

**UPPER COTTONWOOD CREEK
METROPOLITAN DISTRICT NO 3
El Paso County, Colorado**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2019**

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 3
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YEAR ENDED DECEMBER 31, 2019**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Upper Cottonwood Creek Metropolitan District No 3
El Paso County, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Upper Cottonwood Creek Metropolitan District No 3 ("District") as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2019, and the changes in its 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 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 which 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic 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 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

BiggsKofford, P.C.

Colorado Springs, Colorado
September 25, 2020

BASIC FINANCIAL STATEMENTS

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 3
STATEMENT OF NET POSITION
DECEMBER 31, 2019**

	Governmental Activities
ASSETS	
Cash and Investments - Restricted	\$ 453,543
Receivable from County Treasurer	4,768
Property Taxes Receivable	860,452
Total Assets	1,318,763
LIABILITIES	
Accounts Payable	10,000
Accounts Payable - Intergovernmental	24,407
Accrued Interest Payable	16,053
Noncurrent Liabilities:	
Due in More Than One Year	7,200,000
Total Liabilities	7,250,460
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	860,452
Total Deferred Inflows of Resources	860,452
NET POSITION	
Restricted For:	
Debt Service	407,851
Unrestricted	(7,200,000)
Total Net Position	\$ (6,792,149)

See accompanying Notes to Basic Financial Statements.

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 3
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

FUNCTIONS/PROGRAMS	Program Revenues			Net Revenues (Expenses) and Change in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Government Activities:					
General Government	\$ 7,363,635	\$ -	\$ -	\$ -	\$ (7,363,635)
Interest and Related Costs on Long-Term Debt	52,490	-	-	-	(52,490)
Total Governmental Activities	\$ 7,416,125	\$ -	\$ -	\$ -	(7,416,125)
GENERAL REVENUES					
					436,541
					52,857
					8,188
					497,586
CHANGE IN NET POSITION					(6,918,539)
					126,390
NET POSITION - END OF YEAR					\$ (6,792,149)

See accompanying Notes to Basic Financial Statements.

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 3
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and Investments - Restricted	\$ -	\$ 421,043	32,500	\$ 453,543
Receivable from County Treasurer	1,907	2,861	-	4,768
Property Taxes Receivable	344,184	516,268	-	860,452
Total Assets	<u>\$ 346,091</u>	<u>\$ 940,172</u>	<u>\$ 32,500</u>	<u>\$ 1,318,763</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ 10,000	\$ 10,000
Accounts Payable - Intergovernmental	1,907	-	22,500	24,407
Total Liabilities	1,907	-	32,500	34,407
DEFERRED INFLOWS OF RESOURCES				
Property Tax Revenue	344,184	516,268	-	860,452
Total Deferred Inflows of Resources	344,184	516,268	-	860,452
FUND BALANCES				
Restricted For:				
Debt Service	-	423,904	-	423,904
Total Fund Balances	-	423,904	-	423,904
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 346,091</u>	<u>\$ 940,172</u>	<u>\$ 32,500</u>	

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

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

Bonds Payable	(7,200,000)
Accrued Interest on Bonds Payable	(16,053)

Net Position of Governmental Activities	<u>\$ (6,792,149)</u>
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**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 3
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2019**

	General	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Property Taxes	\$ 174,616	\$ 261,925	\$ -	\$ 436,541
Specific Ownership Taxes	21,143	31,714	-	52,857
Net Investment Income	376	7,812	-	8,188
Total Revenues	<u>196,135</u>	<u>301,451</u>	<u>-</u>	<u>497,586</u>
EXPENDITURES				
Current:				
County Treasurer's Fees	2,626	3,937	-	6,563
Intergovernmental Expenditure	193,509	-	7,167,500	7,361,009
Debt Service:				
Bond Issue Costs	-	-	32,500	32,500
Total Expenditures	<u>196,135</u>	<u>3,937</u>	<u>7,200,000</u>	<u>7,400,072</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	297,514	(7,200,000)	(6,902,486)
OTHER FINANCING SOURCES (USES)				
Bond Issuance	-	-	7,200,000	7,200,000
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>7,200,000</u>	<u>7,200,000</u>
NET CHANGE IN FUND BALANCES	-	297,514	-	297,514
Fund Balances - Beginning of Year	<u>-</u>	<u>126,390</u>	<u>-</u>	<u>126,390</u>
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ 423,904</u>	<u>\$ -</u>	<u>\$ 423,904</u>

