

BLUE LAKE METROPOLITAN DISTRICT NO. 3
Weld County, Colorado

FINANCIAL STATEMENTS
December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Blue Lake Metropolitan District No. 3

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund of Blue Lake Metropolitan District No. 3, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Blue Lake Metropolitan District No. 3, as of December 31, 2018, and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

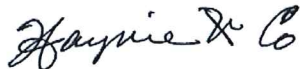
Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Blue Lake Metropolitan District No. 3's basic financial statements. The other information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information, as listed in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.



Littleton, Colorado
September 30, 2019

BASIC FINANCIAL STATEMENTS

BLUE LAKE METROPOLITAN DISTRICT NO. 3
STATEMENT OF NET POSITION
December 31, 2018

	<u>Governmental Activities</u>
ASSETS	
Cash and investments - unrestricted	\$ 9,036
Cash and investments - restricted	470,668
Due from county treasurer	822
Property taxes receivable	239,350
Capital assets, not being depreciated	<u>5,492,573</u>
Total assets	<u>6,212,449</u>
 LIABILITIES	
Accounts payable	702
Accrued interest on long-term obligations	58,237
Noncurrent liabilities:	
Due in more than one year	<u>6,361,252</u>
Total liabilities	<u>6,420,191</u>
 DEFERRED INFLOWS OF RESOURCES	
Deferred property tax revenue	<u>239,350</u>
Total deferred inflows of resources	<u>239,350</u>
 NET POSITION	
Net investment in capital assets	(868,679)
Restricted for:	
Emergency reserves	4,800
Debt service	484,324
Unrestricted	<u>(67,537)</u>
Total net position (deficit)	<u>\$ (447,092)</u>

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

BLUE LAKE METROPOLITAN DISTRICT NO. 3
STATEMENT OF ACTIVITIES
Year Ended December 31, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contribution</u>	<u>Contribution</u>	<u>Net Position</u>
					<u>Governmenta</u>
					<u>I Activities</u>
Primary government:					
Governmental activities:					
General government	\$ 35,003	\$ -	\$ -	\$ -	\$ (35,003)
Interest and expenses on long-term debt	530,623	-	-	-	(530,623)
	<u>\$ 565,626</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (565,626)</u>
General revenues:					
Property taxes					139,861
Specific ownership taxes					10,851
Interest					3,554
Total general revenues					<u>154,266</u>
Change in net position					(411,360)
Net position (deficit) - beginning					(35,732)
Net position (deficit) - ending					<u>\$ (447,092)</u>

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

BLUE LAKE METROPOLITAN DISTRICT NO. 3
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2018

	General	Debt Service and Improvements	Total Governmental Funds
ASSETS			
Cash and investments - unrestricted	\$ -	\$ 9,036	\$ 9,036
Cash and investments - restricted	-	470,668	470,668
Due from county treasurer	149	673	822
Property taxes receivable	19,854	219,496	239,350
Due from other funds	-	3,947	3,947
Total assets	\$ 20,003	\$ 703,820	\$ 723,823
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 702	\$ -	\$ 702
Due to other funds	3,947	-	3,947
Total liabilities	4,649	-	4,649
DEFERRED INFLOWS OF RESOURCES			
Deferred property tax revenue	19,854	219,496	239,350
Total deferred inflows of resources	19,854	219,496	239,350
FUND BALANCES			
Restricted:			
Emergency reserves	4,800	-	4,800
Debt service	-	484,324	484,324
Unassigned	(9,300)	-	(9,300)
Total fund balances	(4,500)	484,324	479,824
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
	\$ 20,003	\$ 703,820	\$ 723,823
Governmental fund balance			\$ 479,824
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.			5,492,573
Long-term liabilities are not due and payable in the current period and, therefore, are not in the funds			
Long-term obligations			(6,361,252)
Accrued interest on long-term obligations			(58,237)
Net position of governmental activities			\$ (447,092)

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

BLUE LAKE METROPOLITAN DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2018

