

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Financial Statements

Year Ended December 31, 2016

with

Independent Auditors' Report



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Independent Auditor's Report

Board of Directors

Fossil Ridge Metropolitan District No. 3

Jefferson County, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Fossil Ridge Metropolitan District No. 3 as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 Fossil Ridge Metropolitan District No. 3 as of December 31, 2016, and the respective changes in financial position 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 28, 2017

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

BALANCE SHEET/STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Cash and investments - restricted	\$ -	\$ 330,588	\$ 8,500	\$ 339,088	\$ -	\$ 339,088
Receivable from county treasurer	-	7,098	-	7,098	-	7,098
Due from District No. 2	-	2,233	-	2,233	-	2,233
Property taxes receivable	<u>142,791</u>	<u>999,535</u>	<u>-</u>	<u>1,142,326</u>	<u>-</u>	<u>1,142,326</u>
Total Assets	<u>\$ 142,791</u>	<u>\$ 1,339,454</u>	<u>\$ 8,500</u>	<u>\$ 1,490,745</u>	<u>-</u>	<u>1,490,745</u>
LIABILITIES						
Due to District No. 1	\$ -	\$ 3,594	\$ -	\$ 3,594	\$ -	\$ 3,594
Accrued interest on bonds	-	-	-	-	56,986	56,986
Long-term liabilities:						
Due within one year	-	-	-	-	325,000	325,000
Due in more than one year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,405,522</u>	<u>21,405,522</u>
Total Liabilities	<u>-</u>	<u>3,594</u>	<u>-</u>	<u>3,594</u>	<u>21,787,508</u>	<u>21,791,102</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	<u>142,791</u>	<u>999,535</u>	<u>-</u>	<u>1,142,326</u>	<u>-</u>	<u>1,142,326</u>
Total Deferred Inflows of Resources	<u>142,791</u>	<u>999,535</u>	<u>-</u>	<u>1,142,326</u>	<u>-</u>	<u>1,142,326</u>
FUND BALANCE/NET POSITION						
Fund Balance:						
Restricted:						
Debt Service	<u>-</u>	<u>336,325</u>	<u>8,500</u>	<u>344,825</u>	<u>(344,825)</u>	<u>-</u>
Total Fund Balance	<u>-</u>	<u>336,325</u>	<u>8,500</u>	<u>344,825</u>	<u>(344,825)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 142,791</u>	<u>\$ 1,339,454</u>	<u>\$ 8,500</u>	<u>\$ 1,490,745</u>		
Net Position:						
Restricted for:						
Debt Service Fund					287,839	287,839
Unrestricted					<u>(21,730,522)</u>	<u>(21,730,522)</u>
Total Net Position					<u>\$ (21,442,683)</u>	<u>\$ (21,442,683)</u>

The notes to the financial statements are an integral part of these statements.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES GOVERNMENTAL FUNDS

For the Year Ended December 31, 2016

	<u>Debt</u>	<u>Capital</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
	<u>Service</u>	<u>Projects</u>			
EXPENDITURES					
Transfer to District No. 1	\$ 675,638	\$ 12,591,883	\$ 13,267,521	\$ -	\$ 13,267,521
Treasurers' fees	16,122	-	16,122	-	16,122
Issuance costs	-	210,075	210,075	-	210,075
Bond interest - Series 2016	-	-	-	23,382	23,382
Bond principal - Series 2014	175,000	-	175,000	(175,000)	-
Bond interest - Series 2014	399,744	-	399,744	(20,064)	379,680
Total Expenditures	<u>1,266,504</u>	<u>12,801,958</u>	<u>14,068,462</u>	<u>(171,682)</u>	<u>13,896,780</u>
Net Program Income (Expense)	(1,266,504)	(12,801,958)	(14,068,462)	171,682	(13,896,780)
GENERAL REVENUES					
Property taxes	1,074,430	-	1,074,430	-	1,074,430
Specific ownership taxes	86,359	-	86,359	-	86,359
Transfer from District No. 2	359,112	-	359,112	-	359,112
Interest income	586	-	586	-	586
Total General Revenues	<u>1,520,487</u>	<u>-</u>	<u>1,520,487</u>	<u>-</u>	<u>1,520,487</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
	253,983	(12,801,958)	(12,547,975)	171,682	(12,376,293)
OTHER FINANCING SOURCES (USES)					
Bond proceeds	-	12,415,000	12,415,000	(12,415,000)	-
Bond premium	-	395,458	395,458	(395,458)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>12,810,458</u>	<u>12,810,458</u>	<u>(12,810,458)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	253,983	8,500	262,483	(262,483)	
CHANGE IN NET POSITION				(12,376,293)	(12,376,293)
FUND BALANCE/NET POSITION					
BEGINNING OF YEAR	82,342	-	82,342	(9,148,732)	(9,066,390)
END OF YEAR	<u>\$ 336,325</u>	<u>\$ 8,500</u>	<u>\$ 344,825</u>	<u>\$ (21,787,508)</u>	<u>\$ (21,442,683)</u>

