 33,572</u>	<u>\$ 32,820</u>	<u>\$ 17,427</u>	<u>\$ (15,393)</u>

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

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**PARKS AND RECREATION FUND**  
**Year Ended December 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Parks and recreation open space fees	\$ 1,446,276	\$ 1,446,276	\$ 1,399,833	\$ (46,443)
Interest and other income	-	-	690	690
Reimbursed expenditures	-	-	8,228	8,228
Street lighting fees	91,104	94,400	94,415	15
IGA revenue - MRMD (CTF)	15,500	26,800	26,866	66
Miscellaneous	-	76,600	76,612	12
Total revenues	<u>1,552,880</u>	<u>1,644,076</u>	<u>1,606,644</u>	<u>(37,432)</u>
<b>EXPENDITURES</b>				
General and administrative				
Accounting and management	38,000	46,000	45,930	70
Insurance	23,000	24,000	23,560	440
Legal	45,000	80,000	81,830	(1,830)
Office expense	6,000	6,000	-	6,000
Miscellaneous	5,000	5,000	116	4,884
Operations and maintenance				
Landscaping	494,800	471,000	465,199	5,801
Recreation center operations/maintenance	697,107	735,000	732,855	2,145
Repairs and maintenance	31,500	175,000	172,681	2,319
Utilities - recreation center	96,000	140,000	141,785	(1,785)
Utilities - street lights	96,000	110,000	108,600	1,400
Capital outlay				
Capital projects	270,000	420,000	420,719	(719)
Transfer to Replacement Reserve (5%)	72,314	-	-	-
Total expenditures	<u>1,874,721</u>	<u>2,212,000</u>	<u>2,193,275</u>	<u>18,725</u>
<b>EXCESS OF EXPENDITURES OVER REVENUES</b>	<u>(321,841)</u>	<u>(567,924)</u>	<u>(586,631)</u>	<u>(18,707)</u>
<b>OTHER FINANCING SOURCES</b>				
Transfer from Water Fund	-	132,500	132,500	-
Transfer from Sewer Fund	-	132,500	132,500	-
Transfer from Capital Projects Fund	321,841	321,841	321,841	-
Total other financing sources	<u>321,841</u>	<u>586,841</u>	<u>586,841</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	18,917	210	(18,707)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	-	-	-	-
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ -</u>	<u>\$ 18,917</u>	<u>\$ 210</u>	<u>\$ (18,707)</u>

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

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**December 31, 2017**

	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
Due from other funds	\$ 1,595,131	\$ 447,372	\$ 2,042,503
Accounts receivable - user fees	154,596	113,062	267,658
Total current assets	1,749,727	560,434	2,310,161
Capital assets:			
Capital assets, not being depreciated	259,089	-	259,089
Capital assets, being depreciated	28,681,315	15,166,670	43,847,985
Total capital assets	28,940,404	15,166,670	44,107,074
Less accumulated depreciation	(10,748,825)	(4,911,813)	(15,660,638)
Total capital assets (net of accumulated depreciation)	18,191,579	10,254,857	28,446,436
Total assets	\$ 19,941,306	\$ 10,815,291	\$ 30,756,597
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 503,942	\$ 89,285	\$ 593,227
Deferred revenue	65,910	-	65,910
Noncurrent liabilities :			
Developer advances payable and accrued interest	28,770,313	3,460,605	32,230,918
Total liabilities	29,340,165	3,549,890	32,890,055
<b>NET POSITION (DEFICIT)</b>			
Invested in capital assets, net of related debt	(10,578,734)	6,794,252	(3,784,482)
Unrestricted	1,179,875	471,149	1,651,024
Total net position (deficit)	(9,398,859)	7,265,401	(2,133,458)
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 19,941,306</b>	<b>\$ 10,815,291</b>	<b>\$ 30,756,597</b>

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

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**Year Ended December 31, 2017**