	General	Debt Service and Improvements	Total Governmenta Funds
REVENUES			
Property taxes	\$ 25,302	\$ 114,559	\$ 139,861
Specific ownership taxes	1,963	8,888	10,851
Interest	-	3,554	3,554
Total revenues	27,265	127,001	154,266
EXPENDITURES			
GENERAL			
Accounting and management	18,235	-	18,235
Audit	1,011	-	1,011
County treasurer fees	380	1,718	2,098
Directors' fees	300	-	300
Dues and subscriptions	263	-	263
Insurance and bonds	2,983	-	2,983
Legal	9,647	-	9,647
Miscellaneous	466	-	466
DEBT SERVICE			
Bond interest	-	135,429	135,429
Bond issuance costs	-	328,957	328,957
Paying agent fees	-	8,000	8,000
CAPITAL OUTLAY			
Public infrastructure	-	5,492,573	5,492,573
Total expenditures	33,285	5,966,677	5,999,962
EXCESS OF EXPENDITURES OVER REVENUES	(6,020)	(5,839,676)	(5,845,696)
OTHER FINANCING SOURCES (USES)			
Bond proceeds	-	6,324,000	6,324,000
Developer advances	5,000	5,492,573	5,497,573
Developer advance repayment	-	(5,492,573)	(5,492,573)
Total other financing sources (uses)	5,000	6,324,000	6,329,000
NET CHANGE IN FUND BALANCES	(1,020)	484,324	483,304
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	(3,480)	-	(3,480)
FUND BALANCE (DEFICIT)- END OF YEAR	\$ (4,500)	\$ 484,324	\$ 479,824

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

**BLUE LAKE METROPOLITAN DISTRICT NO. 3
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2018**

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

Net changes in fund balances - Total governmental funds	\$ 483,304
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Governmental funds report capital outlays as expenditures. In the statement of activities, capital outlay is not reported as an expenditure. In addition, some expenses in the statement of activities do require the use of financial resources and, therefore, are not reported as expenditures in governmental funds. The net effect of these differences is as follows:

Capital outlay	5,492,573
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The net effect of these differences in the treatment of long-term debt is as follows:

Bond proceeds	(6,324,000)	
Developer advances	(5,497,573)	
Developer advance repayment	<u>5,492,573</u>	(6,329,000)

Some expenses reported in the Statement of Activities do not require the use of financial resources and, therefore, are not reported as expenditures in governmental funds:

Net change in accrued interest on long-term liabilities	<u>(58,237)</u>
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Change in net position of governmental activities	<u><u>\$ (411,360)</u></u>
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These financial statements should be read only in connection with the accompanying notes to financial statements.

BLUE LAKE METROPOLITAN DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN
FUND BALANCE (DEFICIT) - BUDGET AND ACTUAL
GENERAL FUND
Year Ended December 31, 2018

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 25,302	\$ 25,302	\$ 25,302	\$ -
Specific ownership taxes	1,518	1,950	1,963	13
Total revenues	<u>26,820</u>	<u>27,252</u>	<u>27,265</u>	<u>13</u>
EXPENDITURES				
General				
Accounting and management	10,000	18,000	18,235	(235)
Audit	500	1,600	1,011	589
County treasurer fees	380	400	380	20
Directors' fees	500	300	300	-
Dues and subscriptions	300	300	263	37
Insurance and bonds	3,000	3,000	2,983	17
Legal	10,000	10,000	9,647	353
Miscellaneous	100	500	466	34
Emergency reserve	900	900	-	900
Total expenditures	<u>25,680</u>	<u>35,000</u>	<u>33,285</u>	<u>1,715</u>
EXCESS OF EXPENDTURES OVER (UNDER) REVENUES	<u>1,140</u>	<u>(7,748)</u>	<u>(6,020)</u>	<u>1,728</u>
OTHER FINANCING SOURCES				
Developer advances	-	5,000	5,000	-
Total other financing sources	<u>-</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	1,140	(2,748)	(1,020)	1,728
FUND BALANCE (DEFICIT) BEGINNING OF YEAR	<u>(755)</u>	<u>(3,480)</u>	<u>(3,480)</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 385</u>	<u>\$ (6,228)</u>	<u>\$ (4,500)</u>	<u>\$ 1,728</u>

