

**Promenade at Castle Rock Metropolitan
District Nos. 1-3**

**2020 Supplemental Consolidated Annual
Report**

EXHIBIT A
2020 Audits, District Nos. 1-3

**PROMENADE AT CASTLE ROCK
METROPOLITAN DISTRICT NO. 1
Douglas County, Colorado**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2020

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Dazzio & Associates, PC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Promenade at Castle Rock Metropolitan District No. 1
Douglas County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Promenade at Castle Rock Metropolitan District No. 1 as of and for the year December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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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 Promenade at Castle Rock Metropolitan District No. 1, as of December 31, 2020, and the respective changes in financial position and the 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 Promenade at Castle Rock Metropolitan District No. 1's basic financial statements. The budget to actual schedule for the Debt Service Fund (the Supplementary Information) and the Schedule of Debt Service Requirements to Maturity and the Schedule of Assessed Valuation, Mill Levy and Property Taxes Collected (the Other Information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The Other Information 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.

Dassio & Associates, P.C.

September 9, 2021

BASIC FINANCIAL STATEMENTS

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
STATEMENT OF NET POSITION
DECEMBER 31, 2020**

	Governmental Activities
ASSETS	
Cash and Investments - Restricted	\$ 6,175,276
Escrowed Funds	110,959
PIF Receivable	453,428
Receivable from County Treasurer	2,411
Property Taxes Receivable	311,313
Total Assets	7,053,387
LIABILITIES	
Intergovernmental Payable District No. 2	4,471
Due to District No. 3	777
Escrow - Developer (Private Costs)	110,959
Accrued Interest Payable	156,570
Noncurrent Liabilities:	
Due Within One Year	725,000
Due in More Than One Year	35,041,533
Total Liabilities	36,039,310
DEFERRED INFLOWS OF RESOURCES	
Deferred Property Tax Revenue	311,313
Total Deferred Inflows of Resources	311,313
NET POSITION	
Restricted for:	
Debt Service	3,247,098
Unrestricted	(32,544,334)
Total Net Position	\$ (29,297,236)

See accompanying Notes to Basic Financial Statements

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020**

		Program Revenues			Net Revenue (Expense) and Change in Net Position
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
FUNCTIONS/PROGRAMS					
Primary Government:					
Government Activities:					
General Government	\$ 99,973	\$ -	\$ -	\$ -	\$ (99,973)
Interest and Related Costs on Long-Term Debt	2,237,705	2,187,709	2,431,328	-	2,381,332
Total Government Activities	\$ 2,337,678	\$ 2,187,709	\$ 2,431,328	\$ -	2,281,359
GENERAL REVENUES					
					311,767
					26,893
					32,357
					371,017
CHANGE IN NET POSITION					2,652,376
					(31,949,612)
NET POSITION - END OF YEAR					\$ (29,297,236)

See accompanying Notes to Basic Financial Statements

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2020**

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and Investments - Restricted	\$ 489	\$ 6,174,787	\$ -	\$ 6,175,276
Escrowed Funds	-	-	110,959	110,959
Public Improvement Fee Receivable	-	453,428	-	453,428
Receivable from County Treasurer	482	1,929	-	2,411
Property Taxes Receivable	62,259	249,054	-	311,313
Total Assets	<u>\$ 63,230</u>	<u>\$ 6,879,198</u>	<u>\$ 110,959</u>	<u>\$ 7,053,387</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Intergovernmental Payable District No. 2	\$ 971	\$ 3,500	\$ -	\$ 4,471
Escrow - Developer (Private Costs)	-	-	110,959	110,959
Due to District No. 3	-	777	-	777
Total Liabilities	971	4,277	110,959	116,207
DEFERRED INFLOWS OF RESOURCES				
Deferred Property Tax Revenue	62,259	249,054	-	311,313
Total Deferred Inflows of Resources	62,259	249,054	-	311,313
FUND BALANCES				
Restricted for:				
Debt Service	-	6,625,867	-	6,625,867
Total Fund Balances	-	6,625,867	-	6,625,867
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 63,230</u>	<u>\$ 6,879,198</u>	<u>\$ 110,959</u>	

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

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

Bonds Payable - Series 2015A	(33,145,000)
Bonds Payable - Series 2015B	(2,825,000)
Accrued Interest - Series 2015A	(156,570)
Accrued Interest - Series 2015B	(124,321)
Original Issue Discount	327,788

Net Position of Governmental Activities	<u>\$ (29,297,236)</u>
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See accompanying Notes to Basic Financial Statements

