FOREST TRACE METROPOLITAN DISTRICT NO. 3

Financial Statements

Year Ended December 31, 2019

with

Independent Auditor's Report

C O N T E N T S

	Page
Independent Auditor's Report	I
Basic Financial Statements	
Balance Sheet/Statement of Net Position - Governmental Funds	1
Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities - Governmental Funds	2
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	3
Notes to Financial Statements	4
Supplemental Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual – Debt Service Fund	19
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual – Capital Projects Fund	20
Summary of Assessed Valuation, Mill Levy and Property taxes	21
Continuing Disclosure Annual Financial Information – Unaudited	
Ten Largest Owners of Taxable Property within the District	22
2019 Assessed and Actual Valuation of Classes of Property in the District	23

HIRATSUKA & ASSOCIATES, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Forest Trace Metropolitan District No. 3
Arapahoe County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Forest Trace Metropolitan District No. 3 (the District), Arapahoe County, Colorado, as of and for the year ended December 31, 2019, 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 (U.S. GAAP); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of Forest Trace Metropolitan District No. 3, Arapahoe County, Colorado, as of December 31, 2019, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in conformity with U.S. GAAP.

Other Matters

Required Supplementary Information

Management has not presented Management's Discussion and Analysis. Such missing information, although not a part of the basic financial statements, is required by GASB, 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 the missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service Fund, Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Capital Projects Fund, and Summary of Assessed Valuation, Mill Levy and Property Taxes Collected were presented for the purpose of additional analysis and was not a required part of the financial statements.

The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service Fund, Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Capital Projects Fund, and Summary of Assessed Valuation, Mill Levy and Property Taxes Collected are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The Continuing Disclosure Annual Financial Information – Unaudited as listed in the table of contents has not been subjected 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.

Hiratsuka & Associates, LLP

September 30, 2020
Wheat Ridge, Colorado

Forest Trace Metropolitan District No. 3

BALANCE SHEET/STATEMENT OF NET POSITION -
GOVERNMENTAL FUNDS
December 31, 2019

	General	Debt Service	Capital Projects	Total	Adjustments	Statement of Net Position
ASSETS						
Cash and investments	$ 21,355	$ -	$ -	$ 21,355	$ -	$ 21,355
Cash and investments - restricted	1,048	452,505	-	453,553	-	453,553
Prepaid Expenses	2,510	-	-	2,510	-	2,510
Receivable - County Treasurer	283	3,688	-	3,971	-	3,971
Property taxes receivable	28,404	748,075	-	776,479	-	776,479
Receivable - developer	11,000	-	-	11,000	(11,000)	-
Due from District No. 1	4,750	-	-	4,750	-	4,750
Due from District No. 2	755	-	-	755	-	755
Capital assets not being depreciated	-	-	-	-	9,676,385	9,676,385
Total Assets	$ 70,105	$ 1,204,268	$ -	$ 1,274,373	9,665,385	10,939,758
DEFERRED OUTFLOWS OF RESOURCES						
Deferred loss on refunding	-	-	-	-	991,569	991,569
Total Deferred Outflows of Resources	-	-	-	-	991,569	991,569
Total Assets and Deferred Outflows of Resources	$ 70,105	$ 1,204,268	$ -	$ 1,274,373		
LIABILITIES						
Accounts payable	$ 2,902	$ -	$ -	$ 2,902	-	2,902
Accrued interest	-	-	-	-	39,809	39,809
Long-term liabilities:						
Due within one year	-	-	-	-	120,000	120,000
Due in more than one year	-	-	-	-	15,083,591	15,083,591
Total Liabilities	2,902	-	-	2,902	15,243,400	15,246,302
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	28,404	748,075	-	776,479	-	776,479
Total Deferred Inflows of Resources	28,404	748,075	-	776,479	-	776,479
FUND BALANCES/NET POSITION						
Fund Balances:						
Nonspendable:						
Prepaids	2,510	-	-	2,510	(2,510)	-
Restricted:						
Emergencies	1,048	-	-	1,048	(1,048)	-
Debt service	-	456,193	-	456,193	(456,193)	-
Unassigned	35,241	-	-	35,241	(35,241)	-
Total Fund Balances	38,799	456,193	-	494,992	(494,992)	-
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 70,105	$ 1,204,268	$ -	$ 1,274,373		
Net Position:						
Restricted for:						
Emergencies					1,048	1,048
Debt service					416,384	416,384
Unrestricted					(4,508,886)	(4,508,886)
Total Net Position					$ (4,091,454)	$ (4,091,454)

