

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Financial Statements

Year Ended December 31, 2019

With

Independent Auditors' Report

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fossil Ridge 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 Fossil Ridge Metropolitan District No. 3, 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 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 Fossil Ridge Metropolitan District No. 3, as of December 31, 2019, 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

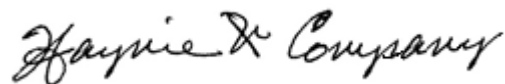
Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required 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 Fossil Ridge Metropolitan District No. 3's basic financial statements. The supplemental and 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 supplemental and 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.

The continuing disclosure annual financial information, as listed in the table of contents, has not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Littleton, Colorado
July 22, 2020

BASIC FINANCIAL STATEMENTS

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3
BALANCE SHEET/STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2019

Assets	General	Debt Service	Total	Adjustments	Statement of Net Position
Cash and investments - unrestricted	\$ 341,161	\$ -	\$ 341,161	\$ -	\$ 341,161
Cash and investments - restricted	-	313,558	313,558	-	313,558
Receivable from county treasurer	1,455	8,586	10,041	-	10,041
Prepaid expenditures	489	-	489	-	489
Property taxes receivable	211,801	1,482,759	1,694,560	-	1,694,560
Due from District No. 2	-	670,000	670,000	-	670,000
Total Assets	<u>\$ 554,906</u>	<u>\$ 2,474,903</u>	<u>\$ 3,029,809</u>	<u>\$ -</u>	<u>\$ 3,029,809</u>
Liabilities					
Due to District No. 1	\$ 310,036	\$ 402,722	\$ 712,758	\$ -	\$ 712,758
Accrued interest on bonds	-	-	-	81,015	81,015
Long-term liabilities:					
Due within one year	-	-	-	350,000	350,000
Due in more than one year	-	-	-	20,268,324	20,268,324
Total Liabilities	<u>310,036</u>	<u>402,722</u>	<u>712,758</u>	<u>20,699,339</u>	<u>21,412,097</u>
Deferred Inflows of Resources					
Deferred property taxes	211,801	1,482,759	1,694,560	-	1,694,560
Total Deferred Inflows of Resources	<u>211,801</u>	<u>1,482,759</u>	<u>1,694,560</u>	<u>-</u>	<u>1,694,560</u>
Fund Balance/Net Position					
Fund Balance					
Nonspendable:					
Prepaid expenditures	489	-	489	(489)	-
Restricted :					
Emergency reserve	7,000	-	7,000	(7,000)	-
Debt service	-	589,422	589,422	(589,422)	-
Unrestricted:					
Unassigned	25,580	-	25,580	(25,580)	-
Total Fund Balance	<u>33,069</u>	<u>589,422</u>	<u>622,491</u>	<u>(622,491)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 554,906</u>	<u>\$ 2,474,903</u>	<u>\$ 3,029,809</u>		
Net Position					
Restricted for:					
Emergencies				7,000	7,000
Debt service				508,407	508,407
Unrestricted				(20,592,255)	(20,592,255)
Total Net Position				<u>\$ (20,076,848)</u>	<u>\$ (20,076,848)</u>

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2019

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues					
Property taxes	\$ 196,998	\$ 1,162,570	\$ 1,359,568	\$ -	\$ 1,359,568
Specific ownership taxes	16,825	99,289	116,114	-	116,114
Interest	17,279	7,486	24,765	-	24,765
Conservation trust fund	438	-	438	-	438
Transfer from District No. 2	-	670,000	670,000	-	670,000
Total Revenues	<u>231,540</u>	<u>1,939,345</u>	<u>2,170,885</u>	<u>-</u>	<u>2,170,885</u>
Expenditures					
Audit	9,052	-	9,052	-	9,052
Insurance	254	-	254	-	254
Dues	4,452	-	4,452	-	4,452
Transfer to District No. 1	400,000	402,722	802,722	-	802,722
Treasurers' fees	2,668	15,747	18,415	-	18,415
Paying agent fees	-	5,000	5,000	-	5,000
Bond principal - Series 2016	-	170,000	170,000	(170,000)	-
Bond interest - Series 2016	-	601,800	601,800	(18,750)	583,050
Bond principal - Series 2014	-	170,000	170,000	(170,000)	-
Bond interest - Series 2014	-	383,994	383,994	(19,420)	364,574
Total Expenditures	<u>416,426</u>	<u>1,749,263</u>	<u>2,165,689</u>	<u>(378,170)</u>	<u>1,787,519</u>
Net Change in Fund Balance	(184,886)	190,082	5,196	(5,196)	
Change in Net Position				383,366	383,366
Fund Balance/Net Position					
Beginning of Year	<u>217,955</u>	<u>399,340</u>	<u>617,295</u>	<u>(21,077,509)</u>	<u>(20,460,214)</u>
End of Year	<u>\$ 33,069</u>	<u>\$ 589,422</u>	<u>\$ 622,491</u>	<u>\$ (20,699,339)</u>	<u>\$ (20,076,848)</u>

