

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

**FINANCIAL STATEMENTS**  
**December 31, 2018**

## TABLE OF CONTENTS

### INDEPENDENT AUDITOR'S REPORT

### BASIC FINANCIAL STATEMENTS

#### Government-wide Financial Statements:

Statement of Net Position .....	1
Statement of Activities.....	2

#### Fund Financial Statements:

Balance Sheet – Governmental Funds .....	3
Statement of Revenues, Expenditures and Change in Fund Balances - Governmental Funds .....	4
Reconciliation of the Statement of the Revenues, Expenditures and Change in Fund Balances - Governmental Funds to the Statement of Activities .....	5
General Fund – Statement of Revenues, Expenditures and Change in Fund Balance – Budget and Actual .....	6
Parks and Recreation Fund – Statement of Revenues, Expenditures and Change In Fund Balance – Budget and Actual .....	7
Statement of Net Position – Proprietary Funds.....	8
Statement of Revenues, Expenses and Change in Fund Net Position – Proprietary Funds.....	9
Statement of Cash Flows – Proprietary Fund .....	10

Notes to Financial Statements.....	11
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### SUPPLEMENTARY INFORMATION

Capital Projects Fund – Schedule of Revenues, Expenditures and Change in Fund Balance – Budget and Actual .....	24
Water Fund – Schedule of Revenues, Expenditures and Change in Funds Available – Budget and Actual (Budgetary Basis) .....	25
Reconciliation of Budgetary Basis (Actual) to Statement of Revenues, Expenses and Change in Fund Net Position – Water Fund .....	26
Sewer Fund – Schedule of Revenues, Expenditures and Change in Funds Available – Budget and Actual (Budgetary Basis) .....	27
Reconciliation of Budgetary Basis (Actual) to Statement of Revenues, Expenses and Change in Fund Net Position – Sewer Fund .....	28

## **Independent Auditor's Report**

Board of Directors

**Meridian Service Metropolitan District**

El Paso County, Colorado

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

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of Meridian Service Metropolitan District as of and for the year ended December 31, 2018, 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, the business type activities and each major fund of the Meridian Service Metropolitan District as of December 31, 2018, and the respective changes in financial position and, when applicable, cash flows and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Other Matters

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

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

*L. Paul Goedecke P.C.*

L. Paul Goedecke, P.C.  
September 11, 2019

## **BASIC FINANCIAL STATEMENTS**

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**STATEMENT OF NET POSITION**  
**December 31, 2018**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and investments - unrestricted	\$ 66,003	\$ 2,773,420	\$ 2,839,423
Cash and investments - restricted	3,905,026	-	3,905,026
Accounts receivable - user fees	220,517	329,311	549,828
Accounts receivable - other	7,670	124,319	131,989
Prepaid expenses	21,625	-	21,625
Security deposit	2,000	-	2,000
Capital assets, net			
Park and recreation facilities	11,480,086	-	11,480,086
Vehicles and equipment	35,092	-	35,092
Water and sewer facilities	-	27,702,291	27,702,291
Total assets	<u>15,738,019</u>	<u>30,929,341</u>	<u>46,667,360</u>
<b>LIABILITIES</b>			
Accounts payable	99,706	498,334	598,040
Meter deposit	1,000	-	1,000
Deferred revenue	-	124,320	124,320
Due to Meridian Ranch Metropolitan District	-	330,000	330,000
Noncurrent liabilities			
Due in more than one year	-	21,438,838	21,438,838
Total liabilities	<u>100,706</u>	<u>22,391,492</u>	<u>22,492,198</u>
<b>NET POSITION</b>			
Net investment in capital assets	11,515,178	6,263,453	17,778,631
Restricted for emergencies	17,000	-	17,000
Restricted for parks and recreation	107,407	-	107,407
Unrestricted	3,997,728	2,274,396	6,272,124
Total net position	<u>\$ 15,637,313</u>	<u>\$ 8,537,849</u>	<u>\$ 24,175,162</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, 2018**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue and Change in Net Position</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Governmental activities:							
General government	\$ 2,876,555	\$ 7,419,227	\$ -	\$ -	\$ 4,542,672	\$ -	\$ 4,542,672
Interest on long-term debt	79,745	-	-	-	(79,745)	-	(79,745)
	<u>2,956,300</u>	<u>7,419,227</u>	<u>-</u>	<u>-</u>	<u>4,462,927</u>	<u>-</u>	<u>4,462,927</u>
Business-type activities:							
Water	(4,308,363)	2,402,618	-	2,638,410	-	9,349,391	9,349,391
Sewer	3,725,853	2,475,269	-	2,572,500	-	1,321,916	1,321,916
	<u>(582,510)</u>	<u>4,877,887</u>	<u>-</u>	<u>5,210,910</u>	<u>-</u>	<u>10,671,307</u>	<u>10,671,307</u>
<b>Total</b>	<u>\$ 2,373,790</u>	<u>\$ 12,297,114</u>	<u>\$ -</u>	<u>\$ 5,210,910</u>	<u>4,462,927</u>	<u>10,671,307</u>	<u>15,134,234</u>
General revenues:							
					10,346,598	-	10,346,598
					68,920	-	68,920
					1,276,740	-	1,276,740
					<u>11,692,258</u>	<u>-</u>	<u>11,692,258</u>
					16,155,185	10,671,307	26,826,492
					(517,872)	(2,133,458)	(2,651,330)
					<u>\$ 15,637,313</u>	<u>\$ 8,537,849</u>	<u>\$ 24,175,162</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, 2018**