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

Forest Trace 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

	General	Debt Service	Capital Projects	Total	Adjustments	Statement of Activities
EXPENDITURES						
Accounting and audit	$ 9,352	$ -	$ -	$ 9,352	$ -	$ 9,352
Insurance	3,233	-	-	3,233	-	3,233
Legal	7,194	-	-	7,194	-	7,194
Treasurer's fees	652	8,319	-	8,971	-	8,971
Treasurer's fees - ARI	-	166	-	166	-	166
Bond interest expense - 2016A	-	208,625	-	208,625	167,050	375,675
Bond interest expense - 2016B	-	-	-	-	158,036	158,036
2019 Loan interest expense	-	-	-	-	46,178	46,178
Regional Mill Levy - ARI	-	11,079	-	11,079	-	11,079
Trustee/Paying Agent fees	-	917	-	917	-	917
Bond issuance costs	-	376,000	-	376,000	-	376,000
Interest on developer advances	-	-	-	-	248,291	248,291
Repay developer advances - principal	-	-	813,507	813,507	(813,507)	-
Total Expenditures	20,431	605,106	813,507	1,439,044	(193,952)	1,245,092
GENERAL REVENUES						
Property taxes	43,407	554,034	-	597,441	-	597,441
Property taxes - ARI	-	11,079	-	11,079	-	11,079
Specific ownership taxes	3,392	43,293	-	46,685	-	46,685
Specific ownership taxes - ARI	-	866	-	866	-	866
Interest income	40	25,514	-	25,554	-	25,554
Total General Revenues	46,839	634,786	-	681,625	-	681,625
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	26,408	29,680	(813,507)	(757,419)	193,952	(563,467)
OTHER FINANCING SOURCES (USES)						
Bond proceeds	-	11,286,493	813,507	12,100,000	(12,100,000)	-
Transfer to escrow agent	-	(12,202,543)	-	(12,202,543)	12,202,543	-
Forgiveness of developer interest	-	-	-	-	532,294	532,294
Total Other Financing Sources (Uses)	-	(916,050)	813,507	(102,543)	634,837	532,294
NET CHANGES IN FUND BALANCES	26,408	(886,370)	-	(859,962)	859,962	
CHANGE IN NET POSITION					(31,173)	(31,173)
FUND BALANCES/NET POSITION:						
BEGINNING OF YEAR	12,391	1,342,563	-	1,354,954	(5,415,235)	(4,060,281)
END OF YEAR	$ 38,799	$ 456,193	$ -	$ 494,992	$ (4,586,446)	$ (4,091,454)

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

Forest Trace Metropolitan District No. 3

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
GENERAL FUND
For the Year Ended December 31, 2019

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	$ 43,264	$ 43,407	$ 143
Specific ownership taxes	3,493	3,392	(101)
Transfer from District No. 2	75,000	-	(75,000)
Interest income	-	40	40
Total Revenues	121,757	46,839	(74,918)
EXPENDITURES			
Accounting and audit	7,500	9,352	(1,852)
Insurance	4,000	3,233	767
Legal	20,000	7,194	12,806
Miscellaneous	1,000	-	1,000
Treasurer's fees	649	652	(3)
Repay developer advances - interest	75,000	-	75,000
Contingency	24,208	-	24,208
Emergency reserve	994	-	994
Total Expenditures	133,351	20,431	112,920
NET CHANGE IN FUND BALANCE	(11,594)	26,408	38,002
FUND BALANCE:			
BEGINNING OF YEAR	11,594	12,391	797
END OF YEAR	$ -	$ 38,799	$ 38,799

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

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Forest Trace Metropolitan District No. 3 (the "District"), located in City of Aurora, Arapahoe 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 on November 7, 2006, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was established concurrently with Forest Trace Metropolitan District No. 1 ("District No. 1") and Forest Trace Metropolitan District No. 2 ("District No. 2") to finance and construct certain public infrastructure improvements that benefit the property owners and citizens of the District. 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 has no employees and all operations and administrative functions are contracted.