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

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL -
GENERAL FUND

For the Year Ended December 31, 2019

	<u>Budget Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
	<u>Original</u>	<u>Amended</u>		
Revenues				
Property taxes	\$ 197,468	\$ 197,468	\$ 196,998	\$ (470)
Specific ownership taxes	16,000	16,000	16,825	825
Conservation trust fund	-	-	438	438
Interest	50	50	17,279	17,229
Total Revenues	<u>213,518</u>	<u>213,518</u>	<u>231,540</u>	<u>18,022</u>
Expenditures				
Audit	10,000	10,000	9,052	948
Dues	-	-	254	(254)
Insurance	-	-	4,452	(4,452)
Treasurers' fees	2,962	3,000	2,668	332
Transfer to District No. 1	375,546	400,000	400,000	-
Emergency reserve	6,406	6,406	-	6,406
Total Expenditures	<u>394,914</u>	<u>419,406</u>	<u>416,426</u>	<u>2,980</u>
Net Change in Fund Balance	(181,396)	(205,888)	(184,886)	21,002
Beginning Fund Balance	<u>212,021</u>	<u>217,955</u>	<u>217,955</u>	<u>-</u>
Ending Fund Balance	<u>\$ 30,625</u>	<u>\$ 12,067</u>	<u>\$ 33,069</u>	<u>\$ 21,002</u>

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

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements

December 31, 2019

Note 1: Summary of Significant Accounting Policies

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

Definition of Reporting Entity

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

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB pronouncements, which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency. The pronouncements also require including a possible component unit if it would be misleading to exclude it.

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

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

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements

December 31, 2019

Basis of Presentation

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

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements

December 31, 2019

The District reports the following major governmental funds:

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

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

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

Budgetary Accounting

Budgets are adopted on a non-GAAP basis for the governmental funds. In accordance with the Local Government Budget Law of Colorado, the District's Board of Directors holds a public hearing in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The total appropriation can only be modified upon completion of public notification and hearing requirements. The budget includes each fund on its basis of accounting unless otherwise indicated. The appropriation is at the total fund expenditures level and lapses at year end. For the year ended December 31, 2019, supplementary appropriations approved by the District's Board of Directors modified the appropriation from \$394,914 to \$419,406 in the General Fund.

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2019, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

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

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

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements

December 31, 2019

Estimates

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

Deferred Outflows/Inflows of Resources

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

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

Long-Term Obligations

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

Property Taxes

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

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

In late 2018, the District's Board of Directors adopted the budget for the District for 2019 and approved a resolution that certified a general operational property tax of 5.458 mills, and a bond repayment property tax of 38.210 mills; however, due to a clerical error, only 32.210 mills in

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3
Notes to Financial Statements
December 31, 2019

bond repayment property tax were certified to Jefferson County for assessment. Immediately upon discovering the error, the District notified the County and requested that it certify the full 38.210 mills in bond repayment property tax; however, the County declined to correct the error. As a result of the error, the District collected \$219,849 less in bond repayment tax revenue than it had budgeted; however, the District had adequate bond repayment tax revenue reserves from which it was able to absorb the tax revenue deficiency and make full payment on the bonds.

Original Issue Premium

Original issue premiums on the 2014 Bonds and 2016 Bonds are being amortized over the term of the bonds using the effective interest method. Accumulated amortization of original issue premium amounted to \$151,036 at December 31, 2019.