	<u>General</u>	<u>Parks and Recreation</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and investments	\$ 300	\$ 35,259	\$ 30,444	\$ 66,003
Cash and investments - restricted	-	107,407	3,797,619	3,905,026
Accounts receivable - user fees	-	220,517	-	220,517
Accounts receivable - other	-	7,670	-	7,670
Prepaid expenses	21,625	-	-	21,625
Security deposit	2,000	-	-	2,000
<b>TOTAL ASSETS</b>	<u>\$ 23,925</u>	<u>\$ 370,853</u>	<u>\$ 3,828,063</u>	<u>\$ 4,222,841</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 2,377	97,329	\$ -	\$ 99,706
Meter Deposit	1,000	-	-	1,000
Due to/from other funds	3,611	-	(3,611)	-
Total liabilities	<u>6,988</u>	<u>97,329</u>	<u>(3,611)</u>	<u>100,706</u>
<b>FUND BALANCES</b>				
Nonspendable				
Prepaid expenditures	21,625	-	-	21,625
Security deposit	2,000	-	-	2,000
Spendable				
Restricted:				
Emergency reserves	17,000	-	-	17,000
Capital projects	-	-	3,797,619	3,797,619
Parks and recreation	-	107,407	-	107,407
Unassigned	(23,688)	166,117	34,055	176,484
Total fund balances	<u>16,937</u>	<u>273,524</u>	<u>3,831,674</u>	<u>4,122,135</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 23,925</u>	<u>\$ 370,853</u>	<u>\$ 3,828,063</u>	

Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Capital assets	11,515,178
Net position of governmental activities	<u>\$ 15,637,313</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 BALANCES**  
**GOVERNMENTAL FUNDS**  
**Year Ended December 31, 2018**

	<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	\$ -	\$ 1,737,135	\$ -	\$ 1,737,135
Street lighting fees	-	114,207	-	114,207
Reimbursed expenditures	4,800	477	-	5,277
Falcon Freedom Days	38,000	-	-	38,000
Lease income	17,334	-	-	17,334
Miscellaneous	42,470	9,116	-	51,586
Meridian Ranch IGA revenue	1,690,463	28,305	3,744,057	5,462,825
Interest	-	2,118	59,665	61,783
Total revenues	<u>1,793,067</u>	<u>1,891,358</u>	<u>3,803,722</u>	<u>7,488,147</u>
<b>EXPENDITURES</b>				
General government	560,835	-	-	560,835
Capital expenditures - legal	-	-	2,339	2,339
Parks and recreation	-	1,900,766	-	1,900,766
Capital expenditures	-	685,986	-	685,986
Total expenditures	<u>560,835</u>	<u>2,586,752</u>	<u>2,339</u>	<u>3,149,926</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>1,232,232</u>	<u>(695,394)</u>	<u>3,801,383</u>	<u>4,338,221</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Developer reimbursement - principal	(6,287,542)	-	-	(6,287,542)
Developer reimbursement - interest	(5,569,519)	-	-	(5,569,519)
Transfer loan proceeds from Meridian Ranch	10,346,598	-	-	10,346,598
Transfer from (to) Capital Projects Fund	-	1,020,000	(1,020,000)	-
Transfer from (to) General Fund	51,292	(51,292)	-	-
Transfer from Water Fund	119,526	-	-	119,526
Transfer from Sewer Fund	106,923	-	1,050,291	1,157,214
Total other financing sources (uses)	<u>(1,232,722)</u>	<u>968,708</u>	<u>30,291</u>	<u>(233,723)</u>
<b>NET CHANGE IN FUND BALANCES</b>	(490)	273,314	3,831,674	4,104,498
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>17,427</u>	<u>210</u>	<u>-</u>	<u>17,637</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 16,937</u>	<u>\$ 273,524</u>	<u>\$ 3,831,674</u>	<u>\$ 4,122,135</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, 2018**

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	\$ 4,104,498
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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.

Capital outlay	685,986
Depreciation	(412,615)

Government funds recognize advances as revenue and repayments as expenses. However, these are not reflected on the Statement of Activities.

Developer advance repayments	6,287,542
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Government funds recognize interest expense when paid. However, the Statement of Activities recognized these costs when incurred.