The notes to the financial statements are an integral part of these statements.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements December 31, 2016

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Fossil Ridge Metropolitan District No. 3 (“District”), located in Jefferson County, Colorado, conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized October 10, 2006, as a quasi-municipal organization established under the State of Colorado Special District Act. At the time of formation, the Fossil Ridge Metropolitan District No. 1 (“District No. 1”) and the Fossil Ridge Metropolitan District No. 2 (“District No. 2”) were also formed. All three districts are governed by the same Service Plan (as amended by the Second Amended and Restated Service Plan approved by the City of Lakewood on August 27, 2007), which provides that District No. 1 is the “Operating District” and the District and District No. 2 are the “Taxing Districts”. The Taxing Districts are to provide funding to the Operations District for the construction, operation and maintenance of various public improvements and the Operating District is expected to manage such construction, operation and maintenance. The District's primary revenues are property taxes. The District is governed by an elected Board of Directors.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB pronouncements, which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets 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 pronouncements also require including a possible component unit if it would be misleading to exclude it.

The District is not financially accountable for any other organization. The District has no component units as defined by the GASB.

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

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements December 31, 2016

Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34 - Special Purpose Governments.

The government-wide financial statements (i.e. the governmental funds balance sheet/statement of net position and the governmental funds statement of revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District. The statement of net position reports all financial and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues. For the most part, the effect of interfund activity has been removed from these statements.

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

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements December 31, 2016

The District reports the following major governmental fund:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources not accounted for and reported in another fund.

Debt Service Fund – The Debt Service Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for principal, interest and other debt related costs.

Capital Projects Fund – The Capital Projects Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other assets.

Budgetary Accounting

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

In December 2016, the District amended its total appropriations in the Debt Service Fund from \$1,268,814 to \$1,271,000 primarily due to higher than expected debt service costs.

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2016, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements December 31, 2016

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 minimum number of bank accounts. 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one type of item that qualifies for reporting in this category. This item is deferred property taxes. Deferred property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

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 taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally 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 inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements December 31, 2016

Original Issue Premium

Original issue premiums on the 2014 Bonds and the 2016 Bonds are being amortized over the term of the bonds using the effective interest method. Accumulated amortization of original issue premium amounted to \$38,838 at December 31, 2016.

Estimates

The preparation of these financial statements in conformity with GAAP requires the District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fund Equity

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications make the nature and extent of the constraints placed on a government's fund balance more transparent:

Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form (such as inventory or prepaids) or are legally or contractually required to be maintained intact.

Restricted Fund Balance

The restricted fund balance includes amounts restricted for a specific purpose by external parties such as grantors, bondholders, constitutional provisions or enabling legislation.

The restricted fund balance in the Debt Service Fund in the amount of \$336,325 is restricted for the payment of the debt service costs associated with the outstanding debt (see Note 3).

Committed Fund Balance

The committed fund balance includes the portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by a formal action of the government's highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.

Assigned Fund Balance

Assigned fund balance includes amounts the District intends to use for a specific purpose. Intent can be expressed by the District's Board of Directors or by an official or body to which the Board of Directors delegates the authority.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements
December 31, 2016

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund, all funds can report negative amounts.

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District reports three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District will use the most restrictive net position first.