Fund Equity

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

Nonspendable Fund Balance

The nonspendable fund balance in the General Fund in the amount of \$489 represents prepaid expenditures for the ensuing fiscal year and is therefore not in spendable form.

Restricted Fund Balance

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

The restricted fund balance in the Debt Service Fund in the amount of \$589,422 is restricted for the payment of the debt service costs associated with the outstanding debt (see Note 3).

The restricted fund balance in the General Fund represents emergency reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$7,000 of the General Fund balance has been reserved in compliance with this requirement.

Committed Fund Balance

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

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements

December 31, 2019

Assigned Fund Balance

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

Unassigned Fund Balance

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

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

Net Position

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

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

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

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

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

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

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements

December 31, 2019

Note 2: Cash and Investments

As of December 31, 2019 cash and investments are classified in the accompanying statement of net position as follows:

Cash and investments-unrestricted	\$ 341,161
Cash and investments-restricted	<u>313,558</u>
Total	<u>\$ 654,719</u>

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

Deposits with financial institutions	\$ 33,862
Investments – Colotrust	316,497
Investments - Federated Treasury	<u>304,360</u>
Total	<u>\$ 654,719</u>

Deposits

Custodial Credit Risk

The Colorado Public Deposit Protection Act, (PDPA) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. 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 is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. 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.

The District follows state statutes for deposits. None of the District’s deposits were exposed to custodial credit risk. At December 31, 2019, the District’s cash deposits had a bank and carrying balance of \$33,862.

Investments

Investment Valuation

Certain investments are measured at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District’s investment is not required to be categorized within the fair value hierarchy. This investment’s value is calculated using the net asset value method (NAV) per share. The investment value for the Federated Treasury Obligations Fund is not categorized.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements

December 31, 2019

Credit Risk

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

Custodial and Concentration of Credit Risk

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

Interest Rate Risk

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

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

Federated Treasury Obligations Fund

During 2019, the District's funds that were included in the trust accounts at UMB Bank were invested in the Federated Treasury Obligations Fund. This fund is a money market fund and each share is equal in value to \$1.00. The fund is AAAM rated and invests exclusively in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. As of December 31, 2019, the District has \$304,360 invested in the fund, all of which was restricted for the repayment of bond principal and interest.

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust (COLOTRUST or Trust) is rated AAAM by S&P Global Ratings with a weighted average maturity of under 60 days. COLOTRUST is an investment trust/joint venture established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. The Trust operates similarly to a money market fund with each share maintaining a value of \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. Designated custodian banks provide safekeeping and depository services to the Trust. Substantially all securities owned by the Trust are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians' internal records identify the investments owned by COLOTRUST. At December 31, 2019, the District had \$316,497 invested in COLOTRUST.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements

December 31, 2019

Note 3: Long-Term Obligations

A description of the long-term obligations as of December 31, 2019, is as follows:

Direct Borrowing Debt:

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

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

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

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

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

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

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements

December 31, 2019

Events of default for both the Series 2014 and Series 2016 Bonds include: (i) failure by District No. 3 to impose the required mill levy or apply the pledged revenue as required by the indenture; (ii) failure by District No. 2 to impose the required mill levy to be imposed by the 2014 Funding Agreement or District No. 3 fails to apply the pledged revenue derived from the 2014 Joint Funding Agreement as required by the indenture; (iii) any default of the 2014 Funding Agreement that fails to be remedied; (iv) failure to meet financial or custodial covenants as described in the indenture or (v) the District, District No. 1 or District No. 2 files a petition under the federal bankruptcy laws.