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

BLUE LAKE METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 1 - DEFINITION OF REPORTING ENTITY

Blue Lake Metropolitan District No. 3 (the District), a quasi-municipal corporation and political subdivision of the State of Colorado was organized on May 17, 2004 and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Weld County, Colorado, entirely within the Town of Lochbuie (Town).

The District was formed in conjunction with two other metropolitan districts, Blue Lake Metropolitan District No. 1 (District 1) and Blue Lake Metropolitan District No. 2 (District 2)(collectively the Districts). The purpose of the District is to finance, construct and install public improvements, including streets and traffic signals, and water, sewer, storm drainage and park, open space and recreation facilities for the Blue Lake Development. Public improvements and facilities constructed or acquired by the District may be owned and maintained by one or more of the Districts, or may be dedicated for ownership and maintenance to the Town of Lochbuie, Colorado, or to other non-profit or governmental entities for the use and benefit of the Blue Lake Development residents and taxpayers.

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

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 District 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. Governmental activities are normally supported by taxes and intergovernmental revenues.

BLUE LAKE METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Separate financial statements are provided for governmental funds. Major individual governmental 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. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Depreciation is computed and recorded as an operating expense. Expenditures for property and equipment are shown as increases in assets and redemption of bonds, notes, and developer advances are recorded as a reduction in liabilities.

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

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 other funds.

BLUE LAKE METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Debt Service and Improvements Fund accounts for the resources accumulated and payments made for principal, interest and related expenses on long-term general obligation debt and for the acquisition and construction of public improvements.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted first, then unrestricted resources as they are needed.

Budgets

In accordance with the Local Government Budget Law of Colorado, 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.

Subsequent to the end of the year, supplementary appropriations approved by the District's Board of Directors modified the appropriation in the General Fund from \$25,680 to \$35,000 and the Debt Service Fund from \$5,620,773 to \$11,460,318.

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 account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are due in 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.

BLUE LAKE METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Capital Assets

Capital assets are reported in the governmental activities column in the governmental-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.

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 that will be dedicated to other governmental entities are not depreciated. Improvements to be owned by the District are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Bond Issuance Costs

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balances – Governmental Funds

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

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

Nonspendable fund balance – the amount of fund balance that is not in spendable form (such as inventory or prepaids) or is legally or contractually required to be maintained intact.

Restricted fund balance – the amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e. Board of Directors). To be reported as

BLUE LAKE METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

committed, amounts cannot be used for any other purpose unless the District takes the same highest level of action to remove or change the constraint.

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

Unassigned fund balance – amounts that are available for any purpose.

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports 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 and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District does not have any items that qualifies for reporting in this category.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Accordingly, the item, *deferred property tax revenue*, is deferred and recognized as an inflow of resources in the period that the amount becomes available.

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of December 31, 2018 are classified in the accompanying statement of net position as follows:

Cash and investments - unrestricted	\$ 9,036
Cash and investments - restricted	470,668
Total cash and investments	<u>\$ 479,704</u>

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

Deposits with financial institutions	\$ 479,704
Total cash and investments	<u>\$ 479,704</u>

BLUE LAKE METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Cash Deposits

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 equal to 102% of the aggregate uninsured deposits.

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

At December 31, 2018, the District's cash deposits had a bank balance of \$483,710 and carrying balance of \$479,704.

Investments

Credit Risk

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

Colorado 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 and the World Bank
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Certain reverse repurchase agreements
- Certain securities lending agreements
- Certain corporate bonds
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

As of December 31, 2018, the District had no investments.