Accrued interest payable - change in liability	5,489,774
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Change in net position - Governmental activities	\$ 16,155,185
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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, 2018**

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Reimbursed expenditures	\$ 4,800	\$ 4,800	\$ 4,800	\$ -
IGA revenue - Meridian Ranch	180,000	1,690,500	1,690,463	(37)
Falcon Freedom Days donations	30,000	38,000	38,000	-
Miscellaneous	12,925	42,500	42,470	(30)
Lease income - AT&T	16,125	17,334	17,334	-
Total revenues	<u>243,850</u>	<u>1,793,134</u>	<u>1,793,067</u>	<u>(67)</u>
<b>EXPENDITURES</b>				
General and administrative				
Accounting and management	-	500	314	186
Audit	15,000	17,000	16,878	122
Director fees	6,500	5,800	5,800	-
Dues and memberships	2,000	2,200	2,131	69
Engineering	-	5,000	4,689	311
Insurance	-	500	192	308
Legal	5,000	98,000	97,507	493
Election	15,000	2,500	2,427	73
Marketing/District events	58,000	37,500	37,317	183
Falcon Freedom Days	40,000	65,100	65,080	20
Miscellaneous	1,400	12,000	11,744	256
Payroll	264,000	241,500	241,084	416
Payroll and HR services	11,400	15,800	15,688	112
Emergency reserve 3%	7,316	-	-	-
Operations and maintenance				
General operations - administration	-	4,500	4,179	321
Repairs and maintenance	-	2,700	2,701	(1)
Office rental and utilities	40,000	53,500	53,104	396
Total expenditures	<u>465,616</u>	<u>564,100</u>	<u>560,835</u>	<u>3,265</u>
<b>EXCESS OF EXPENDITURES OVER (UNDER) REVENUES</b>	<u>(221,766)</u>	<u>1,229,034</u>	<u>1,232,232</u>	<u>3,198</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Developer reimbursement - principal	-	(6,287,542)	(6,287,542)	-
Developer reimbursement - interest	-	(5,569,519)	(5,569,519)	-
Transfer loan proceeds from Meridian Ranch	-	10,346,598	10,346,598	-
Transfer from Water Fund	98,948	119,526	119,526	-
Transfer from Sewer Fund	106,923	106,923	106,923	-
Transfer from Parks and Recreation Fund	51,292	51,292	51,292	-
Total other financing sources (uses)	<u>257,163</u>	<u>(1,232,722)</u>	<u>(1,232,722)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	35,397	(3,688)	(490)	3,198
<b>FUND BALANCE (DEFICIT) - BEGINNING OF YEAR</b>				
	<u>(42,407)</u>	<u>17,427</u>	<u>17,427</u>	<u>-</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ (7,010)</u>	<u>\$ 13,739</u>	<u>\$ 16,937</u>	<u>\$ 3,198</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, 2018**

	<b>Budget Amounts</b>		<b>Variance with Budget - Positive (Negative)</b>
	<b>Original and Final</b>	<b>Actual</b>	
<b>REVENUES</b>			
Parks and recreation open space fees	\$ 1,694,874	\$ 1,737,135	\$ 42,261
Interest	-	2,118	2,118
Reimbursed expenditures	-	477	477
Street lighting fees	119,277	114,207	(5,070)
IGA revenue - MRMD (CTF)	15,500	28,305	12,805
Miscellaneous	-	9,116	9,116
Total revenues	<u>1,829,651</u>	<u>1,891,358</u>	<u>61,707</u>
<b>EXPENDITURES</b>			
General and administrative			
Accounting and management	40,000	47,017	(7,017)
Engineering/consulting	-	11,859	(11,859)
Insurance	25,000	24,750	250
Legal	45,000	6,878	38,122
Office expense	6,000	5,737	263
Payroll	115,000	129,930	(14,930)
Miscellaneous	16,200	14,507	1,693
Operations and maintenance			
Landscaping	391,200	348,800	42,400
Park maintenance	20,000	18,050	1,950
Pond maintenance	15,000	9,389	5,611
Recreation center operations/maintenance	815,900	1,041,348	(225,448)
Repairs and maintenance	4,500	8,941	(4,441)
Utilities - recreation center	194,300	135,361	58,939
Utilities - street lights	115,000	98,199	16,801
Capital outlay			
Capital projects	964,220	685,986	278,234
Transfer to Reserve Fund	30,000	-	30,000
Total expenditures	<u>2,797,320</u>	<u>2,586,752</u>	<u>210,568</u>
<b>EXCESS OF EXPENDITURES OVER REVENUES</b>	<u>(967,669)</u>	<u>(695,394)</u>	<u>272,275</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer to General Fund	(51,292)	(51,292)	-
Transfer from Capital Projects Fund	1,020,000	1,020,000	-
Total other financing sources (uses)	<u>968,708</u>	<u>968,708</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	1,039	273,314	272,275
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>210</u>	<u>210</u>	<u>-</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 1,249</u>	<u>\$ 273,524</u>	<u>\$ 272,275</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, 2018**