See accompanying Notes to Basic Financial Statements.

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 3
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

Net Changes in Fund Balances - Governmental Funds \$ 297,514

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

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences is the treatment of long-term debt and related items as follows:

Bond Issuance (7,200,000)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued Interest on Bonds - Change in Liability (16,053)

Change in Net Position of Governmental Activities \$ (6,918,539)

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 3
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2019**

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Property Taxes	\$ 174,634	\$ 174,616	\$ (18)
Specific Ownership Taxes	20,956	21,143	187
Net Investment Income	-	376	376
Other Revenue	2,000	-	(2,000)
Total Revenues	<u>197,590</u>	<u>196,135</u>	<u>(1,455)</u>
EXPENDITURES			
Contingency	2,000	-	2,000
County Treasurer's Fees	2,620	2,626	(6)
Intergovernmental Expenditure	<u>192,970</u>	<u>193,509</u>	<u>(539)</u>
Total Expenditures	<u>197,590</u>	<u>196,135</u>	<u>1,455</u>
NET CHANGE IN FUND BALANCE	-	-	-
Fund Balance - Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See accompanying Notes to Basic Financial Statements.

UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 DEFINITION OF REPORTING ENTITY

Upper Cottonwood Creek Metropolitan District No 3 (the District), a quasi-municipal corporation and political subdivision of the state of Colorado, was organized by order and decree of the District Court of El Paso County on May 22, 2006, concurrently with Upper Cottonwood Creek Metropolitan District Nos. 2, 4 and 5, and the previously formed Old Ranch Metropolitan District and Upper Cottonwood Creek Metropolitan District (collectively, the Districts). The Districts were formed under a Joint Service Plan approved by the City of Colorado Springs (the City) on February 6, 2006, and are governed pursuant to provisions of the Colorado Special Districts Act (Title 32, Article 1, Colorado Revised Statutes). The Districts' service area is located entirely within the City. Old Ranch Metropolitan District (the Operating District) is responsible for managing the construction of certain public facilities and improvements and for operation and maintenance of the limited list of public improvements which are not conveyed to the City. The District, Upper Cottonwood Creek Metropolitan District and Upper Cottonwood Creek Metropolitan District Nos. 2, 4 and 5 (collectively, the Financing Districts) are responsible for providing the funding and tax base needed to support the financing plan for capital improvements and to fund limited ongoing operations. Under the Service Plan, the Districts provide the following services: parks and recreation, sanitary sewer, storm drainage, streets, traffic safety protection, water and mosquito control. On March 22, 2016, the City approved an amendment to the Service Plan, allowing the District and Upper Cottonwood Creek Metropolitan District Nos. 4 and 5 to levy an Operating Mill of 20 mills, subject to adjustment.

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-Wide and Fund Financial Statements

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

UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

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

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 major sources of revenue susceptible to accrual are property taxes and specific ownership taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. The District determined that Developer advances are not considered as revenue susceptible to accrual. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is due.

The District reports the following major governmental funds:

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

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of the governmental funds.

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

UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

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 appropriation is at the total fund expenditures and other financing uses level and lapses at year-end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

The District amended its annual budget for the year ended December 31, 2019.