BLUE LAKE METROPOLITAN DISTRICT NO. 3
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:

<u>Governmental Activities</u>	<u>Balance at December 31, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at December 31, 2018</u>
Capital assets, not being depreciated:				
Public improvements	\$ -	\$ 5,492,573	\$ -	\$ 5,492,573
Total capital assets, not being depreciated	<u>\$ -</u>	<u>\$ 5,492,573</u>	<u>\$ -</u>	<u>\$ 5,492,573</u>

NOTE 5 - LONG-TERM OBLIGATIONS

The following is an analysis of changes in long-term obligations for the year ended December 31, 2018:

	<u>Balance at December 31, 2017</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Balance at December 31, 2018</u>	<u>Due Within One Year</u>
General Obligation Bonds, Series 2018A	\$ -	\$ 5,495,000	\$ -	\$ 5,495,000	\$ -
Subordinate Limited Tax Obligation Bonds, Series 2018B	-	829,000	-	829,000	-
Developer advances	32,252	5,497,573	5,492,573	37,252	-
	<u>\$ 32,252</u>	<u>\$ 11,821,573</u>	<u>\$ 5,492,573</u>	<u>\$ 6,361,252</u>	<u>\$ -</u>

Limited Tax convertible to Unlimited Tax General Obligation Bonds Series, 2018A

On June 12, 2018, the District issued \$5,495,000 Limited Tax (Convertible to Unlimited Tax) General Obligation Bonds, Series 2018A (senior bonds). Interest on the senior bonds is payable semiannually on June 1 and December 1, commencing June 1, 2018, at an interest rate of 5.25%. The bonds are secured by and payable from senior pledged revenue which consists of the moneys derived by the District from the following sources: (i) all senior property tax revenues; (ii) all specific ownership tax revenues (iii) all capital fees; and (iv) any other legally available monies which the District determines to transfer to the trustee for application as senior pledged revenue. The 2018 Senior Bonds are additionally secured by capitalized interest, the Senior Reserve Fund, and the Surplus Fund. The senior required mill levy is defined, generally, as an ad valorem mill levy imposed on all taxable property of the District each year in an amount that is sufficient to pay the senior bonds as they become due and payable and to replenish the Senior Reserve Fund, but not in excess of 40.862 mills. In the event that the senior pledged revenue is insufficient to pay the senior bonds, the unpaid principal will continue to bear interest, and the

BLUE LAKE METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

unpaid interest will compound semi-annually until the total repayment obligation of the senior bonds equals the amount permitted by law and its elected authorization. Proceeds of the senior bonds are to be used to: (i) finance, or reimburse the developer for, public improvements related to residential development within the District; and (ii) pay the costs of issuing the senior bonds.

The senior bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, at the redemption price of 103% between December 1, 2023 and November 30, 2024, 102% between December 1, 2024 and November 30, 2025, 101% between December 1, 2025 and November 30, 2026 and 100% on and after December 1, 2026, together with interest accrued and unpaid thereon to the date fixed for redemption.

Subordinate Limited Tax General Obligation Bonds, Series 2018B

On June 12, 2018, the District also issued \$829,000 Subordinate Limited Tax General Obligation Bonds, Series 2018B (subordinate bonds). The bonds are structured as “cash flow” bonds, and have no scheduled payments of principal. Interest on the subordinate bonds is payable annually on December 15, commencing December 15, 2018 at an interest rate of 7.5%. Both interest and principal are payable solely from and only to extent of available subordinate pledged revenue which consists of the moneys derived by the District from the following sources: (i) all senior property tax revenues; (ii) all specific ownership tax revenues (iii) all capital fees; and (iv) any other legally available monies which the District determines to transfer to the trustee for application as senior pledged revenue. The subordinate required mill levy is defined, generally, as an ad valorem mill levy imposed on all taxable property of the District each year in an amount that is sufficient to pay the senior bonds as they become due and payable and to replenish the Senior Reserve Fund, but not in excess of 40.862 mills, less the ad valorem mill levy required to be used, paid, pledged, or otherwise applied in connection with any senior bonds, including the 2018A senior bonds. Proceeds of the subordinate bonds are to be used to: (i) finance, or reimburse the developer for, public improvements related to residential development within the District; and (ii) pay the costs of issuing the subordinate bonds.