The following is an analysis of changes in long-term obligations for the period ending December 31, 2019:

	Balance 1/1/2019	Additions	Deletions	Balance 12/31/2019	Current Portion
Series 2016 - G.O. Bonds	\$ 12,105,000	\$ -	\$ 170,000	\$ 11,935,000	\$ 175,000
Series 2016 - premium	358,047	-	18,183	339,864	-
Series 2014 - G.O. Bonds	8,190,000	-	170,000	8,020,000	175,000
Series 2014 - premium	342,313	-	18,853	323,460	-
	<u>\$ 20,995,360</u>	<u>\$ -</u>	<u>\$ 377,036</u>	<u>\$ 20,618,324</u>	<u>\$ 350,000</u>

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

	Principal	Interest	Total
2020	\$ 350,000	\$ 972,194	\$ 1,322,194
2021	355,000	958,194	1,313,194
2022	365,000	942,194	1,307,194
2023	375,000	925,694	1,300,694
2024	385,000	908,694	1,293,694
2025 - 2029	2,080,000	4,271,500	6,351,500
2030 - 2034	2,420,000	3,756,530	6,176,530
2035 - 2039	2,850,000	3,131,250	5,981,250
2040 - 2044	7,060,000	2,104,500	9,164,500
2045 - 2046	3,715,000	281,000	3,996,000
	<u>\$ 19,955,000</u>	<u>\$ 18,251,750</u>	<u>\$ 38,206,750</u>

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements

December 31, 2019

Debt Authorization

As of December 31, 2019, the District had remaining voted debt authorization of approximately \$691,735,000. The District did not issue new debt during 2019. Per the District's Service Plan, the District, in combination with Districts No. 1 and No. 2, cannot issue more than \$91 million in revenue debt, of which \$70 million of such authorization may be allocated to general obligation debt.

Note 4: District Agreements

Joint Funding Agreements

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

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

On December 7, 2016, the District entered into a First Amendment to Joint Funding Agreement which amended the Original Joint Funding Agreement to clarify that the term "Estimated Debt Requirements" is to include all parity debt as well as bonds.

Master Intergovernmental Agreement

On January 8, 2008, the District entered into a Master Intergovernmental Agreement (IGA) with District No. 1 and District No. 2. Per the IGA, District No. 1 is to construct, own, maintain and operate the facilities benefiting the District and District No. 2, which may include the borrowing of funds or issuance of revenue bonds. The District and District No. 2 are to pay all costs related to the construction, operation and maintenance of such facilities, including the payment of amounts owing in connection with bonds issued to finance such facilities. Such financial obligations are to be paid from bond proceeds, the District's annual certification of a mill levy, homeowner assessments and various fees subject to the limitations of the Service Plan. The original maximum mill levy was 50 mills. However, at the time of its organization the District's voters authorized the District to adjust its property tax rate as necessary to receive the same revenue it would have received but for any reduction in the residential assessment rate required by the Gallagher Amendment to the Colorado Constitution. As a result of this prior voter authorization, the current maximum mill levy is 55.664 mills. The IGA also sets forth certain provisions pertaining to the processes for payment of capital, operations and maintenance costs, review of budgets and project plans, execution of construction contracts, administrative management, establishment of user fees and the transfers of funds between districts.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements

December 31, 2019

Reimbursement of Developer Loan and Public Infrastructure Acquisition Agreement

On May 13, 2008, District No. 1 entered into a Reimbursement of Developer Loan and Public Infrastructure Acquisition Agreement with Brookfield Residential (Colorado), LLC, formerly Carma (Colorado), Inc., (Developer). The agreement provides for the advancement by the Developer of certain moneys for capital improvements and operating and maintenance costs for an amount not to exceed \$91,000,000. The agreement also provides for the repayment of these advances using bond proceeds. The District and District No. 2 are responsible for determining when bonds should be issued, based upon numerous economic factors. The District No. 1 Board of Directors may in its sole discretion, use other legally available funds to repay Developer Advances. Advances shall bear interest at a rate of 6% per annum from the date of the advance. The agreement also provides for District No. 1 to acquire any public improvements constructed by the Developer upon receipt of the proper engineer's certificate as to district eligibility. The repayment obligations by District No. 1 constitute a multiple fiscal year financial obligation and are not subject to annual appropriation; however, as discussed above, the repayment obligation is restricted to bond proceeds. The agreement states that it is between District No. 1 and the Developer. However, given the provisions of the Master IGA, the District and District No. 2 are impacted from certain covenants contained therein.