	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 1,709,030	\$ 1,064,390	\$ 2,773,420
Accounts receivable - user fees	188,116	141,195	329,311
Accounts receivable - other	64,319	60,000	124,319
Total current assets	1,961,465	1,265,585	3,227,050
Capital assets:			
Capital assets, not being depreciated	945,241	-	945,241
Capital assets, being depreciated	28,708,065	15,183,645	43,891,710
Total capital assets	29,653,306	15,183,645	44,836,951
Less accumulated depreciation	(11,716,079)	(5,418,581)	(17,134,660)
Total capital assets (net of accumulated depreciation)	17,937,227	9,765,064	27,702,291
Total assets	\$ 19,898,692	\$ 11,030,649	\$ 30,929,341
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 338,537	\$ 159,797	\$ 498,334
Deferred revenue	64,320	60,000	124,320
Facility fees payables - Meridian Ranch Metropolitan District	165,000	165,000	330,000
Noncurrent liabilities :			
Developer advances payable and accrued interest	19,380,303	2,058,535	21,438,838
Total liabilities	19,948,160	2,443,332	22,391,492
<b>NET POSITION (DEFICIT)</b>			
Invested in capital assets, net of related debt	(1,443,076)	7,706,529	6,263,453
Unrestricted	1,393,608	880,788	2,274,396
Total net position (deficit)	(49,468)	8,587,317	8,537,849
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 19,898,692</b>	<b>\$ 11,030,649</b>	<b>\$ 30,929,341</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 (DEFICIT)**  
**PROPRIETARY FUNDS**  
**Year Ended December 31, 2018**

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Service charges	\$ 2,182,992	\$ 1,195,126	\$ 3,378,118
Meter services	194,130	-	194,130
Total operating revenues	<u>2,377,122</u>	<u>1,195,126</u>	<u>3,572,248</u>
<b>OPERATING EXPENSES</b>			
Cost of services			
Water operations	708,868	-	708,868
Sewer operations	-	396,999	396,999
Lift station operations	-	122,831	122,831
Engineering	73,473	52,397	125,870
Payroll	202,584	147,783	350,367
Permits	725	-	725
Repairs and maintenance	30,947	22,198	53,145
Tank cleaning and maintenance	1,688	-	1,688
Administrative and general expenses			
Accounting and management	168,225	32,645	200,870
Insurance	54,075	17,063	71,138
Legal	87,428	31,066	118,494
Miscellaneous	25,590	3,676	29,266
Office expense	8,764	4,783	13,547
Depreciation	967,254	506,768	1,474,022
Total operating expenses	<u>2,329,621</u>	<u>1,338,209</u>	<u>3,667,830</u>
<b>OPERATING INCOME (LOSS)</b>	<u>47,501</u>	<u>(143,083)</u>	<u>(95,582)</u>
<b>NONOPERATING REVENUES AND (EXPENSES)</b>			
Reimbursed expenditures	4,522	119,654	124,176
Facilities fees - Meridian Ranch Metropolitan District	2,572,500	2,572,500	5,145,000
Facilities fees - Latigo Trail	65,910	-	65,910
Facilities fees - Sterling Ranch	-	1,123,916	1,123,916
Interest expense - Developer advances	(482,385)	(51,988)	(534,373)
Facilities fees reimbursement - IGA Meridian Ranch	(2,632,500)	(2,632,500)	(5,265,000)
Miscellaneous income	20,974	36,573	57,547
Total nonoperating revenues (expenses)	<u>(450,979)</u>	<u>1,168,155</u>	<u>717,176</u>
<b>LOSS (INCOME) BEFORE OTHER FINANCING SOURCES (USES)</b>	<u>(403,478)</u>	<u>1,025,072</u>	<u>621,594</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer loan proceeds from Meridian Ranch	9,653,402	-	9,653,402
Transfer from Meridian Ranch -IGA	218,993	1,454,058	1,673,051
Transfer to General Fund	(119,526)	(106,923)	(226,449)
Transfer to Capital Fund	-	(1,050,291)	(1,050,291)
Total other financing sources (uses)	<u>9,752,869</u>	<u>296,844</u>	<u>10,049,713</u>
<b>CHANGE IN NET POSITION</b>	9,349,391	1,321,916	10,671,307
<b>NET POSITION (DEFICIT) - BEGINNING OF YEAR</b>	<u>(9,398,859)</u>	<u>7,265,401</u>	<u>(2,133,458)</u>
<b>NET POSITION (DEFICIT) - END OF YEAR</b>	<u>\$ (49,468)</u>	<u>\$ 8,587,317</u>	<u>\$ 8,537,849</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, 2018**