The subordinate bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, at the redemption price of 103% between December 1, 2023 and November 30, 2024, 102% between December 1, 2024 and November 30, 2025, 101% between December 1, 2025 and November 30, 2026 and 100% on and after December 1, 2026, together with interest accrued and unpaid thereon to the date fixed for redemption.

BLUE LAKE METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

The District's long-term obligations mature as follows:

	Limited Tax General Obligation Bonds - Series 2018A and 2018B		
	Principal	Interest	Total
2019	\$ -	\$ 350,663	\$ 350,663
2020	-	350,663	350,663
2021	30,000	350,663	380,663
2022	55,000	349,088	404,088
2023	55,000	346,200	401,200
2024-2028	395,000	1,679,025	2,074,025
2029-2033	610,000	1,554,075	2,164,075
2034-2038	900,000	1,365,338	2,265,338
2039-2043	1,265,000	1,092,075	2,357,075
2044-2048	3,014,000	709,975	3,723,975
	\$ 6,324,000	\$ 8,147,763	\$ 14,471,763

Developer Advances

Intergovernmental Agreement Regarding Debt Allocation Between and Among Blue Lake Metropolitan District Nos. 1-3.

The Districts entered into an Intergovernmental Agreement Regarding Debt Allocation Between and Among Blue Lake Metropolitan District Nos. 1-3, dated April 2, 2015 (the "Debt Allocation IGA"), for the purpose of setting forth the debt allocations of the Districts. The Debt Allocation IGA allocates \$3,700,000 of the debt limitation to the District and the remaining \$20,300,000 to District 1 and District 2. The Debt Allocation IGA further provides that District 1 and District 2 may further allocate the \$20,300,000 allocation between and amongst themselves in any manner that the respective Boards of the Districts may agree upon, all in conformance with applicable law.

Advance and Reimbursement Agreements by and Between Blue Lake Metropolitan Districts No. 1, 2 and 3 and Lochbuie Land I, LLC

The Districts each entered into Advance and Reimbursement Agreements with Lochbuie Land I, LLC (Lochbuie Land I) on June 29, 2004 (the "Advance and Reimbursement Agreement") to establish the terms and conditions pursuant to which Lochbuie Land I would make advances to the Districts and the Districts would reimburse Lochbuie Land I for the advances. Under the Advance and Reimbursement Agreements, the Districts are required to reimburse Lochbuie Land I for advances with interest at a rate of seven percent (7%) per annum. Payments made by the Districts are subject to annual appropriation and budget approval and are not to be made from funds otherwise required for operations, capital improvements and debt service costs and

BLUE LAKE METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

expenses of the Districts. Amounts payable under the Advance and Reimbursement Agreements are subordinate to any bonded indebtedness of the Districts.

Authorized Debt

At an election held on May 4, 2004, the District's eligible electors authorized the District to issue up to \$48,000,000 for the purpose of providing certain improvements and facilities in general obligation bonds. After the issuance of the Bonds, \$41,676,000 of this authorization remain unissued. The Board currently has no plans to seek voter approval for general obligation indebtedness in excess of this amount. However, the Indentures permit the issuance of Subordinate Bonds or Junior Lien Bonds, as applicable, and the District may issue such subordinate debt at some point in the future, although the timing and size of the debt is not yet known and depends on future conditions.

Pursuant to the District's service plan, the Districts are prohibited from issuing cumulative general obligation debt in excess of \$24,000,000 without Town authorization. Upon issuance of the Bonds, \$15,176,000 of this authorization will remain unissued. Also, according to the Debt Allocation IGA the District agrees to a debt limit allocation of \$7,100,000. Upon issuance of the Bonds, \$776,000 of this authorization remain unissued.