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Service charges	\$ 1,867,782	\$ 1,024,900	\$ 2,892,682
Meter services	129,750	-	129,750
Total operating revenues	<u>1,997,532</u>	<u>1,024,900</u>	<u>3,022,432</u>
<b>OPERATING EXPENSES</b>			
Cost of services			
Water operations	996,924	-	996,924
Sewer operations	-	265,884	265,884
Lift station operations	-	174,721	174,721
Engineering	65,934	26,154	92,088
Permits	625	-	625
Repairs and maintenance	63,866	143,421	207,287
Tank cleaning and maintenance	103,741	-	103,741
Administrative and general expenses			
Accounting and management	180,471	35,569	216,040
Insurance	51,198	15,358	66,556
Legal	142,706	15,292	157,998
Miscellaneous	9,559	6,081	15,640
Depreciation	964,579	505,556	1,470,135
Total operating expenses	<u>2,579,603</u>	<u>1,188,036</u>	<u>3,767,639</u>
<b>OPERATING LOSS</b>	<u>(582,071)</u>	<u>(163,136)</u>	<u>(745,207)</u>
<b>NONOPERATING REVENUES AND (EXPENSES)</b>			
Reimbursed expenditures	10,979	68,079	79,058
Facilities fees - Meridian Ranch Metropolitan District	1,870,500	1,870,500	3,741,000
Facilities fees - Latigo Trail	329,550	-	329,550
Facilities fees - Sterling Ranch	-	1,019,700	1,019,700
Interest expense - Developer advances	(959,394)	(72,703)	(1,032,097)
Facilities fees reimbursement - IGA Meridian Ranch	(1,898,500)	(1,898,500)	(3,797,000)
Interest income - Latigo Trail agreement	15,000	-	15,000
Facilities fees reimbursement - IGA Latigo Trails	(75,000)	-	(75,000)
Total nonoperating revenues (expenses)	<u>(706,865)</u>	<u>987,076</u>	<u>280,211</u>
<b>LOSS (INCOME) BEFORE OTHER FINANCING USES</b>	<u>(1,288,936)</u>	<u>823,940</u>	<u>(464,996)</u>
<b>OTHER FINANCING USES</b>			
Transfer to Parks and Recreation Fund	(132,500)	(132,500)	(265,000)
Transfer to Capital Fund	(813,487)	(800,000)	(1,613,487)
Total other financing uses	<u>(945,987)</u>	<u>(932,500)</u>	<u>(1,878,487)</u>
<b>CHANGE IN NET POSITION</b>	(2,234,923)	(108,560)	(2,343,483)
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>(7,163,936)</u>	<u>7,373,961</u>	<u>210,025</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ (9,398,859)</u>	<u>\$ 7,265,401</u>	<u>\$ (2,133,458)</u>

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

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**Year Ended December 31, 2017**

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 2,266,455	\$ 575,919	\$ 2,842,374
Payments to vendors	(1,363,074)	(753,443)	(2,116,517)
Deferred revenue	65,910	-	65,910
Net cash provided by operating activities	<u>969,291</u>	<u>(177,524)</u>	<u>791,767</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Reimbursed expenditures	374,338	160,324	534,662
Facilities fees - Meridian Ranch Metropolitan District	1,870,500	1,870,500	3,741,000
Facilities fees - Sterling Ranch	329,550	1,019,700	1,349,250
Interest income - Latigo Trails	15,000	-	15,000
Transfers to other funds	(945,987)	(932,500)	(1,878,487)
Acquisition of capital assets	(597,192)	-	(597,192)
Facilities fees paid -IGA Latigo	(75,000)	-	(75,000)
Facilities fees paid- IGA Meridian Ranch	(1,940,500)	(1,940,500)	(3,881,000)
Net cash used in capital and related financing activities	<u>(969,291)</u>	<u>177,524</u>	<u>(791,767)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	-	-	-
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	-	-	-
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>			
Net loss from operations	\$ (582,071)	\$ (163,136)	\$ (745,207)
Adjustments to reconcile net loss from operations to net cash provided by operating activities:			
Depreciation	964,579	505,556	1,470,135
Effects of changes in operating assets and liabilities:			
Increase in amount due from other funds	278,721	(436,716)	(157,995)
Increase in accounts receivable	(9,798)	(12,265)	(22,063)
Increase (decrease) in accounts payable	251,950	(70,963)	180,987
Increase in deferred revenue	65,910	-	65,910
Net cash provided by operating activities	<u>\$ 969,291</u>	<u>\$ (177,524)</u>	<u>\$ 791,767</u>

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

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 1 – DEFINITION OF REPORTING ENTITY**

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

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

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

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Government-wide and Fund Financial Statements**

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Both statements distinguish between governmental activities, which normally are supported by taxes and intergovernmental revenues, and business type activities, which rely to a significant extent on fees and charges for support.