Note 2: Investments

As of December 31, 2016, investments are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Investments – Restricted	<u>\$ 339,088</u>

Investments as of December 31, 2016 consist of the following:

Investments – Federated Treasury	<u>\$ 339,088</u>
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FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements December 31, 2016

Investments

Investment Valuation

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of December 31, 2016:

An external investment pool that records its investments at fair value. The investment in Federated Treasury Obligations Fund is categorized as a Level 2 Investment.

Credit Risk

The District has not adopted a formal investment policy; however the District follows state statutes regarding investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

Custodial and Concentration of Credit Risk

None of the District's investments are subject to custodial or concentration of credit risk.

Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

Federated Treasury Obligations Fund

During 2016, the District's funds that were included in the trust accounts at the UMB Bank were invested in the Federated Treasury Obligations Fund. This fund is a money market fund and each share is equal in value to \$1.00. The fund is AAAM rated and invests exclusively in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. The maturity of the underlying securities is 397 days or less and is and is a Level 2 investment under the fair value hierarchy. As of December 31, 2016, the District has \$339,088 invested in the fund, all of which was restricted for the repayment of bond principal and interest.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements
December 31, 2016

Note 3: Long-Term Debt

A description of the long-term obligations as of December 31, 2016, is as follows:

\$12,415,000 General Obligation Limited Tax Bonds, Series 2016

On December 21, 2016, the District issued \$12,415,000 of General Obligation Limited Tax Bonds, Series 2016 (“Series 2016 Bonds”), dated December 21, 2016, for the purpose of reimbursing a portion of the costs of acquiring, constructing, and installing certain public infrastructure improvements and paying the costs of issuance of the Series 2016 Bonds. The Series 2016 Bonds bear interest at rates ranging from 3% to 5% payable semiannually on each June 1 and December 1, commencing on June 1, 2017, and mature on December 1, 2046. The Series 2016 Bonds are subject to a mandatory sinking fund redemption commencing on December 1, 2021 and are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$5,000, in any order of maturity and in whole or partial maturities, commencing on December 1, 2020, upon payment of par and accrued interest without redemption premium. The Series 2016 Bonds are secured by the Required Mill Levy and the portion of the Specific Ownership Tax which is collected as a result of the Required Mill Levy for both the District and Fossil Ridge Metropolitan District No. 2, and any other legally available moneys as determined by the District. The Series 2016 Bonds are also secured by the Surplus Fund.

\$8,715,000 General Obligation Limited Tax Bonds – Series 2014

On December 22, 2014, the District issued \$8,715,000 of General Obligation Limited Tax Bonds, Series 2014 (“Series 2014 Bonds”). The Series 2014 Bonds are limited tax and special revenue obligations of the District secured and payable from Pledged Revenue consisting of ad valorem taxes and specific ownership taxes collected by the District and District No. 2 as defined by the bond indenture and the 2014 Funding Agreement (see Note 4). The Pledged Revenue is on a parity with certain previously issued Series 2010 Bonds by District No. 1.

The Series 2014 Bonds were issued for the purpose of reimbursing the developer for the costs of certain infrastructure within the Financing Districts. These costs were previously funded by the Developer in accordance with the Reimbursement and Acquisition Agreement (see Note 4). The Series 2014 Bonds mature beginning December 1, 2016. Interest on the Series 2014 Bonds is payable semi-annually on June 1 and December 1 each year commencing June 1, 2015 at a rate that varies from 3.00% to 5.00%. Bonds maturing on or after December 1, 2021, are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$5,000, on December 1, 2020, and on any date thereafter, upon payment of par and accrued interest, without redemption premium.