NOTE 6 – FUND EQUITY

At December 31, 2018, the District reported the following classification of fund equity.

Restricted Fund Balance

The restricted fund balance in the General Fund in the amount of \$4,800 is comprised of the Emergency Reserves that have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado.

The restricted fund balance in the amount of \$484,324 is to be used exclusively for debt service requirements and public improvements.

NOTE 7 - NET POSITION

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

BLUE LAKE METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 7 - NET POSITION (CONTINUED)

The net investment in capital assets consists of capital assets owned by the District, 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 improvements of those assets. As of December 31, 2018, the District had a net deficit in capital assets in the amount of (\$868,679).

The restricted portion of the net position includes amounts that are restricted for use either externally by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The District's restricted net position at December 31, 2018 is as follows:

	Governmental Activities
Restricted net position:	
TABOR emergency reserve (Note 9)	\$ 4,800
Debt service and public improvements (Note 4)	484,324
	\$ 489,124

In the government-wide financial statements, the District's liabilities plus deferred inflows of resources exceeded assets plus deferred outflows of resources by \$447,092.

NOTE 8 - RELATED PARTIES

All of the members of the Board of Directors of the District are employees, owners or otherwise associated with Lochbuie Land I, and may have conflicts of interest in dealing with the District. The District entered into an Advance and Reimbursement Agreement dated June 29, 2004 with Lochbuie Land I (see Note 4). Specific details of transactions with Lochbuie Land I regarding organization, advances and debt are described elsewhere in these notes.

NOTE 9 - RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, the District may be exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

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

BLUE LAKE METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 9 - RISK MANAGEMENT (CONTINUED)

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

NOTE 10 - TAX, SPENDING AND DEBT LIMITATIONS

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

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

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

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

On May 4, 2004, a majority of the District's electors authorized the District to collect, retain and spend any and all amounts annually from any revenue sources whatsoever, other than ad valorem taxes, as a voter-approved revenue change without regard to any spending, revenue-raising or other limitation contained within Article X, Section 20 of the Colorado Constitution and without limiting in any year the amount of other revenues that may be collected and spent by the District.

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

SUPPLEMENTAL INFORMATION

BLUE LAKE METROPOLITAN DISTRICT NO. 3
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN
FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE AND IMPROVEMENTS FUND
Year Ended December 31, 2018

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
REVENUES				
Property taxes	\$ 114,559	\$ 114,559	\$ 114,559	\$ -
Specific ownership taxes	6,874	8,800	8,888	88
Interest	-	3,500	3,554	54
Total revenues	<u>121,433</u>	<u>126,859</u>	<u>127,001</u>	<u>142</u>
EXPENDITURES				
General				
County treasurer fees	1,718	1,718	1,718	-
Debt Service				
Bond interest	233,150	135,500	135,429	71
Bond issuance costs	344,500	330,000	328,957	1,043
Paying agent fees	2,500	8,000	8,000	-
Capital Outlay				
Public infrastructure	-	5,492,500	5,492,573	(73)
Total expenditures	<u>581,868</u>	<u>5,967,718</u>	<u>5,966,677</u>	<u>1,041</u>
EXCESS OF EXPENDITURES OVER REVENUES	<u>(460,435)</u>	<u>(5,840,859)</u>	<u>(5,839,676)</u>	<u>1,183</u>
OTHER FINANCING SOURCES (USES)				
Bond proceeds	7,077,000	6,324,000	6,324,000	-
Developer advances	-	5,492,600	5,492,573	(27)
Developer advance repayment	(5,038,905)	(5,492,600)	(5,492,573)	27
Total other financing sources (uses)	<u>2,038,095</u>	<u>6,324,000</u>	<u>6,324,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	1,577,660	483,141	484,324	1,183
FUND BALANCE - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$1,577,660</u>	<u>\$ 483,141</u>	<u>\$ 484,324</u>	<u>\$ 1,183</u>