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

Basis of Presentation

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

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

Budgetary Accounting

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

During 2019, the District amended its total appropriations in the Debt Service Fund from $439,109 to $13,500,000 primarily due to refunding of the 2016A and 2016B Bonds, and its total appropriations in the Capital Projects Fund from $0 to $813,507 primarily due to the issuance of the 2019 Loan and repayment of developer advances.

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position

Fair Value of Financial Instruments

The District's financial instruments may 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 District 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.

Interfund Balances

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". These amounts are eliminated in the Statement of Net Position.

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 one items that qualifies for reporting under this category at December 31, 2019. Deferred loss on refunding is deferred and recognized as an outflow of resources in the period that the amount is incurred.

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. Deferred property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated. As of December 31, 2019, the District had no completed improvements, therefore no depreciation expense was recognized during 2019.

Property Taxes

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

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

Long-Term Obligations

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

Original Issue Premium

Original issue premium on the Series 2016 Bonds was being amortized over the term of the bonds using the effective interest method. With the issuance of the 2019 Loan and refunding of the 2016A and 2016B Bonds, the original issue premium was fulfilled.

Fund Equity

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

Nonspendable Fund Balance

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

The nonspendable fund balance in the General Fund in the amount of $2,510 represents prepaid expenditures.

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 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 $1,048 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of $456,193 is restricted for the payment of the debt service costs associated with the Series 2019 Loan (see Note 4).

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.

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. At December 31, 2019 the District has no net investments in capital assets.

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

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

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

Note 2: Cash and Investments

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

Statement of Net Position:	
Cash and investments	$ 21,355
Cash and investments - Restricted	453,553
Total	$ 474,908

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

Deposits with financial institutions	$ 442,815
Investments - COLOTRUST	32,093
	$ 474,908

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. As of December 31, 2019, none of the District's deposits were exposed to custodial credit risk.

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.

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

COLOTRUST
The local government investment pool, Colorado Local Government Liquid Asset Trust ("COLOTRUST") is rated AAAm by Standard & Poor's with a weighted average maturity of under 60 days. COLOTRUST is an investment trust/joint ventures 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 trusts operate 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 trusts. Substantially all securities owned by the trusts 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 $32,093 invested in COLOTRUST.

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.

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2019 follows:

Governmental Type Activities:	Balance 1/1/2019	Additions	Deletions	Balance 12/31/2019
Capital assets not being depreciated:				
Construction in progress	$ 9,676,385	$ -	$ -	$ 9,676,385
Total capital assets not being depreciated	9,676,385	-	-	9,676,385
Government type assets, net	$ 9,676,385	$ -	$ -	$ 9,676,385

Upon completion, acceptance and the applicable warranty period, a majority of the completed fixed assets will be conveyed by the District to, the City, District No. 1, District No. 2, the owner's association or other appropriate entities for ongoing ownership, operations and maintenance. The District will not be responsible for maintenance.