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 3,938,733	\$ 1,614,365	\$ 5,553,098
Payments to vendors	(1,527,772)	(760,929)	(2,288,701)
Deferred revenue	(1,590)	60,000	58,410
Net cash provided by operating activities	<u>2,409,371</u>	<u>913,436</u>	<u>3,322,807</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Reimbursed expenditures	(59,797)	59,654	(143)
Miscellaneous income	20,974	36,573	57,547
Facilities fees - Meridian Ranch Metropolitan District	2,572,500	2,572,500	5,145,000
Facilities fees - Sterling Ranch	-	1,123,916	1,123,916
Developer reimbursement	(9,872,395)	(1,454,058)	(11,326,453)
Transfer loan proceeds from Meridian Ranch	9,653,402	-	9,653,402
Transfers to other funds	99,467	296,844	396,311
Acquisition of capital assets	(712,902)	(16,975)	(729,877)
Facilities fees paid -IGA Latigo	65,910	-	65,910
Facilities fees paid- IGA Meridian Ranch	(2,467,500)	(2,467,500)	(4,935,000)
Net cash provided by (used in) capital and related financing activities	<u>(700,341)</u>	<u>150,954</u>	<u>(549,387)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	1,709,030	1,064,390	2,773,420
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 1,709,030</u>	<u>\$ 1,064,390</u>	<u>\$ 2,773,420</u>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>			
Net income (loss) from operations	\$ 47,501	\$ (143,083)	\$ (95,582)
Adjustments to reconcile net loss from operations to net cash provided by (used in) operating activities:			
Depreciation	967,254	506,768	1,474,022
Effects of changes in operating assets and liabilities:			
Decrease in amount due from other funds	1,595,131	447,372	2,042,503
Increase in accounts receivable	(33,520)	(28,133)	(61,653)
Increase (decrease) in accounts payable	(165,405)	70,512	(94,893)
Increase (decrease) in deferred revenue	(1,590)	60,000	58,410
Net cash provided by operating activities	<u>\$ 2,409,371</u>	<u>\$ 913,436</u>	<u>\$ 3,322,807</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, 2018**

**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 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, 2018**

**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, 2018**

**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, 2018, supplementary appropriations approved by the District modified the appropriation from \$465,616 to \$12,421,161 in the General Fund, from \$3,873,270 to \$15,036,421 in the Water Fund, from \$3,787,678 to \$6,121,872 in the Sewer Fund.

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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

**Pooled Cash and Investments**

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

**Cash Equivalents**

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

**Property Taxes**

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

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

**Capital Assets**

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

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

**MERIDIAN SERVICE METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**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, 2018 are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and cash equivalents - unrestricted	\$ 2,839,423
Cash and cash equivalents – restricted	<u>3,905,026</u>
Total cash and cash equivalents	<u><u>\$ 6,744,449</u></u>

Cash and investments as of December 31, 2018 consist of the following:

Deposits with financial institutions	\$ 1,607,507
Investments - COLOTRUST	<u>5,136,942</u>
Total cash and investments	<u><u>\$ 6,744,449</u></u>

**Deposits with Financial Institutions**

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

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**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, 2018, the District's cash deposits had a bank balance of \$1,691,793 and a carrying balance of \$1,607,507.

**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, 2018 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	\$5,136,942

**COLOTRUST**

During 2018, the District invested in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**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, 2018, the District has \$5,136,942 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 year end 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, 2018**

**NOTE 4 – CAPITAL ASSETS**

An analysis of the changes in capital assets for the year ended December 31, 2018 follows:

<b>Governmental activities:</b>	<b>Balance at December 31, 2017</b>	<b>Additions</b>	<b>Transfers</b>	<b>Disposals/ Retirements</b>	<b>Balance at December 31, 2018</b>
Capital assets being depreciated:					
Park and recreation facilities	\$ 14,160,533	\$ 685,986	\$ -	\$ -	\$ 14,846,519
Vehicles and equipment	83,570	-	-	-	83,570
Total capital assets being depreciated	<u>14,244,103</u>	<u>685,986</u>	<u>-</u>	<u>-</u>	<u>14,930,089</u>
Less accumulated depreciation for:					
Park and recreation facilities	2,967,690	398,743	-	-	3,366,433
Vehicles and equipment	34,606	13,872	-	-	48,478
Total accumulated depreciation	<u>3,002,296</u>	<u>412,615</u>	<u>-</u>	<u>-</u>	<u>3,414,911</u>
Total capital assets being depreciated, net	<u>11,241,807</u>	<u>273,371</u>	<u>-</u>	<u>-</u>	<u>11,515,178</u>
Governmental activities capital assets, net	<u>\$ 11,241,807</u>	<u>\$ 273,371</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,515,178</u>
<b>Business-type activities:</b>	<b>Balance at December 31, 2017</b>	<b>Additions</b>	<b>Transfers</b>	<b>Disposals/ Retirements</b>	<b>Balance at December 31, 2018</b>
Capital assets being depreciated:					
Water system facilities	\$ 28,681,315	\$ 26,750	\$ -	\$ -	\$ 28,708,065
Sewer system facilities	15,166,670	16,975	-	-	15,183,645
Total capital assets being depreciated	<u>43,847,985</u>	<u>43,725</u>	<u>-</u>	<u>-</u>	<u>43,891,710</u>
Less accumulated depreciation for:					
Water system facilities	10,748,825	967,254	-	-	11,716,079
Sewer system facilities	4,911,813	506,768	-	-	5,418,581
Total accumulated depreciation	<u>15,660,638</u>	<u>1,474,022</u>	<u>-</u>	<u>-</u>	<u>17,134,660</u>
Total capital assets being depreciated, net	<u>28,187,347</u>	<u>(1,430,297)</u>	<u>-</u>	<u>-</u>	<u>26,757,050</u>
Capital assets not being depreciated:					
Water purchase	257,085	-	-	-	257,085
Construction in progress	2,004	686,152	-	-	688,156
Total capital assets not being depreciated	<u>259,089</u>	<u>686,152</u>	<u>-</u>	<u>-</u>	<u>945,241</u>
Business-type activities capital assets, net	<u>\$ 28,446,436</u>	<u>\$ (744,145)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,702,291</u>