Pursuant to the indenture, there shall be deposited in a Surplus Fund, Pledged Revenue which is not used for payment of interest on the Series 2014 Bonds and any parity bonds and which are not deposited in the Reserve Fund for the District No. 1 Series 2010 Bonds in each year up to the combined amount of the Series 2010 Maximum Surplus Amount of \$820,000 and the Series 2014 Maximum Amount of \$871,500.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements
December 31, 2016

The following is an analysis of changes in long-term debt for the period ending December 31, 2016:

	Balance 01-01-16	Additions	Deletions	Balance 12-31-16	Current Portion
Series 2016 - GO Bonds	\$ -	\$ 12,415,000	\$ -	\$ 12,415,000	\$ 150,000
Series 2016 - premium	-	395,458	729	394,729	-
Series 2014 - GO Bonds	8,715,000	-	175,000	8,540,000	175,000
Series 2014 - premium	400,420	-	19,627	380,793	-
	<u>\$ 9,115,420</u>	<u>\$ 12,810,458</u>	<u>\$ 195,356</u>	<u>\$ 21,730,522</u>	<u>\$ 325,000</u>

The following is a summary of the annual long-term debt principal and interest requirements on the Series 2014 and 2016 Bonds:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 325,000	\$ 973,155	\$ 1,298,155
2018	335,000	997,444	1,332,444
2019	340,000	985,794	1,325,794
2020	350,000	972,194	1,322,194
2021	355,000	958,194	1,313,194
2022 - 2026	1,920,000	4,541,220	6,461,220
2027 - 2031	2,210,000	4,076,655	6,286,655
2032 - 2036	2,575,000	3,522,737	6,097,737
2037 - 2041	3,895,000	2,841,000	6,736,000
2042 - 2046	8,650,000	1,339,750	9,989,750
Total	<u>\$ 20,955,000</u>	<u>\$ 21,208,143</u>	<u>\$ 42,163,143</u>

Debt Authorization

As of December 31, 2016, the District had remaining voted debt authorization of approximately \$691,735,000. The District has not budgeted to issue new debt during 2017. Per the District's Service Plan, the District, in combination with Districts No. 1 and No. 2, cannot issue more than \$91 million in revenue debt, of which \$70 million of such authorization may be allocated to general obligation debt.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements December 31, 2016

Note 4: District Agreements

Joint Funding Agreements

On September 1, 2009, the District entered into a Joint Funding Agreement (“2010 Joint Funding Agreement”) with Districts No. 1 and No. 2 to provide for the payment to the trustee of certain property taxes and specific ownership taxes collected by the District and No. 2 for the purpose of paying debt service on District No. 1’s Series 2009 Bonds. An Amended and Restated Joint Funding Agreement was approved on September 1, 2010 which allowed for the payment of the debt service related to District No. 1’s Series 2010 Bonds.

On December 22, 2014, the District entered into a 2014 Joint Funding Agreement with District No. 1 and District No. 2, pursuant to which both the District and District No. 2 will be obligated to impose a required mill levy for the purpose of providing for the payment of the Series 2014 Bonds. All revenues payable to the trustee under the Funding Agreements constitute Pledged Revenue pledged to the payment of the Series 2010 Bonds and Series 2014 Bonds on parity.

On December 7, 2016, the District entered into a First Amendment to Joint Funding Agreement which amended the Original Joint Funding Agreement to clarify that the term “Estimated Debt Requirements” is to include all Parity Debt as well as Bonds.

Master Intergovernmental Agreement

On January 8, 2008, the District entered into a Master Intergovernmental Agreement with District No. 1 and District No. 2. Per the agreement, District No. 1 is to construct, own, maintain and operate the facilities benefiting the District and District No. 2, which may include the borrowing of funds or issuance of revenue bonds. The District and District No. 2 are to pay all costs related to the construction, operation, and maintenance of such facilities, including the payment of amounts owing in connection with bonds issued to finance such facilities. Such financial obligations are to be paid from the District’s annual certification of a mill levy, subject to the limitations of the Service Plan and not to exceed 50 mills. The IGA also sets forth certain provisions pertaining to the processes for payment of capital, operations and maintenance costs, review of budgets and project plans, execution of construction contracts, administrative management, establishment of user fees, and the transfers of funds between districts.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements December 31, 2016