Note 5: Tax, Spending and Debt Limitations

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

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

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

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

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

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements

December 31, 2019

Note 6: Risk Management

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

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

Note 7: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

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

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

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

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

SUPPLEMENTAL INFORMATION

**FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL -
DEBT SERVICE FUND**

For the Year Ended December 31, 2019

	Original and Final Budget	Actual Amounts	Variance Favorable (Unfavorable)
	<u> </u>	<u> </u>	<u> </u>
Revenues			
Property taxes	\$ 1,382,419	\$ 1,162,570	\$ (219,849)
Specific ownership taxes	105,000	99,289	(5,711)
Interest	200	7,486	7,286
Transfer from District No. 2	670,362	670,000	(362)
Total Revenues	<u>2,157,981</u>	<u>1,939,345</u>	<u>(218,636)</u>
 Expenditures			
Transfer to District No. 1	421,988	402,722	19,266
Treasurers' fees	20,736	15,747	4,989
Paying agent fees	-	5,000	(5,000)
Bond principal - Series 2016	170,000	170,000	-
Bond interest - Series 2016	601,800	601,800	-
Bond principal - Series 2014	170,000	170,000	-
Bond interest - Series 2014	383,994	383,994	-
Total Expenditures	<u>1,768,518</u>	<u>1,749,263</u>	<u>19,255</u>
 Net Change in Fund Balance	 389,463	 190,082	 (199,381)
 Beginning Fund Balance	 <u>518,259</u>	 <u>399,340</u>	 <u>(118,919)</u>
 Ending Fund Balance	 <u>\$ 907,722</u>	 <u>\$ 589,422</u>	 <u>\$ (318,300)</u>

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3
SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED
December 31, 2019

District No. 2

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied		Total Property Tax		Percent Collected to Levied
		General	Debt Service	Levied	Collected	
2008	\$ 2,440,570	30.000	0.000	\$ 73,217	\$ 73,296	100.11%
2009	\$ 3,895,030	0.000	30.000	\$ 116,851	\$ 121,571	104.04%
2010	\$ 6,656,870	0.000	30.000	\$ 199,706	\$ 195,884	98.09%
2011	\$ 7,395,640	0.000	30.000	\$ 221,869	\$ 204,065	91.98%
2012	\$ 10,435,617	0.000	30.000	\$ 313,069	\$ 312,188	99.72%
2013	\$ 11,679,755	0.000	30.000	\$ 350,393	\$ 350,391	100.00%
2014	\$ 13,648,409	0.000	30.000	\$ 409,452	\$ 409,450	100.00%
2015	\$ 15,615,700	5.000	35.000	\$ 624,628	\$ 624,626	100.00%
2016	\$ 20,546,882	0.000	35.000	\$ 821,875	\$ 821,872	100.00%
2017	\$ 21,055,483	5.000	35.000	\$ 842,219	\$ 841,275	99.89%
2018	\$ 21,787,559	5.458	38.210	\$ 951,419	\$ 949,638	99.81%
2019	\$ 21,813,016	5.458	32.210	\$ 821,653	\$ 819,361	99.72%
Estimated for Year Ending December 31, 2020	\$ 23,857,072	5.458	38.210	\$ 1,041,791		

District No. 3

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied		Total Property Tax		Percent Collected to Levied
		General	Debt Service	Levied	Collected	
2008	\$ 5,344,050	30.000	0.000	\$ 160,322	\$ 160,661	100.21%
2009	\$ 6,894,350	0.000	30.000	\$ 206,831	\$ 206,831	100.00%
2010	\$ 8,141,260	0.000	30.000	\$ 244,238	\$ 244,238	100.00%
2011	\$ 8,482,530	0.000	30.000	\$ 254,476	\$ 227,276	89.31%
2012	\$ 10,780,165	0.000	30.000	\$ 323,405	\$ 312,505	96.63%
2013	\$ 11,909,224	0.000	30.000	\$ 357,277	\$ 357,089	99.95%
2014	\$ 15,585,624	0.000	30.000	\$ 467,569	\$ 467,097	99.90%
2015	\$ 15,998,305	5.000	35.000	\$ 639,932	\$ 639,809	99.98%
2016	\$ 26,917,310	0.000	40.000	\$ 1,076,692	\$ 1,074,430	99.79%
2017	\$ 28,558,160	5.000	35.000	\$ 1,142,326	\$ 1,140,153	99.81%
2018	\$ 34,948,305	5.458	38.210	\$ 1,526,123	\$ 1,520,648	99.64%
2019	\$ 36,179,503	5.458	32.210	\$ 1,362,810	\$ 1,359,568	99.76%
Estimated for Year Ending December 31, 2020	\$ 38,805,537	5.458	38.210	\$ 1,694,560		