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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

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

Governmental activities:	
Park and recreation facilities	\$ 398,743
Vehicles and equipment	<u>13,872</u>
Total depreciation expense – Governmental activities	<u>\$ 412,615</u>
Business-type activities:	
Water	\$ 967,254
Sewer	<u>506,768</u>
Total depreciation expense – Business-type activities	<u>\$ 1,474,022</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, 2018:

	<u>Balance at December 31, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2018</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
Developer advances	\$ 6,287,542	\$ -	\$ (6,287,542)	\$ -	\$ -
Interest accrued - Developer advances	5,489,774	79,745	(5,569,519)	-	-
Total governmental activities	<u>11,777,316</u>	<u>79,745</u>	<u>(11,857,061)</u>	<u>-</u>	<u>-</u>
<b>Business-type activities:</b>					
Developer advances	20,641,929	-	(11,326,453)	9,315,476	-
Interest accrued - Developer advances	11,588,989	534,373	-	12,123,362	-
Total business activities	<u>32,230,918</u>	<u>534,373</u>	<u>(11,326,453)</u>	<u>21,438,838</u>	<u>-</u>
	<u>\$ 44,008,234</u>	<u>\$ 614,118</u>	<u>\$ (23,183,514)</u>	<u>\$ 21,438,838</u>	<u>\$ -</u>

**Developer Advances**

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

As of December 31, 2018, outstanding Developer advances totaled \$9,315,476 and accumulated accrued interest totaled \$12,123,362.



**MERIDIAN SERVICE METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

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

**Authorized Debt**

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

At December 31, 2018, 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, 2018</b>
Street improvements	\$ 29,435,000	\$ 6,942,496
Water	35,765,000	6,982,144
Sanitation	7,320,000	-
Safety protection	1,740,000	1,603,467
Park and recreation	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	235,193
Refunding	85,000,000	36,531,700
	<u>\$ 170,000,000</u>	<u>\$ 54,915,000</u>

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**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, 2018, the District had an investment in capital assets, net of related debt of \$17,778,631 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	\$ 11,515,178	\$ 27,702,291	\$ 39,217,469
Noncurrent portion of long-term obligations	-	(21,438,838)	(21,438,838)
Invested in capital asset, net of related debt	\$ 11,515,178	\$ 6,263,453	\$ 17,778,631

The restricted fund balance in the General Fund in the amount of \$17,000 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 \$107,407 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, 2018 totaled \$6,272,124 comprised of \$3,997,728 in the governmental activities and \$2,274,396 in the business-type activities.

**NOTE 7 – FUND EQUITY**

At December 31, 2018, 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 \$23,625 represent prepaid expenditures and deposits are for the ensuing future year and are therefore not in a spendable form.

**Restricted Fund Balance**

The restricted fund balance in the General Fund in the amount of \$17,000 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 \$107,407 is comprised of Conservation Trust Funds and is to be used exclusively for parks and recreation.

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 8 – 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. During the year ended 2018, Meridian Ranch issued a loan and transferred the proceeds to the District. The transfers are shown as an other financing sources in the financial statements. To assist in the repayment of Meridian Ranch's subordinate bonds, the District is required to transfer revenue collected from facilities fees and/or user fees to Meridian Ranch. The water taps from Latigo Trails are not included in fees transferred to Meridian Ranch.

During 2018, the District transferred a total of \$5,265,000 (351 water/ sewer taps at \$15,000 each) to Meridian Ranch to assist in the repayment of the subordinate bonds issued by Meridian Ranch.