Pooled Cash and Investments

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

Property Taxes

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

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

Deferred Inflows of Resources

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

UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity

Net Position

For government-wide presentation purposes when both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

Fund Balance

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

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

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

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

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

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

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

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 3 CASH AND INVESTMENTS

Cash and investments as of December 31, 2019, are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Investments - Restricted	\$ 453,543
Total Cash and Investments	<u>\$ 453,543</u>

Cash and investments as of December 31, 2019, consist of the following:

Investments	<u>\$ 453,543</u>
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Deposits with Financial Institutions

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

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

At December 31, 2019, the District had no deposits with financial institutions.

Investments

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

The District generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk or investment custodial risk disclosure requirements for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Investments (Continued)

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

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

As of December 31, 2019, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted Average Under 60 Days	\$ 453,543

COLOTRUST

The District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAM by Standard & Poor's. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST at net asset value as determined by fair value. There are no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 4 LONG-TERM OBLIGATIONS

The following is an analysis of the changes in the District's long-term obligations for the year ended December 31, 2019:

	Balance - December 31, 2018	Additions	Retirements	Balance - December 31, 2019	Due Within One Year
Bonds Payable					
Series 2019	\$ -	\$ 7,200,000	\$ -	\$ 7,200,000	\$ -
Total Bonds Payable	<u>\$ -</u>	<u>\$ 7,200,000</u>	<u>\$ -</u>	<u>\$ 7,200,000</u>	<u>\$ -</u>

The details of the District's long-term obligations are as follows:

\$7,200,000 Limited Tax General Obligation Bond, Series 2019

On December 17, 2019, the District issued a \$7,200,000 in Limited Tax General Obligation Bonds (the 2019 Bonds) for public improvements. The Bond bears interest at a rate of 6%, maturing on November 12, 2049. Bond interest and principal payments are payable annually on December 1. Any accrued and unpaid interest will compound on December 1 of each year. To the extent principal of the 2019 Bonds is not paid when due, such principal shall remain outstanding until paid.

The Bond is secured by and payable from the Pledged Revenue, consisting of monies derived by the District from: 1) the Required Mill Levy, after costs of collection; 2) the portion of the specific ownership taxes remitted to the District pursuant to Section 42-3-107, C.R.S., or any successor statute, allocable to the amount of the Required Mill Levy; and 3) any other legally available moneys that the Board determines in its sole discretion to credit to the Debt Service Fund. The Required Mill Levy means an ad valorem property tax imposed upon all taxable property of the District each year in an amount sufficient to pay the principal of, premium, if any, and interest on the 2019 Bond as the same becomes due and payable. The Required Mill Levy is limited to a maximum of 30.000 mills, provided however, that such limitation shall be adjusted to compensate for changes in the rate of assessed valuation of the property within the District occurring after January 1, 2006, so that to the extent possible, the actual tax revenues generated by the Required Mill Levy, as adjusted, are neither diminished nor enhanced as a result of such changes. As of 2019, the adjusted maximum mill levy is 33.397 mills. So long as the District imposes the Required Mill Levy and applies the Pledged Revenue as required, the insufficiency of Pledged Revenue available to pay the principal and interest on the 2019 Bonds does not constitute an event of default.

The Bond is subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, and without premium, on December 1, 2027, and on any date thereafter, upon payment of the redemption price (expressed as a percentage of the principal amount of the Bond being redeemed) of 100%, plus accrued interest to the redemption date.

UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

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

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ -	\$ 412,800	\$ 412,800
2021	100,000	432,000	532,000
2022	105,000	426,000	531,000
2023	110,000	419,700	529,700
2024	115,000	413,100	528,100
2025-2029	695,000	1,952,100	2,647,100
2030-2034	930,000	1,717,500	2,647,500
2035-2039	1,250,000	1,402,500	2,652,500
2040-2044	1,665,000	980,400	2,645,400
2045-2049	2,230,000	415,417	2,645,417
Total	<u>\$ 7,200,000</u>	<u>\$ 8,571,517</u>	<u>\$ 15,771,517</u>