Note 4: Long Term Debt

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

$8,345,000 General Obligation Limited Tax Convertible to Unlimited Tax Bonds, Series 2016A and $2,049,000 Subordinate General Obligation Limited Tax Bonds, Series 2016B
On September 30, 2016, the District issued $8,345,000 of General Obligation Limited Tax Convertible to Unlimited Tax Bonds, Series 2016A ("Series 2016A Bonds"), and $2,049,000 of Subordinate General Obligation Limited Tax Bonds, Series 2016B ("Series 2016B Bonds"), for the purpose of funding and reimbursing a portion of the costs of certain public infrastructure, paying the cost of issuance of the Bonds, and, with respect to the Series 2016A Bonds only, funding the Senior Reserve Fund and funding a portion of interest to accrue on the Series 2016A Bonds. The Series 2016A Bonds bear interest at the rate of 5.00%, payable semiannually on each June 1 and December 1, commencing on December 1, 2016. The Series 2016B Bonds bear interest at the rate of 7.25%, payable annually on December 15, commencing on December 15, 2016, to the extent that Pledged Revenue is available.

The Series 2016A Bonds are subject to a mandatory sinking fund redemption commencing on December 1, 2024 and are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of $1,000, in any order of maturity and in whole or partial maturities, commencing on December 1, 2021, upon payment of par, accrued interest, and a redemption premium that ranges between 0% and 3%. The Series 2016B Bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of $1,000, in any order of maturity and in whole or partial maturities, commencing on December 15, 2021, upon payment of par, accrued interest, and a redemption premium that ranges between 0% and 3%.

The Series 2016A Bonds are secured by the Senior Required Mill Levy, the Capital Fees, if any, the portion of the Specific Ownership Tax which is collected as a result of the Senior Required Mill Levy, and payment in lieu of taxes ("PILOT") revenue, and any other legally available moneys as determined by the District. The Series 2016A Bonds are also secured by the Senior Reserve Fund and the Senior Surplus Fund. The Series 2016B Bonds are secured by the Subordinate Required Mill Levy, the Subordinate Capital Fee Revenue, if any, the portion of the Specific Ownership Tax which is collected as a result of the Subordinate Required Mill Levy, the amounts, if any, in the Senior Surplus Fund after the termination of such fund pursuant to the Senior Indenture, any Subordinate PILOT revenue and any other legally available moneys as determined by the District.

The 2016B Subordinate Bonds are structured as "cash flow" bonds, meaning that there are no scheduled payments of principal prior to the final maturity date, rather, they are only payable to the extent of Subordinate Pledged Revenue available.

Both Series 2016A and Series 2016B Bonds were paid in full during the year ended December 31, 2019, with the issuance of the 2019 Loan.

<u>$12,100,000 2019 Taxable Loan Refunding & Improvement Series 2019 (Taxable Converting to Tax-exempt)</u>

On November 26, 2019, the District issued a $12,100,000 Taxable Loan Refunding & Improvement Series 2019 (Taxable Converting to Tax-exempt) ("2019 Loan") for the purposes of financing or reimbursing a portion of the Project and refunding the Series 2016A and Series 2016B General Obligation Bonds at a lower interest rate. The 2019 Loan was initially issued bearing Taxable Interest of 3.78% until the Tax-Exempt Reissuance Date, on the condition that the Tax-Exempt Reissuance Option is satisfied, where it will bear Tax-Exempt interest at 2.99%. Interest payments are due on June 1 and December 1 each year beginning June 1, 2020 while principal payments are due on December 1 each year beginning December 1, 2020 through the maturity date of December 2034. The 2019 Loan is secured by the Required Mill Levy, the portion of the Specific Ownership Taxes allocable to the amount of the Required Mill Levy, any PILOT revenue, and any other legally available moneys which the District determines in its sole discretion to apply as Pledged Revenue. The District is subject to various covenants with regards to the 2019 Loan.

The 2019 Loan was issued to provide resources to purchase securities to be placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the Series 2016A & 2016B Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. The net carrying amount of the old debt exceeded the reacquisition price by $997,938. This amount is recorded as a deferred outflow and is being amortized over the remaining life of the new debt issued. This advance refunding was undertaken to pay off developer advances, obtain a more favorable interest rate, and fund the Reserve Fund account of $409,063 and resulted in a present value savings of approximately $820,000.