NOTE

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

**CONTINUING DISCLOSURE ANNUAL FINANCIAL INFORMATION –
UNAUDITED**

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3
ASSESSED AND ACTUAL VALUATION OF CLASSES OF PROPERTY IN DISTRICT
December 31, 2019
UNAUDITED

District No. 2

Class	2019 Assessed Valuation	Percent of Assessed Valuation	2019 Actual Valuation	Percent of Actual Valuation
Residential	\$ 23,454,561	98.32%	\$ 327,218,517	99.58%
Vacant	193,732	0.81%	668,045	0.20%
Commercial	732	0.00%	2,524	0.00%
State Assessed	207,951	0.87%	717,072	0.22%
Natural Resources	96	0.00%	330	0.00%
Total	\$ 23,857,072	100.00%	\$ 328,606,488	100.00%

District No. 3

Class	2019 Assessed Valuation	Percent of Assessed Valuation	2019 Actual Valuation	Percent of Actual Valuation
Residential	\$ 36,900,981	95.08%	\$ 515,383,491	98.75%
Vacant	1,474,746	3.80%	5,085,338	0.97%
Commercial	13,930	0.04%	48,883	0.01%
State Assessed	415,880	1.07%	1,434,069	0.27%
Total	\$ 38,805,537	99.99%	\$ 521,951,781	100.00%

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3
MILL LEVY RECAP
December 31, 2018 and 2019
UNAUDITED

<u>Taxing Authority</u>	<u>2018 Levy</u>	<u>2019 Levy</u>
Jefferson County	23.739	23.332
Jefferson County School District No. R-1	49.416	47.075
Lakewood (City of)	4.711	4.711
Mount Carbon Metropolitan District (exclusion areas)	21.929	22.118
Urban Drainage & Flood Control District	0.726	0.900
Urban Drainage & Flood Control South Platte	0.094	0.097
West Metro Fire Protection District - General	12.905	12.539
West Metro Fire Protection District - Sub	0.827	0.729
Total Overlapping Mill Levy	<u>114.347</u>	<u>111.501</u>
The Financing Districts	<u>37.668</u>	<u>43.668</u>
Total Mill Levy	<u><u>152.015</u></u>	<u><u>155.169</u></u>

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3
SELECTED DEBT RATIOS
December 31, 2019
UNAUDITED

	<u>District No. 1</u>	<u>District No. 2</u>	<u>District No. 3</u>	<u>Total</u>
General Obligation Debt Outstanding	\$ 7,960,000	\$ -	\$ 19,955,000	\$ 27,915,000
District Assessed Value	* \$ 2,803,853	\$ 23,857,072	\$ 38,805,537	\$ 62,662,609
Ratio of Debt to Assessed Value				44.55%

* The property in District No. 1 is included in either the District or District No. 2. Therefore, the assessed value for District No. 1 is not included in the Total District Assessed Value.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 3
ESTIMATED OVERLAPPING GENERAL OVERLAPPING DEBT
December 31, 2019
UNAUDITED

<u>Overlapping Public Entity</u>	<u>Outstanding General Obligation Debt</u>	<u>Estimated Net Debt Chargeable to Properties in the District</u>	
		<u>Percent</u>	<u>Amount</u>
District No. 2			
Jefferson County School District No. R-1	\$ 618,465,000	0.31%	\$ 1,917,242
Mount Carbon Metropolitan District	14,960,000	46.69%	6,984,824
West Metro Fire Protection District	22,421,143	0.80%	179,369
Total District No. 2			<u>\$ 9,081,435</u>
District No. 3			
Jefferson County School District No. R-1	\$ 618,465,000	0.41%	\$ 2,535,707
Mount Carbon Metropolitan District	14,960,000	63.33%	9,474,168
West Metro Fire Protection District	22,421,143	1.08%	242,148
Total District No. 2			<u>\$ 12,252,023</u>