Authorized Debt

On May 2, 2006, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$260,000,000 for infrastructure improvements and operations and maintenance at an interest rate not to exceed 15% and \$35,000,000 for refunding the District's debt or other obligations. At December 31, 2019, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	<u>Amount Authorized on May 2, 2006</u>	<u>Authorization Used for Series 2019 Bonds</u>	<u>Authorized But Unissued</u>
Streets	\$ 35,000,000	\$ 1,842,000	\$ 33,158,000
Water	35,000,000	826,000	34,174,000
Sanitary Sewer	35,000,000	2,510,000	32,490,000
Parks and Recreation	35,000,000	2,022,000	32,978,000
Traffic and Safety	35,000,000	-	35,000,000
Television Relay and Translation	35,000,000	-	35,000,000
Operations and Maintenance	15,000,000	-	15,000,000
Intergovernmental Contracts	35,000,000	-	35,000,000
Debt Refunding	35,000,000	-	35,000,000
Total	<u>\$ 295,000,000</u>	<u>\$ 7,200,000</u>	<u>\$ 287,800,000</u>

Pursuant to the Joint Service Plan as amended on February 6, 2006, the District can issue bond indebtedness of up to \$35,000,000. In addition, the maximum debt service mill levy for the District is 30.000 mills, as adjusted for changes in the ratio of actual value to assessed value of property within the District. Beginning in 2019, the adjusted maximum mill levy for debt was 33.397 mills.

In the future, the District may issue a portion or all of the remaining authorized but unissued general obligation debt for purposes of providing public improvements to support development as it occurs with the District's service area, within the limitations of the District's Service Plan.

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 5 NET POSITION

The District has net position consisting of two components - restricted and unrestricted.

Restricted net position includes assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The District had restricted net position for debt service of \$407,851 as of December 31, 2019.

The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the restricted component of net position.

The District has a deficit in unrestricted net position. This deficit amount was a result of the District being responsible for the repayment of bonds issued and transferred to the Operating District for the purpose of financing public improvements.

NOTE 6 RELATED PARTY

The Developer of the property which constitutes the District is Nor'wood Development Group. The members of the Board of Directors are officers of, employees of, or associated with the Developer, and may have conflicts of interest in dealing with the District.

NOTE 7 INTERGOVERNMENTAL AGREEMENT

On June 1, 2006, the District entered into a District Facilities Construction and Service Agreement (IGA) with the Operating District, Upper Cottonwood Creek Metropolitan District, and Upper Cottonwood Creek Metropolitan District Nos. 2, 4 and 5. The IGA provides that the Operating District is to construct, own, maintain, and operate the facilities benefiting the aforementioned Districts. The Financing Districts have agreed to finance such activities by either issuing bonds and/or pledging certain revenues collected within the boundaries of the Financing Districts.

NOTE 8 RISK MANAGEMENT

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

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

UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 8 RISK MANAGEMENT (CONTINUED)

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

NOTE 9 TAX, SPENDING, AND DEBT LIMITATIONS

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

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

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. The District transfers its net operating revenue to the Operating District pursuant to an intergovernmental agreement. Therefore, the Emergency Reserve related to the District's revenues is reported in Old Ranch Metropolitan District.

On May 2, 2006, the District voters passed an election question allowing the District to increase property taxes up to \$15,000,000 annually, without limitation of rate, and without regard to any spending, revenue raising or other limitations contained within Article X, Section 20 of the Colorado Constitution (TABOR) or Section 29-2-301, C.R.S., to pay the District's operations, maintenance and other expenses. Additionally, the District's electors authorized the District to collect, spend or retain all revenue without regard to any limitations under TABOR.

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.