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

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current period. The material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

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

The District reports the following major proprietary funds:

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

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**Fund Balances**

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

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

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

Committed fund balance – The portion of fund balance constrained for specific purposes according to limitations imposed by the District's highest level of decision making authority, the Board of Directors prior to the end of the current fiscal year. The constraint may be removed or changed only through formal action of the Board of Directors.

Assigned fund balance – The portion of fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

Unassigned fund balance – The residual portion of fund balance that does not meet any of the above criteria.

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

**Budgets**

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

For the year ended December 31, 2017, supplementary appropriations approved by the District modified the appropriation from \$169,500 to \$312,000 in the General Fund, from \$1,874,721 to \$2,212,000 in the

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Parks and Recreation Fund, from \$699,655 to \$5,194,140 in the Capital Projects Fund, from \$3,375,902 to \$5,163,987 in the Water Fund and from \$2,231,120 to \$3,884,100 in the Sewer Fund.

**Pooled Cash and Investments**

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single bank account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash. Investments are carried at fair value.

**Cash Equivalents**

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

**Property Taxes**

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

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

**Capital Assets**

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

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

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation expense has been computed using the straight-line method over the following estimated economic useful lives:

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

**Facilities Fees**

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

**NOTE 3 – CASH AND INVESTMENTS**

Cash and investments as of December 31, 2017 are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and cash equivalents	\$ 2,157,791
Total cash and cash equivalents	<u>\$ 2,157,791</u>

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

Deposits with financial institutions	\$ 1,050,420
Investments - COLOTRUST	<u>1,107,371</u>
Total cash and investments	<u>\$ 2,157,791</u>

**Deposits with Financial Institutions**

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least 102% of the aggregate uninsured deposits.

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 3 – CASH AND INVESTMENTS (CONTINUED)**

The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2017, the District's cash deposits had a bank balance of \$1,118,753 and a carrying balance of \$1,050,420.

**Investments**

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

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

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

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

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

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

<b><u>Investment</u></b>	<b><u>Maturity</u></b>	<b><u>Fair Value</u></b>
Colorado Liquid Asset Trust	Less than one year	\$1,107,371

**COLOTRUST**

During 2017, the District invested in the Colorado Local Government Liquid Asset Trust (Colostrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

Securities Commission administers and enforces all State statutes governing Colotrust. Colotrust operates similarly to a money market fund and each share is equal in value to \$1.00.

Colotrust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. A designated custodial bank serves as custodian for the Colotrust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for Colotrust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by Colotrust. As of December 31, 2017, the District has \$1,107,371 invested in COLOTRUST PLUS+. ColoTrust is rated AAAM by S&P Global Ratings.

**Investment Valuation**

Certain investments are measured at fair value on a recurring basis are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District's investments are not required to be categorized within the fair value hierarchy. These investments are measured at amortized cost or in certain circumstances the value is calculated using the net asset value (NAV) per share, or its equivalent of the investment. These investments include 2a7-like external investment pools and money market investments. The District held investments in Colotrust at yearend for which the investment valuations were determined as follows.

Colotrust determines the NAV of the shares of each portfolio as of the close of business on each day. The NAV per share of each portfolio is computed by dividing the total value of the securities and other assets of the portfolios, less any liabilities, by the total outstanding shares of the portfolios. Liabilities, which include all expenses and fees of Colotrust, are accrued daily. The NAV is calculated at fair value using various inputs in determine value in accordance with FASB guidance. It is the goal of Colotrust to maintain a NAV of \$1.00 per share, however changes in interest rates may affect the fair value of the securities held by Colotrust and there can be no assurance that the NAV will not vary from \$1.00 per share.

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**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:

<b>Governmental activities:</b>	<b>Balance at December 31, 2016</b>	<b>Additions</b>	<b>Transfers</b>	<b>Disposals/ Retirements</b>	<b>Balance at December 31, 2017</b>
Capital assets being depreciated:					
Park and recreation facilities	\$ 13,573,310	\$ 420,719	\$ 166,504	\$ -	\$ 14,160,533
Vehicles and equipment	61,820	21,750	-	-	83,570
Total capital assets being depreciated	<u>13,635,130</u>	<u>442,469</u>	<u>166,504</u>	<u>-</u>	<u>14,244,103</u>
Less accumulated depreciation for:					
Park and recreation facilities	2,597,373	370,317	-	-	2,967,690
Vehicles and equipment	20,735	13,871	-	-	34,606
Total accumulated depreciation	<u>2,618,108</u>	<u>384,188</u>	<u>-</u>	<u>-</u>	<u>3,002,296</u>
Total capital assets being depreciated, net	<u>11,017,022</u>	<u>58,281</u>	<u>166,504</u>	<u>-</u>	<u>11,241,807</u>
Capital assets not being depreciated:					
Construction in progress	166,504	-	(166,504)	-	-
Total capital assets, not being depreciated	<u>166,504</u>	<u>-</u>	<u>(166,504)</u>	<u>-</u>	<u>-</u>
Governmental activities capital assets, net	<u>\$ 11,183,526</u>	<u>\$ 58,281</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,241,807</u>
<b>Business-type activities:</b>	<b>Balance at December 31, 2016</b>	<b>Additions</b>	<b>Transfers</b>	<b>Disposals/ Retirements</b>	<b>Balance at December 31, 2017</b>
Capital assets being depreciated:					
Water system facilities	\$ 28,086,127	\$ 595,188	\$ -	\$ -	\$ 28,681,315
Sewer system facilities	15,166,670	-	-	-	15,166,670
Total capital assets being depreciated	<u>43,252,797</u>	<u>595,188</u>	<u>-</u>	<u>-</u>	<u>43,847,985</u>
Less accumulated depreciation for:					
Water system facilities	9,784,246	964,579	-	-	10,748,825
Sewer system facilities	4,406,257	505,556	-	-	4,911,813
Total accumulated depreciation	<u>14,190,503</u>	<u>1,470,135</u>	<u>-</u>	<u>-</u>	<u>15,660,638</u>
Total capital assets being depreciated, net	<u>29,062,294</u>	<u>(874,947)</u>	<u>-</u>	<u>-</u>	<u>28,187,347</u>
Capital assets not being depreciated:					
Water purchase	257,085	-	-	-	257,085
Construction in progress	-	2,004	-	-	2,004
Total capital assets not being depreciated	<u>257,085</u>	<u>2,004</u>	<u>-</u>	<u>-</u>	<u>259,089</u>
Business-type activities capital assets, net	<u>\$ 29,319,379</u>	<u>\$ (872,943)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,446,436</u>

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 4 – CAPITAL ASSETS (CONTINUED)**

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

Governmental activities:	
Park and recreation facilities	\$ 370,317
Vehicles and equipment	<u>13,317</u>
Total depreciation expense – Governmental activities	<u>\$ 384,188</u>
Business-type activities:	
Water	\$ 964,579
Sewer	<u>505,556</u>
Total depreciation expense – Business-type activities	<u>\$ 1,470,135</u>

**NOTE 5 – LONG-TERM OBLIGATIONS**

The following is an analysis of changes in the District’s long-term obligations for the year ended December 31, 2017:

	<u>Balance at December 31, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2017</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
Developer advances	\$ 11,059,841	\$ -	\$ (4,772,299)	\$ 6,287,542	\$ -
Interest accrued - Developer advances	5,084,271	407,936	(2,433)	5,489,774	-
Total governmental activities	<u>16,144,112</u>	<u>407,936</u>	<u>(4,774,732)</u>	<u>11,777,316</u>	<u>-</u>
<b>Business-type activities:</b>					
Developer advances	20,641,929	-	-	20,641,929	-
Interest accrued - Developer advances	10,556,892	1,032,097	-	11,588,989	-
Total business activities	<u>31,198,821</u>	<u>1,032,097</u>	<u>-</u>	<u>32,230,918</u>	<u>-</u>
	<u>\$ 47,342,933</u>	<u>\$ 1,440,033</u>	<u>\$ (4,774,732)</u>	<u>\$ 44,008,234</u>	<u>\$ -</u>

**Developer Advances**

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

**MERIDIAN SERVICE METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)**

As of December 31, 2017, outstanding Developer advances totaled \$26,929,471 and accumulated accrued interest totaled \$17,078,763.

Subsequent to December 31, 2017, \$14,418,927 of the outstanding principal and \$5,581,073 of the outstanding interest due to the Developer was paid off with the issuance of new debt by Meridian Ranch (see Note 14).