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

	Balance 1/1/2019	Additions	Deletions	Balance 12/31/2019	Current Portion
Series 2016A Bonds	$ 8,345,000	$ -	$ 8,345,000	$ -	$ -
Series 2016B Bonds	2,049,000	-	2,049,000	-	-
2019 Loan	-	12,100,000	-	12,100,000	120,000
Developer Reimbursement					
Capital	3,897,874	-	813,507	3,084,367	-
Capital Interest	303,227	248,291	532,294	19,224	-
Total	14,595,101	12,348,291	11,739,801	15,203,591	120,000
Original issue premium	100,047	-	100,047	-	-
Total	$ 14,695,148	$ 12,348,291	$ 11,839,848	$ 15,203,591	$ 120,000

The following is a summary of the annual long-term debt principal and interest requirements for the 2019 Loan.

	Principal	Interest	Total
2020	$ 120,000	$ 471,356	$ 591,356
2021	150,000	435,736	585,736
2022	240,000	358,630	598,630
2023	245,000	351,354	596,354
2024	245,000	344,869	589,869
2025-2029	1,415,000	1,602,260	3,017,260
2030-2034	9,685,000	1,362,813	11,047,813
	$ 12,100,000	$ 4,927,018	$ 17,027,018

Infrastructure Acquisition and Reimbursement Agreement

On August 19, 2015, the District entered into the Infrastructure Acquisition and Reimbursement Agreement with CF Forest Trace LLC, ("CFFT") pursuant to which the District agreed to reimburse CFFT for all District eligible costs, acquire any Public Infrastructure constructed for the benefit of the District from CFFT that is not dedicated to other government entities, to pay all reasonable costs related to such improvements, and to reimburse CFFT for any costs for Public Infrastructure that is being dedicated to third parties. Funds advanced by CFFT on behalf of the District will accrue simple interest at 6.5%.

Pursuant to this agreement, the District's pro-rata share of the Smoky Hill Improvement cost of $221,793 for Road costs and $1,862,054 for Bridge costs were verified and became obligations of the District to the City of Aurora. The total of $2,083,847 was advanced by CFFT directly to the City of Aurora and the corresponding obligation was recorded in District No. 2. The CFFT Advance was recognized as of that date and began accruing interest. During 2016, these costs were transferred from District No. 2.

An Amended and Restated Infrastructure Acquisition and Reimbursement Agreement was entered into on August 4, 2016, which further detailed the rights and obligations under this agreement. As of December 31, 2019, $3,084,367 of principal and $19,224 of interest remain outstanding.

Debt Authorization

As of December 31, 2019, the District had remaining voted debt authorization of $348,735,973 for public improvements, $24,770,027 for refunding purposes, $36,000,000 for operations debt, $36,000,000 for contractual debt with non-governmental entities, and $36,000,000 for indebtedness represented by intergovernmental agreements. The District has plans to issue $2,799,000 of new debt during 2020. Per the District's Service Plan, the District cannot issue debt in excess of $36,000,000.

Note 5: Agreements

District Intergovernmental Agreement

On August 1, 2016, the District and District No. 1 and District No. 2 entered into an Intergovernmental Agreement ("District IGA") whereby District No. 1 and District No. 2 will each impose an annual operations mill levy for payment of their respective operations and maintenance expenses each year. Except for a nominal general fund levy to cover its statutory compliance and basic administrative functions, the District will not impose a levy for operations and maintenance purposes, as all such expenses will be covered by the operations levies and/or fees of District No. 1 and District No. 2. The District IGA provides, however, that District No. 1 and District No. 2 may elect to fully fund the District's administrative costs and, in such case, the District will not impose an operations levy. The District also agrees that it will be responsible for issuing indebtedness to fund Public Improvements benefitting all three districts and will impose a debt service mill levy for payment of this debt. District No. 1 and District No. 2 each agree that, for so long as the District is imposing a debt service mill levy for payment of the indebtedness, neither District No. 1 or District No. 2 will impose a debt service mill levy. District No. 1 and District No. 2 each also agree that, for so long as the District is imposing Capital Facilities Fees, neither District No. 1 or District No. 2 will impose a Capital Facilities Fee.