SUPPLEMENTARY INFORMATION

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 3
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2019**

	Budget Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	\$ 261,948	\$ 261,948	\$ 261,925	\$ (23)
Specific Ownership Taxes	31,434	31,434	31,714	280
Net Investment Income	-	-	7,812	7,812
Total Revenues	<u>293,382</u>	<u>293,382</u>	<u>301,451</u>	<u>8,069</u>
EXPENDITURES				
County Treasurer's Fee	<u>3,929</u>	<u>4,000</u>	<u>3,937</u>	<u>63</u>
Total Expenditures	<u>3,929</u>	<u>4,000</u>	<u>3,937</u>	<u>63</u>
NET CHANGE IN FUND BALANCE	289,453	289,382	297,514	8,132
Fund Balance - Beginning of Year	<u>124,631</u>	<u>126,390</u>	<u>126,390</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 414,084</u></u>	<u><u>\$ 415,772</u></u>	<u><u>\$ 423,904</u></u>	<u><u>\$ 8,132</u></u>

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 3
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2019**

	Budget Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Total Revenues	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Intergovernmental Expenditure	-	7,167,500	7,167,500	-
Bond Issue Costs	-	32,500	32,500	-
Total Expenditures	-	7,200,000	7,200,000	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	-	(7,200,000)	(7,200,000)	-
OTHER FINANCING SOURCES (USES)				
Bond Issuance	-	7,200,000	7,200,000	-
Total Other Financing Sources (Uses)	-	7,200,000	7,200,000	-
NET CHANGE IN FUND BALANCE				
	-	-	-	-
Fund Balance - Beginning of Year	-	-	-	-
FUND BALANCE - END OF YEAR	\$ -	\$ -	\$ -	\$ -

OTHER INFORMATION

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 3
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
DECEMBER 31, 2019**

\$7,200,000 Limited Tax General Obligation Bonds
Series 2019
Dated December 17, 2019
Interest Rate 6%

Year Ending December 31,	Principal and Interest Due December 1		
	Principal	Interest	Total
2020	\$ -	\$ 412,800	\$ 412,800
2021	100,000	432,000	532,000
2022	105,000	426,000	531,000
2023	110,000	419,700	529,700
2024	115,000	413,100	528,100
2025	125,000	406,200	531,200
2026	130,000	398,700	528,700
2027	140,000	390,900	530,900
2028	145,000	382,500	527,500
2029	155,000	373,800	528,800
2030	165,000	364,500	529,500
2031	175,000	354,600	529,600
2032	185,000	344,100	529,100
2033	195,000	333,000	528,000
2034	210,000	321,300	531,300
2035	220,000	308,700	528,700
2036	235,000	295,500	530,500
2037	250,000	281,400	531,400
2038	265,000	266,400	531,400
2039	280,000	250,500	530,500
2040	295,000	233,700	528,700
2041	315,000	216,000	531,000
2042	330,000	197,100	527,100
2043	350,000	177,300	527,300
2044	375,000	156,300	531,300
2045	395,000	133,800	528,800
2046	420,000	110,100	530,100
2047	445,000	84,900	529,900
2048	470,000	58,200	528,200
2049	500,000	28,417	528,417
Total	\$ 7,200,000	\$ 8,571,517	\$ 15,771,517

**UPPER COTTONWOOD CREEK METROPOLITAN DISTRICT NO 3
SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED
DECEMBER 31, 2019**

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied		Total Property Taxes		Percentage Collected to Levied
		General	Debt Service	Levied	Collected	
2015	\$ 11,600	10.000	0.000	\$ 116	\$ 116	100.00 %
2016	10,560	10.000	0.000	106	106	100.00
2017	303,500	20.000	30.000	15,175	15,175	100.00
2018	3,123,260	22.111	33.166	172,644	172,645	100.00
2019	7,898,080	22.111	33.166	436,582	436,541	99.99
Estimated for the Year Ending December 31, 2020	\$ 15,458,520	22.265	33.397	\$ 860,452		

NOTE: Property taxes shown as collected in any one year include collection of delinquent property taxes or abatements of property taxes assessed in prior years. This presentation does not attempt to identify specific years of assessment.