**Authorized Debt**

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

At December 31, 2017, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	<b>Amount Authorized on November 7, 2000</b>	<b>Remaining at December 31, 2017</b>
Street improvements	\$ 29,435,000	\$ 29,435,000
Water	35,765,000	35,765,000
Sanitation	7,320,000	7,320,000
Safety protection	1,740,000	1,740,000
Park and recreation	7,620,000	7,620,000
Mosquito control	1,305,000	1,305,000
Television relay and translation	1,055,000	1,055,000
Public transportation	260,000	260,000
Operations	500,000	500,000
Refunding	85,000,000	85,000,000
	<u>\$ 170,000,000</u>	<u>\$ 170,000,000</u>

**MERIDIAN SERVICE METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 6 – NET POSITION**

The District’s net position consists of three components – invested in capital assets, net of related debt, restricted and unrestricted. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2017, the District had a deficit investment in capital assets, net of related debt of \$4,319,991 calculated as follows:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Invested in capital assets, net of related debt:			
Capital assets, net	\$ 11,241,807	\$ 28,446,436	\$ 39,688,243
Noncurrent portion of long-term obligations	(11,777,316)	(32,230,918)	(44,008,234)
Invested in capital asset, net of related debt	\$ (535,509)	\$ (3,784,482)	\$ (4,319,991)

The restricted fund balance in the General Fund in the amount of \$10,000 is comprised of the Emergency Reserves that have been provided for by Article X, Section 20 of the Constitution of the State of Colorado (see Note 13).

The restricted fund balance in the Park and Recreation Fund in the amount of \$90,817 is comprised of Conservation Trust Funds and is to be used exclusively for parks and recreation.

The District’s unrestricted net position at December 31, 2017 totaled \$1,567,844 comprised of (\$83,180) in the governmental activities and \$1,651,024 in the business-type activities. The deficit amount in the governmental activities is a result of the District being responsible for the repayment of debt for public improvements which were conveyed to other governmental entities and which costs were removed from the District’s financial records.

**NOTE 7 – FUND EQUITY**

At December 31, 2017, the District reported the following classifications of fund equity.

**Nonspendable Fund Balance**

The nonspendable fund balance in the General Fund and Park and Recreation Fund in the amount of \$120,808 represent prepaid expenditures for the ensuing future year and is therefore not in a spendable form.

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 7 – FUND EQUITY (CONTINUED)**

**Restricted Fund Balance**

The restricted fund balance in the General Fund in the amount of \$10,000 is comprised of the Emergency Reserves that have been provided for by Article X, Section 20 of the Constitution of the State of Colorado (see Note 13).

The restricted fund balance in the Parks and Recreation Fund in the amount of \$90,817 is comprised of Conservation Trust Funds and is to be used exclusively for parks and recreation.

**NOTE 8 – ECONOMIC DEPENDENCY**

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

**NOTE 9 – INTERGOVERNMENTAL AGREEMENT**

**Meridian Service Agreement**

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

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

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

**MERIDIAN SERVICE METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 9 – INTERGOVERNMENTAL AGREEMENT (CONTINUED)**

During 2017, the District transferred a total of \$3,797,000 (4 water/sewer taps at \$14,000 each and 258 water/ sewer taps at \$14,500 each) to Meridian Ranch to assist in the repayment of the subordinate bonds issued by Meridian Ranch.

**NOTE 10 – LATIGO TRAILS AGREEMENT**

**Latigo Trails Agreement**

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

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

During 2017, the District received \$395,000 from Falcon Latigo pursuant to the Water Agreement and reimbursed RMBG LLC #1 \$75,000. The payment received included payment for the five water tap fees due on 12/31/2018 and the reimbursement to RMBG LLC #1 included payment for the five water tap fees due on 12/31/2018. No future payments are due from Falcon Latigo, LLC and no future reimbursements are due to RMBG LLC #1. The June 12, 2009 agreement has been satisfied.

**NOTE 11 – RELATED PARTIES**

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

**NOTE 12 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

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

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 12 – RISK MANAGEMENT (CONTINUED)**

The District pays annual premiums to the Pool for liability, property, public officials liability and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

**NOTE 13 – TAX, SPENDING AND DEBT LIMITATION**

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

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

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

**NOTE 14 – SUBSEQUENT EVENT**

On April 17, 2018, Meridian Ranch issued its \$24,000,000 Senior Tax-Exempt Loan, Series 2018 (2018 Loan). The 2018 Loan was issued in part to reimburse the District for developer advances and accrued interest for capital projects and improvements in the amount of \$20,000,000 (see Note 5).