ARI Agreement

On November 17, 2008, the District, Cherry Hills City Metropolitan District, The Avenues Metropolitan District Nos. 1-5, and the Transport Metropolitan District Nos 1-15 (collectively, the "Metropolitan Districts") entered into the Aurora Regional Improvement Authority No. 6 Establishment Agreement (the "ARI Agreement"). The City and the Metropolitan Districts agreed that the regional community will benefit from the coordination and provisions of various functions, services, and facilities and, in furtherance thereof, such parties entered into the ARI Agreement to establish a separate, legal entity to be known as the Aurora Regional Improvement Authority No. 6 (the "ARI Authority") to exercise certain functions, services, or facilities as permitted by the Constitution and laws of Colorado. the District is required to levy a regional mill levy and to remit it to an Aurora Regional Improvement Authority ("ARI Authority") or to the City under certain circumstances.

On July 10, 2017, the District became a member of the South Aurora Regional Improvement Authority ("SARIA"), an ARI Authority. The Authority was formed upon the execution of the "South Aurora Regional Improvement Authority Establish Agreement" (the "Original Establishment Agreement") by and among the City and 11 of the current 16 Member Districts (collectively, the City and the Member Districts are referred to as the "Members"). During 2018, five additional Member Districts joined the Authority. The Original Establishment Agreement was amended pursuant to a First Amendment dated October 2, 2018 (together with the Original Establishment Agreement, the "Establishment Agreement"). On December 20, 2018, the Authority issued $11,265,000 Special Revenue Bonds, Series 2018, pursuant to the Establishment Agreement, the District's ARI Mill Levy has been pledged by the Authority for repayment of these bonds. At December 31, 2019, the District had no payable due to the SARIA.

Note 6: Related Party

All of the Board of Directors are employees, owners or are otherwise associated with CFFT or its related entities, including, Forest Trace Development, Inc. ("Developer"), and Forest Trace Holdings, Inc. and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board.

Note 7: Tax, Spending and Debt Limitations

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

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

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

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

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

Note 8: 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 9: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

The Governmental Funds Balance Sheet/Statement of Net Position includes an adjustments column. The adjustments may have the following element:

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

2) remove interfund balances as they are not required in the Statement of Net Position

The Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities includes an adjustments column. The adjustments may 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 on the Statement of Activities;

2) governmental funds report advances as revenue; and,

3) governmental funds report long-term debt payments as expenditures, however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long-term liabilities.

Note 10: Subsequent Event

On January 23, 2020, subsequent to the date of these financial statements, the District issued \$2,799,000 in Subordinate General Obligation Limited Tax Bonds, Series 2020B(3) (the "Series 2020B(3) Bonds") for the purposes of funding and reimbursing a portion of the costs of acquiring, constructing and installing certain public improvements, and to pay the costs of issuing the Series 2020B(3) Bonds. The bonds bear interest at 7.875% and mature on December 15, 2049.

SUPPLEMENTAL INFORMATION

Forest Trace Metropolitan District No. 3

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
DEBT SERVICE FUND
For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Property taxes	$ 552,227	$ 552,227	$ 554,034	$ 1,807
Property taxes - ARI	11,043	11,043	11,079	36
Specific ownership taxes	33,944	33,944	43,293	9,349
Specific ownership taxes - ARI	690	690	866	176
Interest income	7,000	24,000	25,514	1,514
Total Revenues	604,904	621,904	634,786	12,882
EXPENDITURES				
Treasurer's fees	8,283	8,310	8,319	(9)
Treasurer's fees - ARI	166	166	166	-
Regional Mill Levy - ARI	11,567	11,567	11,079	488
Trustee/Paying Agent fees	1,843	2,000	917	1,083
Bond issuance costs	-	492,000	376,000	116,000
Bond interest expense - 2016A	417,250	417,250	208,625	208,625
Bond interest expense - 2016B	-	-	-	-
Total Expenditures	439,109	931,293	605,106	326,187
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	165,795	(309,389)	29,680	339,069
OTHER FINANCING SOURCES (USES)				
Transfer to escrow agent	-	(12,568,707)	(12,202,543)	366,164
Bond proceeds	-	11,982,994	11,286,493	(696,501)
Total Other Financing Sources (Uses)	-	(585,713)	(916,050)	(330,337)
NET CHANGE IN FUND BALANCE	165,795	(895,102)	(886,370)	8,732
FUND BALANCE:				
BEGINNING OF YEAR	1,330,043	1,342,563	1,342,563	-
END OF YEAR	$ 1,495,838	$ 447,461	$ 456,193	$ 8,732