**NOTE 9 – 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 10 – 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

**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 10 – RISK MANAGEMENT (CONTINUED)**

liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

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

**NOTE 11 – 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 12 – WASTEWATER ARBITRATION CASE**

The District is currently in arbitration before Judicial Arbiter Group, Inc. (JAG) with Cherokee Metropolitan District (Cherokee). The arbitration involves issues over a 2003 intergovernmental agreement known as Chino Basin Wastewater Treatment Facility and Black Squirrel Basin Recharge Facility Intergovernmental Agreement (the IGA). The District contends that Cherokee has breached the IGA by demanding amounts from the District to which it is not entitled under the IGA. The District also contends that Cherokee breached the IGA and made misrepresentations to the District relating to an undisclosed stipulation which has materially affected the District's ability to benefit from a replacement plan. Cherokee's counterclaims assert that the District has failed to pay amounts due under the IGA. The District seeks damages (yet to be determined) and declaratory relief.

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, 2018**

	<b>Budget Amounts</b>		<b>Variance with Budget - Positive (Negative)</b>
	<b>Original and Final</b>	<b>Actual</b>	
<b>REVENUES</b>			
Transfer loan proceeds from Meridian Ranch	\$ 3,000,000	\$ 3,744,057	\$ 744,057
IGA revenue from MRMD (Excess taps)	750,000	-	(750,000)
Interest	-	59,665	59,665
Total revenues	<u>3,750,000</u>	<u>3,803,722</u>	<u>53,722</u>
<b>EXPENDITURES</b>			
Legal	10,000	2,339	7,661
Total expenditures	<u>10,000</u>	<u>2,339</u>	<u>7,661</u>
<b>EXCESS OF EXPENDITURES OVER REVENUES</b>	<u>3,740,000</u>	<u>3,801,383</u>	<u>61,383</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer to Parks and Recreation Fund	(1,020,000)	(1,020,000)	-
Transfer to Water Fund	(350,000)	-	350,000
Transfer from Sewer Fund	1,050,291	1,050,291	-
Total other financing sources (uses)	<u>(319,709)</u>	<u>30,291</u>	<u>350,000</u>
<b>NET CHANGE IN FUND BALANCE</b>	3,420,291	3,831,674	411,383
<b>FUND BALANCE (DEFICIT) - BEGINNING OF YEAR</b>	<u>(394,877)</u>	<u>-</u>	<u>394,877</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 3,025,414</u>	<u>\$ 3,831,674</u>	<u>\$ 806,260</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, 2018**

	<b>Budget 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	\$ 1,847,435	\$ 2,183,000	\$ 2,182,992	\$ (8)
Meter service	108,000	194,000	194,130	130
Facilities fees - Meridian Ranch	1,500,000	2,572,500	2,572,500	-
Facilities fees - Latigo Trail	71,180	65,910	65,910	-
Interest income - Latigo Trail	3,000	-	-	-
Reimbursed expenditures	-	4,500	4,522	22
Miscellaneous income	-	21,000	20,974	(26)
Total revenues	<u>3,529,615</u>	<u>5,040,910</u>	<u>\$ 5,041,028</u>	<u>118</u>
<b>EXPENDITURES</b>				
General and administrative				
Accounting and management	150,000	168,500	168,225	275
Consulting	10,000	10,000	-	10,000
Insurance	50,000	54,500	54,075	425
Legal	75,000	88,000	87,428	572
Office expense	6,000	9,000	8,764	236
Payroll	219,000	219,000	202,584	16,416
Miscellaneous	25,000	26,000	25,590	410
Operations and maintenance				
Engineering	45,000	74,000	73,473	527
Facilities fees paid - IGA Meridian Ranch	1,500,000	2,632,500	2,632,500	-
Latigo reimbursement	12,500	-	-	-
Permits and fees	5,000	1,000	725	275
Repairs and maintenance	54,950	35,000	30,947	4,053
Tank cleaning and maintenance	300,000	2,000	1,688	312
Water operations	579,500	1,000,000	708,868	291,132
Capital projects				
Capital outlay	650,000	725,000	712,902	12,098
Total expenditures	<u>3,681,950</u>	<u>5,044,500</u>	<u>4,707,769</u>	<u>336,731</u>
<b>EXCESS OF REVENUES OVER (UNDER)</b>				
<b>EXPENDITURES</b>	<u>(152,335)</u>	<u>(3,590)</u>	<u>333,259</u>	<u>336,849</u>
<b>OTHER FINANCING SOURCES ( USES)</b>				
Repayment of developer advances	-	(9,872,395)	(9,872,395)	-
Transfer loan proceeds from Meridian Ranch	-	9,653,402	9,653,402	-
Transfer from Meridian Ranch - IGA	-	218,993	218,993	-
Transfer to General Fund	(98,948)	(119,526)	(119,526)	-
Transfer to Reserve Fund (5%)	(92,372)	-	-	-
Transfer to Capital Projects Fund	350,000	-	-	-
Total other financing sources (uses)	<u>158,680</u>	<u>(119,526)</u>	<u>(119,526)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	6,345	(123,116)	213,733	336,849
<b>FUNDS AVAILABLE - BEGINNING OF YEAR</b>	<u>1,432,868</u>	<u>1,179,875</u>	<u>1,179,875</u>	<u>-</u>
<b>FUNDS AVAILABLE - END OF YEAR</b>	<u>\$ 1,439,213</u>	<u>\$ 1,056,759</u>	<u>\$ 1,393,608</u>	<u>\$ 336,849</u>