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

## **SUPPLEMENTARY INFORMATION**

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**CAPITAL PROJECTS FUND**  
**Year Ended December 31, 2017**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
IGA revenue - Meridian Ranch	\$ -	\$ 3,972,299	\$ 3,972,299	\$ -
Interest	-	3,231	3,231	-
Total revenues	<u>-</u>	<u>3,975,530</u>	<u>3,975,530</u>	<u>-</u>
<b>EXPENDITURES</b>				
Developer reimbursement	-	4,772,299	4,772,299	-
Total expenditures	<u>-</u>	<u>4,772,299</u>	<u>4,772,299</u>	<u>-</u>
<b>EXCESS OF EXPENDITURES OVER REVENUES</b>	<u>-</u>	<u>(796,769)</u>	<u>(796,769)</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer to General Fund	(377,814)	(100,000)	(100,000)	-
Transfer to Parks and Recreation Fund	(321,841)	(321,841)	(321,841)	-
Transfer from Water Fund	-	813,487	813,487	-
Transfer from Sewer Fund	-	800,000	800,000	-
Total other financing sources (uses)	<u>(699,655)</u>	<u>1,191,646</u>	<u>1,191,646</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	(699,655)	394,877	394,877	-
<b>FUND BALANCE (DEFICIT) - BEGINNING OF YEAR</b>	<u>699,655</u>	<u>(394,877)</u>	<u>(394,877)</u>	<u>-</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUNDS AVAILABLE**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**WATER FUND**  
**Year Ended December 31, 2017**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>		<b>Final Budget -</b>
				<b>Positive</b>
				<b>(Negative)</b>
<b>REVENUES</b>				
Water fees	\$ 1,674,036	\$ 1,674,036	\$ 1,867,782	\$ 193,746
Meter service	75,000	75,000	129,750	54,750
Facilities fees - Meridian Ranch	1,087,500	1,900,000	1,870,500	(29,500)
Facilities fees - Latigo Trail	318,189	318,189	329,550	11,361
Interest income - Latigo Trail	15,000	15,000	15,000	-
Reimbursed expenditures	-	-	10,979	10,979
Total revenues	<u>3,169,725</u>	<u>3,982,225</u>	<u>\$ 4,223,561</u>	<u>241,336</u>
<b>EXPENDITURES</b>				
General and administrative				
Accounting and management	150,000	180,000	180,471	(471)
Consulting	10,000	5,000	-	5,000
Insurance	50,000	52,000	51,198	802
Legal	100,000	143,000	142,706	294
Office expense	6,000	6,000	3,354	2,646
Miscellaneous	15,000	10,000	6,205	3,795
Operations and maintenance				
Engineering	101,000	70,000	65,934	4,066
Facilities fees paid - IGA Meridian Ranch	1,087,500	1,898,500	1,898,500	-
Latigo reimbursement	62,500	75,000	75,000	-
Permits and fees	5,000	1,000	625	375
Repairs and maintenance	182,950	65,000	63,866	1,134
Tank cleaning and maintenance	242,000	105,000	103,741	1,259
Water operations	722,750	1,000,000	996,924	3,076
Capital projects				
Handheld meter reading system	7,500	7,500	-	7,500
Capital outlay	550,000	600,000	597,192	2,808
Total expenditures	<u>3,292,200</u>	<u>4,218,000</u>	<u>4,185,716</u>	<u>32,284</u>
<b>EXCESS OF REVENUES OVER (UNDER)</b>				
<b>EXPENDITURES</b>	<u>(122,475)</u>	<u>(235,775)</u>	<u>37,845</u>	<u>273,620</u>
<b>OTHER FINANCING USES</b>				
Transfer to Replacement Reserve (5%)	(83,702)	-	-	-
Transfer to Parks and Recreation Fund	-	(132,500)	(132,500)	-
Transfer to Capital Projects Fund	-	(813,487)	(813,487)	-
Total other financing uses	<u>(83,702)</u>	<u>(945,987)</u>	<u>(945,987)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	(206,177)	(1,181,762)	(908,142)	273,620
<b>FUNDS AVAILABLE - BEGINNING OF YEAR</b>	<u>830,188</u>	<u>2,088,017</u>	<u>2,088,017</u>	<u>-</u>
<b>FUNDS AVAILABLE - END OF YEAR</b>	<u>\$ 624,011</u>	<u>\$ 906,255</u>	<u>\$ 1,179,875</u>	<u>\$ 273,620</u>