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

Forest Trace Metropolitan District No. 3

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
CAPITAL PROJECTS FUND
For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Interest income	$ -	$ -	$ -	$ -
Total Revenues	-	-	-	-
EXPENDITURES				
Repay developer advances - principal	-	813,507	813,507	-
Repay developer advances - interest	-	-	-	-
Total Expenditures	-	813,507	813,507	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(813,507)	(813,507)	-
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	813,507	813,507	-
Total Other Financing Sources (Uses)	-	813,507	813,507	-
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE:				
BEGINNING OF YEAR	-	-	-	-
END OF YEAR	$ -	$ -	$ -	$ -

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

Forest Trace Metropolitan District No. 3

SUMMARY 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 General Fund	Mills Levied Debt Service	Aurora Regional	Total Property Tax Levied	Total Property Tax Collected	Percent Collected to Levied
2013 (inactive)	$ 1,370,080	0.000	0.000	0.000	$ -	$ -	
2014 (inactive)	$ 1,299,250	0.000	0.000	0.000	$ -	$ -	
2015	$ 1,306,027	0.000	0.000	0.000	$ -	$ -	
2016	$ 1,045,447	30.000	0.000	0.000	$ 31,363	$ 30,796	98.19%
2017	$ 259,767	10.000	50.000	1.000	$ 15,846	$ 15,846	100.00%
2018	$ 8,932,091	4.000	50.380	1.007	$ 494,722	$ 492,727	99.60%
2019	$ 10,815,898	4.000	51.057	1.021	$ 606,534	$ 608,520	100.33%
Estimated for year ending December 31, 2020	$ 14,202,247	2.000	51.641	1.032	$ 776,479		

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

Forest Trace Metropolitan District No. 3

TEN LARGEST OWNERS OF TAXABLE PROPERTY
WITHIN THE DISTRICT
December 31, 2019
UNAUDITED

Taxpayer Name	2019 Assessed Valuation	Percentage of Total Assessed Valuation
HTA-Aurora Hospital LLC	$ 2,900,000	20.42%
CH Retail Fund II/Denver Forest Trace LLC	2,390,470	16.83%
SFP-E LLC	648,440	4.57%
Bow Smoky LLC	626,980	4.41%
Bogomilsky Family LLC	610,740	4.30%
Chelini 1031 B of A Col LLC	477,340	3.36%
Seven Southlands LLC	449,210	3.16%
Johnson, Tyree D	58,080	0.41%
Constantino, Anthony Edward	57,164	0.40%
Amziane, Said	56,178	0.40%
Total	$ 8,274,602	58.26%

Total Metropolitan District Assessed Value	$ 14,202,247	

NOTE

Assessed Valuations were obtained from the Arapahoe County website.

Forest Trace Metropolitan District No. 3

2019 ASSESSED AND ACTUAL VALUATION OF CLASSES
OF PROPERTY IN THE DISTRICT
December 31, 2019
UNAUDITED

Class	Assessed Valuation	Percent of Assessed Valuation	Actual Valuation	Percent of Actual Valuation
Vacant	$ 1,199,851	8.45%	$ 4,137,416	4.47%
Residential	4,114,486	28.97%	57,545,066	62.33%
Commercial	8,864,830	62.42%	30,568,347	33.11%
State Assessed	23,080	0.16%	79,585	0.09%
Total	$ 14,202,247	100.00%	$ 92,330,414	100.00%