Reimbursement of Developer Loan and Public Infrastructure Acquisition Agreement

On May 13, 2008, District No. 1 entered into a Reimbursement of Developer Loan and Public Infrastructure Acquisition Agreement with Brookfield Residential (Colorado), LLC, formerly Carma (Colorado), Inc. (“Developer”). The agreement provides for the advancement by the Developer of certain moneys for capital improvements, and operating and maintenance costs for an amount not to exceed \$91,000,000. The agreement also provides for the repayment of these advances using bond proceeds and or with any legally available funds. These advances shall bear interest at a rate of 6% per annum from the date of the advance. The agreement also provides for the District No. 1 to acquire any public improvements constructed by the Developer upon receipt of the proper engineer’s certificate as to district eligibility. The repayment obligations by District No. 1 constitute a multiple fiscal year financial obligation and are not subject to annual appropriation. The agreement states that it is between District No. 1 and the Developer. However given the provisions of the Master IGA, the District and District No. 2 are impacted from certain covenants contained therein.

Note 5: Related Party

A majority of the Board of Directors are employees, owners or are otherwise associated with the Developer, and may had conflicts of interest in dealing with the District. Subsequent to yearend, the members of the Board of Directors who were associated with the Developer resigned. Management believes that all potential conflicts, if any, have been disclosed.

Note 6: Tax, Spending and Debt Limitations

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

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

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. The District has no General Fund as all operating costs are paid by District No. 1 and therefore has no 3% reserve.

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

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements December 31, 2016

On November 7, 2006, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

Note 7: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The District has elected to participate in the Colorado Special Districts Property and Liability Pool ("Pool") which is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for auto, public officials' liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other 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 8: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

The Government Funds Balance Sheet/Statement of Net Position includes an adjustments column. The adjustments have the following elements:

- 1) long-term liabilities such as bonds payable and accrued bond interest payable are not due and payable in the current period and, therefore, are not in the funds.

The Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities includes an adjustments column. The adjustments have the following elements:

- 1) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method in the statement of activities; and,
- 2) governmental funds report long-term debt proceeds as revenue and long-term debt payments as expenditures, however, in the statement of activities, these revenues and payments are recorded as changes in long-term liabilities.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements
December 31, 2016

Note 9: Subsequent Event

Subsequent to year end, the entire Board of Directors of Fossil Ridge Metropolitan District No. 1 resigned. Pursuant to the District Facilities Construction and Services Agreement, District No. 1 is the “Operating District” and District Nos. 2 and 3 serve as “Financing Districts”. Subsequent to the resignation of the District No. 1 Board members, District 2 and District 3 filed pleadings with the Jefferson County District Court requesting that the Board members of the Financing Districts be temporarily appointed to serve as the proper persons to assume control over the Operating District until additional eligible electors can be added to the Operating District. The Developer has filed pleadings contrary to District Nos. 2 and 3 requesting the appointment of an independent receiver. Litigation is pending on this matter as of the date of filing for the audit.

SUPPLEMENTAL INFORMATION

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - DEBT SERVICE FUND

For the Year Ended December 31, 2016

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES				
Property taxes	\$ 1,076,692	\$ 1,076,692	\$ 1,074,430	\$ (2,262)
Specific ownership taxes	86,136	86,136	86,359	223
Transfer from District No. 2	356,766	356,766	359,112	2,346
Interest income	<u>171</u>	<u>171</u>	<u>586</u>	<u>415</u>
Total Revenues	<u>1,519,765</u>	<u>1,519,765</u>	<u>1,520,487</u>	<u>722</u>
EXPENDITURES				
Transfer to District No. 1	675,919	675,919	675,638	281
Miscellaneous expenses	2,000	4,186	-	4,186
Treasurers' fees	16,151	16,151	16,122	29
Bond principal - Series 2014	175,000	175,000	175,000	-
Bond interest - Series 2014	<u>399,744</u>	<u>399,744</u>	<u>399,744</u>	<u>-</u>
Total Expenditures	<u>1,268,814</u>	<u>1,271,000</u>	<u>1,266,504</u>	<u>4,496</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	250,951	248,765	253,983	5,218
OTHER FINANCING SOURCES (USES)				
Transfer from Capital Projects Fund	<u>1,625,935</u>	<u>1,625,935</u>	<u>-</u>	<u>(1,625,935)</u>
Total Other Financing Sources (Uses)	1,625,935	1,625,935	-	(1,625,935)
NET CHANGE IN FUND BALANCE				
	1,876,886	1,874,700	253,983	(1,620,717)
FUND BALANCE:				
BEGINNING OF YEAR	<u>62,800</u>	<u>62,800</u>	<u>82,342</u>	<u>19,542</u>
END OF YEAR	<u>\$ 1,939,686</u>	<u>\$ 1,937,500</u>	<u>\$ 336,325</u>	<u>\$ (1,601,175)</u>