Funds available at December 31, 2017 is computed as follows:

Current assets	\$ 1,749,727
Current liabilities	(569,852)
	<u>\$ 1,179,875</u>

**MERIDIAN SERVICE METROPOLITAN DISTRICT  
RECONCILIATION OF BUDGETARY BASIS TO STATEMENT OF  
REVENUES, EXPENSES AND CHANGE IN FUND NET POSITION  
WATER FUND  
Year Ended December 31, 2017**

Revenues (budgetary basis)	\$ 4,223,561
Revenues per Statement of Revenues, Expenses and Change in Fund Net Position	4,223,561
Expenditures (budgetary basis)	4,185,716
Other financing uses (budgetary basis)	945,987
Depreciation	964,579
Capital outlay	(597,192)
Interest expense - Developer advances	959,394
Expenses per Statement of Revenues, Expenses and Change in Fund Net Position	6,458,484
Change in net assets per Statement of Revenues, Expenses and Change in Fund Net Position	\$ (2,234,923)

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUNDS AVAILABLE**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**SEWER FUND**  
**Year Ended December 31, 2017**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>		<b>Budget - Positive (Negative)</b>
<b>REVENUES</b>				
Sewer fees	\$ 979,368	\$ 979,368	\$ 1,024,900	\$ 45,532
Reimbursed expenditures	89,826	89,826	68,079	(21,747)
Facilities fees - Meridian Ranch	1,087,500	1,870,500	1,870,500	-
Sterling Ranch	1,019,700	1,019,700	1,019,700	-
Sterling Ranch - sewer line purchase	310,000	-	-	-
Total revenues	<u>3,486,394</u>	<u>3,959,394</u>	<u>3,983,179</u>	<u>23,785</u>
<b>EXPENDITURES</b>				
General and administrative				
Accounting and management	30,000	30,000	35,569	(5,569)
Insurance	15,000	15,000	15,358	(358)
Legal	37,000	37,000	15,292	21,708
Office expense	6,000	6,000	3,364	2,636
Miscellaneous	2,500	5,000	2,717	2,283
Operations and maintenance				
Engineering	30,000	30,000	26,154	3,846
Facilities fees paid - IGA Meridian Ranch	1,087,500	1,900,000	1,898,500	1,500
Repairs and maintenance	293,000	293,000	143,421	149,579
Sewer operations	405,900	405,900	265,884	140,016
Lift station costs - shared	136,100	136,100	102,074	34,026
Lift station costs - Meridian Service	93,600	93,600	72,647	20,953
Total expenditures	<u>2,136,600</u>	<u>2,951,600</u>	<u>2,580,980</u>	<u>370,620</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>1,349,794</u>	<u>1,007,794</u>	<u>1,402,199</u>	<u>394,405</u>
<b>OTHER FINANCING USES</b>				
Transfer to Replacement Reserve (5%)	(48,968)	-	-	-
Transfer to Special Sewer Reserve Fund	(45,552)	-	-	-
Transfer to Parks and Recreation Fund	-	(132,500)	(132,500)	-
Transfer to Capital Projects Fund	-	(800,000)	(800,000)	-
Total other financing uses	<u>(94,520)</u>	<u>(932,500)</u>	<u>(932,500)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	1,255,274	75,294	469,699	394,405
<b>FUNDS AVAILABLE - BEGINNING OF YEAR</b>	<u>30,455</u>	<u>1,450</u>	<u>1,450</u>	<u>-</u>
<b>FUNDS AVAILABLE - END OF YEAR</b>	<u>\$ 1,285,729</u>	<u>\$ 76,744</u>	<u>\$ 471,149</u>	<u>\$ 394,405</u>

Funds available at December 31, 2017 is computed as follows:

Current assets	\$ 560,434
Current liabilities	(89,285)
	<u>\$ 471,149</u>

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

**Year Ended December 31, 2017**

Revenues (budgetary basis)	\$ 3,983,179
Revenues per Statement of Revenues, Expenses and Change in Fund Net Position	3,983,179
Expenditures (budgetary basis)	2,580,980
Other financing uses - budgetary basis	932,500
Depreciation	505,556
Interest expense - Developer advances	72,703
Expenses per Statement of Revenues, Expenses and Change in Fund Net Position	4,091,739
Change in net assets per Statement of Revenues, Expenses and Change in Fund Net Position	\$ (108,560)