OTHER INFORMATION

BLUE LAKE METROPOLITAN DISTRICT NO. 3
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2018

\$5,495,000 Series 2018A
Limited Tax (Convertible to Unlimited Tax)
General Obligation Bonds Series 2018A
Dated June 12, 2018
Interest Rate of 5.25%
Payable on June 1 and December 1,
Principal Due December 1

\$829,000 Series 2018B
Subordinate Limited Tax General Obligation Bonds
Series 2018B
Dated June 12, 2018
Interest Rate of 7.5%
Payable on December 15,
Principal Due December 15, 2048

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	\$ 288,488	\$ 288,488	\$ -	\$ 62,175	\$ 62,175
2020	-	288,488	288,488	-	62,175	62,175
2021	30,000	288,488	318,488	-	62,175	62,175
2022	55,000	286,913	341,913	-	62,175	62,175
2023	55,000	284,025	339,025	-	62,175	62,175
2024	65,000	281,138	346,138	-	62,175	62,175
2025	70,000	277,725	347,725	-	62,175	62,175
2026	80,000	274,050	354,050	-	62,175	62,175
2027	85,000	269,850	354,850	-	62,175	62,175
2028	95,000	265,388	360,388	-	62,175	62,175
2029	100,000	260,400	360,400	-	62,175	62,175
2030	115,000	255,150	370,150	-	62,175	62,175
2031	120,000	249,113	369,113	-	62,175	62,175
2032	135,000	242,813	377,813	-	62,175	62,175
2033	140,000	235,725	375,725	-	62,175	62,175
2034	155,000	228,375	383,375	-	62,175	62,175
2035	165,000	220,238	385,238	-	62,175	62,175
2036	180,000	211,575	391,575	-	62,175	62,175
2037	190,000	202,125	392,125	-	62,175	62,175
2038	210,000	192,150	402,150	-	62,175	62,175
2039	220,000	181,125	401,125	-	62,175	62,175
2040	240,000	169,575	409,575	-	62,175	62,175
2041	250,000	156,975	406,975	-	62,175	62,175
2042	270,000	143,850	413,850	-	62,175	62,175
2043	285,000	129,675	414,675	-	62,175	62,175
2044	310,000	112,713	422,713	-	62,175	62,175
2045	325,000	98,438	423,438	-	62,175	62,175
2046	350,000	81,375	431,375	-	62,175	62,175
2047	370,000	63,000	433,000	-	62,175	62,175
2048	830,000	43,575	873,575	829,000	62,175	891,175
	<u>\$ 5,495,000</u>	<u>\$ 6,282,513</u>	<u>\$ 11,777,513</u>	<u>\$ 829,000</u>	<u>\$1,865,250</u>	<u>\$ 2,694,250</u>

**BLUE LAKE METROPOLITAN DISTRICT NO. 3
SCHEDULE OF ASSESSED VALUATION,
MILL LEVY AND PROPERTY TAXES COLLECTED
December 31, 2018**

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>	<u>Mills Levied</u>	<u>Total Property Taxes</u>		<u>Percentage Collected to Levied</u>
			<u>Levied</u>	<u>Collected</u>	
2013	\$ 190	50.000	\$ 10	\$ 10	100.00%
2014	\$ 190	50.000	\$ 10	\$ 10	100.00%
2015	\$ 10	50.000	\$ 1	\$ 1	100.00%
2016	\$ 2,910	50.000	\$ 146	\$ 146	100.00%
2017	\$ 4,790	50.000	\$ 240	\$ 240	100.00%
2018	\$ 2,530,190	55.277	\$ 139,861	\$ 139,861	100.00%
Estimated for the year ending December 31, 2019	\$ 3,970,840	60.277	\$ 239,350		

NOTE:

Property taxes collected in any one year include collection of delinquent property taxes assessed in prior years, as well as reductions for property tax refunds or abatements. Information received from the county treasurer does not permit identification of specific year of assessment.