The notes to the financial statements are an integral part of these statements.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
CAPITAL PROJECTS FUND

For the Year Ended December 31, 2016

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
EXPENDITURES			
Transfer to District No. 1	\$ 12,726,065	\$ 12,591,883	\$ 134,182
Issuance costs	<u>598,000</u>	<u>210,075</u>	<u>387,925</u>
Total Expenditures	<u>13,324,065</u>	<u>12,801,958</u>	<u>522,107</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES			
	(13,324,065)	(12,801,958)	522,107
OTHER FINANCING SOURCES (USES)			
Bond proceeds	\$ 14,950,000	\$ 12,415,000	\$ (2,535,000)
Bond premium	-	395,458	395,458
Transfer to Debt Service Fund	<u>(1,625,935)</u>	<u>-</u>	<u>1,625,935</u>
Total Other Financing Sources (Uses)	<u>13,324,065</u>	<u>12,810,458</u>	<u>(513,607)</u>
NET CHANGE IN FUND BALANCE	-	8,500	8,500
FUND BALANCE:			
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 8,500</u>	<u>\$ 8,500</u>

The notes to the financial statements are an integral part of these statements.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED
December 31, 2016

District No. 2

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levv</u>	<u>Mills Levied</u>			<u>Total Property Tax</u>		<u>Percent Collected to Levied</u>
		<u>General</u>	<u>Debt Service</u>	<u>Contractual</u>	<u>Levied</u>	<u>Collected</u>	
2008	\$ 2,440,570	30.000	0.000	0.000	\$ 73,217	\$ 73,296	100.11%
2009	\$ 3,895,030	0.000	30.000	0.000	\$ 116,851	\$ 121,571	104.04%
2010	\$ 6,656,870	0.000	30.000	0.000	\$ 199,706	\$ 195,884	98.09%
2011	\$ 7,395,640	0.000	30.000	0.000	\$ 221,869	\$ 204,065	91.98%
2012	\$ 10,435,617	0.000	30.000	0.000	\$ 313,069	\$ 312,188	99.72%
2013	\$ 11,679,755	0.000	30.000	0.000	\$ 350,393	\$ 350,391	100.00%
2014	\$ 13,648,409	0.000	30.000	0.000	\$ 409,452	\$ 409,450	100.00%
2015	\$ 15,615,700	5.000	35.000	0.000	\$ 624,628	\$ 624,626	100.00%
2016	\$ 20,546,882	0.000	35.000	5.000	\$ 821,875	\$ 821,873	100.00%
Estimated for year ending December 31, 2017	\$ 21,055,483	5.000	35.000	0.000	\$ 842,219		

District No. 3

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levv</u>	<u>Mills Levied</u>			<u>Total Property Tax</u>		<u>Percent Collected to Levied</u>
		<u>General</u>	<u>Debt Service</u>	<u>Contractual</u>	<u>Levied</u>	<u>Collected</u>	
2008	\$ 5,344,050	30.000	0.000	0.000	\$ 160,322	\$ 160,661	100.21%
2009	\$ 6,894,350	0.000	30.000	0.000	\$ 206,831	\$ 206,831	100.00%
2010	\$ 8,141,260	0.000	30.000	0.000	\$ 244,238	\$ 244,238	100.00%
2011	\$ 8,482,530	0.000	30.000	0.000	\$ 254,476	\$ 227,276	89.31%
2012	\$ 10,780,165	0.000	30.000	0.000	\$ 323,405	\$ 312,505	96.63%
2013	\$ 11,909,224	0.000	30.000	0.000	\$ 357,277	\$ 357,089	99.95%
2014	\$ 15,585,624	0.000	30.000	0.000	\$ 467,569	\$ 467,097	99.90%
2015	\$ 15,998,305	5.000	35.000	0.000	\$ 639,932	\$ 639,809	99.98%
2016	\$ 26,917,310	0.000	40.000	0.000	\$ 1,076,692	\$ 1,074,430	99.79%
Estimated for year ending December 31, 2017	\$ 28,558,160	5.000	35.000	0.000	\$ 1,142,326		

NOTE

Property taxes collected in any one year include collection of delinquent property taxes levied and/or abatements or valuations in prior years. Information received from the County Treasurer does not permit identification of specific year assessment.