Funds available at December 31, 2018 is computed as follows:

Current assets	\$ 1,961,465
Current liabilities	<u>(567,857)</u>
	<u>\$ 1,393,608</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, 2018**

Revenues (budgetary basis)	\$ 5,041,028
Revenues per Statement of Revenues, Expenses and Change in Fund Net Position	5,041,028
Expenditures (budgetary basis)	4,707,769
Other financing uses (budgetary basis)	(9,752,869)
Depreciation	967,254
Capital outlay	(712,902)
Interest expense - Developer advances	482,385
Expenses per Statement of Revenues, Expenses and Change in Fund Net Position	(4,308,363)
Change in net assets per Statement of Revenues, Expenses and Change in Fund Net Position	\$ 9,349,391



**MERIDIAN SERVICE METROPOLITAN DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUNDS AVAILABLE**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**SEWER FUND**  
**Year Ended December 31, 2018**

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Sewer fees	\$ 1,137,600	\$ 1,195,200	\$ 1,195,126	\$ (74)
Reimbursed expenditures	126,200	119,600	119,654	54
Facilities fees - Meridian Ranch	1,500,000	2,572,500	2,572,500	-
Sterling Ranch	1,050,291	1,123,916	1,123,916	-
Miscellaneous	-	36,600	36,573	(27)
Total revenues	<u>3,814,091</u>	<u>5,047,816</u>	<u>5,047,769</u>	<u>(47)</u>
<b>EXPENDITURES</b>				
General and administrative				
Accounting and management	25,000	33,000	32,645	355
Insurance	15,000	17,100	17,063	37
Legal	37,000	32,000	31,066	934
Office expense	-	6,000	4,783	1,217
Payroll	112,000	150,000	147,783	2,217
Miscellaneous	8,500	5,000	3,676	1,324
Operations and maintenance				
Engineering	30,000	55,000	52,397	2,603
Facilities fees paid - IGA Meridian Ranch	1,500,000	2,632,500	2,632,500	-
Repairs and maintenance	38,000	25,000	22,198	2,802
Sewer operations	461,400	400,000	396,999	3,001
Lift station costs - shared	134,400	85,000	79,770	5,230
Lift station operations - Meridian Service	136,800	50,000	43,061	6,939
Capital outlay	25,000	20,000	16,975	3,025
Total expenditures	<u>2,523,100</u>	<u>3,510,600</u>	<u>3,480,916</u>	<u>29,684</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>				
	<u>1,290,991</u>	<u>1,537,216</u>	<u>1,566,853</u>	<u>29,637</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Repayment of developer advances	-	(1,454,058)	(1,454,058)	-
Transfer from Meridian Ranch - IGA	-	1,454,058	1,454,058	-
Transfer to Replacement Reserve (5%)	(55,932)	-	-	-
Transfer to Special Sewer Reserve Fund	(51,432)	-	-	-
Transfer to General Fund	(106,923)	(106,923)	(106,923)	-
Transfer to Capital Projects Fund	(1,050,291)	(1,050,291)	(1,050,291)	-
Total other financing sources (uses)	<u>(1,264,578)</u>	<u>(1,157,214)</u>	<u>(1,157,214)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	26,413	380,002	409,639	29,637
<b>FUNDS AVAILABLE - BEGINNING OF YEAR</b>	<u>408,672</u>	<u>471,149</u>	<u>471,149</u>	<u>-</u>
<b>FUNDS AVAILABLE - END OF YEAR</b>	<u>\$ 435,085</u>	<u>\$ 851,151</u>	<u>\$ 880,788</u>	<u>\$ 29,637</u>

Funds available at December 31, 2018 is computed as follows:

Current assets	\$ 1,265,585
Current liabilities	(384,797)
	<u>\$ 880,788</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, 2018**

Revenues (budgetary basis)	\$ 5,047,769
Revenues per Statement of Revenues, Expenses and Change in Fund Net Position	5,047,769
Expenditures (budgetary basis)	3,480,916
Other financing uses - budgetary basis	(296,844)
Depreciation	506,768
Interest expense - Developer advances	51,988
Capital outlay - water system improvements	(16,975)
Expenses per Statement of Revenues, Expenses and Change in Fund Net Position	3,725,853
Change in net assets per Statement of Revenues, Expenses and Change in Fund Net Position	\$ 1,321,916