CONTINUING DISCLOSURE ANNUAL FINANCIAL INFORMATION - UNAUDITED

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

ASSESSED AND ACTUAL VALUATION OF CLASSES OF PROPERTY IN DISTRICT

December 31, 2016

UNAUDITED

District No. 2

<u>Class</u>	<u>2016 Assessed Valuation</u>	<u>Percent of Assessed Valuation</u>	<u>2016 Actual Valuation</u>	<u>Percent of Actual Valuation</u>
Residential	\$19,836,957	94.22%	\$249,207,892	98.34%
Vacant	1,152,545	5.47%	3,974,281	1.57%
Commercial	65,885	0.31%	227,192	0.09%
Natural Resources	96	0.00%	330	0.00%
Total	<u>\$21,055,483</u>	<u>100.00%</u>	<u>\$253,409,695</u>	<u>100.00%</u>

District No. 3

<u>Class</u>	<u>2016 Assessed Valuation</u>	<u>Percent of Assessed Valuation</u>	<u>2016 Actual Valuation</u>	<u>Percent of Actual Valuation</u>
Residential	\$22,493,939	78.76%	\$282,586,343	93.11%
Vacant	6,010,927	21.05%	20,727,249	6.83%
Commercial	51,409	0.18%	177,273	0.06%
State Assessed	1,885	0.01%	6,502	0.00%
Total	<u>\$28,558,160</u>	<u>100.00%</u>	<u>\$303,497,367</u>	<u>100.00%</u>

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

MILL LEVY RECAP

December 31, 2016

UNAUDITED

Taxing Authority	2016 Levy
Jefferson County	24.709
Jefferson County School District No. R-1	45.941
Lakewood (City of)	2.392
Mount Carbon Metropolitan District (exclusion areas)	20.000
Regional Transportation District	0.000
Urban Drainage & Flood Control District	0.559
Urban Drainage & Flood Control South Platte	0.061
West Metro Fire Protection District	13.394
Total Overlapping Mill Levy	107.056
The Financing Districts	40.000
Total Mill Levy	147.056

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

SELECTED DEBT RATIOS

December 31, 2016

UNAUDITED

	<u>District No. 1</u>	<u>District No. 2</u>	<u>District No. 3</u>	<u>Total</u>
General Obligation Debt Outstanding	\$ -	\$ -	\$ 20,955,000	\$ 20,955,000
District Assessed Value	\$ 1,999	\$ 21,055,483	\$ 28,558,160	\$ 49,615,642
Ratio of Debt to Assessed Value				42.23%

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

ESTIMATED OVERLAPPING GENERAL OBLIGATION DEBT

December 31, 2016

UNAUDITED

<u>Overlapping Public Entity</u>	<u>Outstanding General Obligation Debt</u>	<u>Estimated Net Debt Chargeable to Properties in the District</u>	
		<u>Percent</u>	<u>Amount</u>
<u>District No. 2</u>			
Jefferson County School District No. R-1 \$	429,115,000	0.28%	1,201,522
Mount Carbon Metropolitan District	16,995,233	41.43%	7,041,125
West Metro Fire Protection District	30,495,000	0.62%	189,069
Total District No. 2			<u>8,431,716</u>
<u>District No. 3</u>			
Jefferson County School District No. R-1 \$	429,115,000	0.38%	1,630,637
Mount Carbon Metropolitan District	16,995,233	56.19%	9,549,621
West Metro Fire Protection District	30,495,000	0.84%	256,158
Total District No. 3			<u>11,436,416</u>
Total Financial Districts			<u><u>19,868,132</u></u>