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2020**

	General	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Property Taxes	\$ 62,353	\$ 249,414	\$ -	\$ 311,767
Specific Ownership Taxes	5,379	21,514	-	26,893
Net Investment Income	-	32,357	-	32,357
Public Improvement Fees	-	2,187,709	-	2,187,709
Intergovernmental Revenue District No. 3	-	2,431,328	-	2,431,328
Total Revenues	<u>67,732</u>	<u>4,922,322</u>	-	<u>4,990,054</u>
EXPENDITURES				
Current:				
County Treasurer's Fees	935	3,741	-	4,676
PIF Collection Fee	-	25,000	-	25,000
Intergovernmental Expenditures District No. 2	66,797	-	-	66,797
Debt Service:				
Bond Interest	-	2,602,896	-	2,602,896
Bond Principal	-	675,000	-	675,000
Paying Agent Fees	-	3,500	-	3,500
Total Expenditures	<u>67,732</u>	<u>3,310,137</u>	-	<u>3,377,869</u>
NET CHANGE IN FUND BALANCES	-	1,612,185	-	1,612,185
Fund Balances - Beginning of Year	-	5,013,682	-	5,013,682
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ 6,625,867</u>	<u>\$ -</u>	<u>\$ 6,625,867</u>

See accompanying Notes to Basic Financial Statements

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020**

Net Change in Fund Balances - Total Governmental Funds \$ 1,612,185

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

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

Current Year Bond Principal Payment	675,000
Current Year Amortization of Bond Discount	(25,845)

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

Accrued Interest on Bonds - Change in Liability	<u>391,036</u>
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Changes in Net Position of Governmental Activities	<u><u>\$ 2,652,376</u></u>
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**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2020**

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property Taxes	\$ 62,350	\$ 62,353	\$ 3
Specific Ownership Taxes	5,612	5,379	(233)
Other Income	2,038	-	(2,038)
Total Revenues	<u>70,000</u>	<u>67,732</u>	<u>(2,268)</u>
EXPENDITURES			
Current:			
County Treasurer's Fees	935	935	-
Contingency	2,038	-	2,038
Intergovernmental Expenditures District No. 2	<u>67,027</u>	<u>66,797</u>	<u>230</u>
Total Expenditures	<u>70,000</u>	<u>67,732</u>	<u>2,268</u>
NET CHANGE IN FUND BALANCE	-	-	-
Fund Balance - Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying Notes to Basic Financial Statements

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 DEFINITION OF REPORTING ENTITY

Promenade at Castle Rock Metropolitan District No. 1 (the District), a quasi-municipal corporation and political subdivision of the state of Colorado was organized by order and decree of the District Court of Douglas County on May 28, 2014, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District operates under a Consolidated Service Plan for the District, Promenade at Castle Rock Metropolitan District No. 2, and Promenade at Castle Rock Metropolitan District No. 3 (collectively, the Districts), approved by the Town of Castle Rock, Colorado on January 7, 2014. The District's service area is located entirely within the Town of Castle Rock, Douglas County, Colorado (the Town). The District was established for the purpose of financing and providing public improvements and related operations and maintenance services within and outside of the boundaries of the District. The public improvements include water, streets, sanitation, parks and recreation, traffic and safety controls, transportation, mosquito and pest control, and television relay and translator.

Pursuant to a Capital Pledge Agreement, Promenade at Castle Rock Metropolitan District No. 2 (under certain, limited circumstances which are not expected to occur) and Promenade at Castle Rock Metropolitan District No. 3 (the Taxing District) has limited tax general obligations to the District (see Note 8). Property taxes to be generated from the Taxing District debt service mill levies, including specific ownership taxes to be received as a result of imposition of such mill levies, are expected to be transferred, net of fees, to the District to pay for debt service expenditures. District No. 2 is considered the Operating District.

The District's service plan allows for the ability to pay for administration, operations, and maintenance associated with the Public Improvements as necessary from the District Operating Revenue. The General Fund Mill Levy at December 31, 2020, was 11.132 mills and the Property taxes generated, net of fees, were transferred to District No. 2, the Operating District, pursuant to the District Administrative Services Agreement which pays all administrative expenditures for the District.

For the year 2020, the maximum debt mill levy allowed by the service plan is 50.000 mills as adjusted for changes in the method of calculating assessed value. The Maximum Debt Mill Levy at December 31, 2020, was 44.531 mills.

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

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 DEFINITION OF REPORTING ENTITY (CONTINUED)

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-Wide and Fund Financial Statements

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

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes, specific ownership taxes, intergovernmental revenues from District Nos. 2 and 3, and public improvement fees.

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)**

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

The District reports the following major governmental funds:

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

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

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

Budgets

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

Pooled Cash and Investments

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

Property Taxes

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

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes (Continued)

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

Amortization

Original Issue Discount

In the government-wide financial statements, bond discounts are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond discounts during the current period. The face amount of debt issued is reported as other financing sources. Discounts on debt issuances are reported as other financing uses.

Deferred Inflows of Resources

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

Equity

Net Position

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

Fund Balance

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned.

Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

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

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity (Continued)

Fund Balance (Continued)

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

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

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

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

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

NOTE 3 CASH AND INVESTMENTS

Cash and investments as of December 31, 2020, are classified in the accompanying financial statements as follows:

Statement of Net Position:

Escrowed Funds	\$ 110,959
Cash and Investments - Restricted	<u>6,175,276</u>
Total Cash and Investments	<u><u>\$ 6,286,235</u></u>

Cash and investments as of December 31, 2020, consist of the following:

Escrow - Deposits with Financial Institutions	\$ 110,959
Investments	<u>6,175,276</u>
Total Cash and Investments	<u><u>\$ 6,286,235</u></u>

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Deposits with Financial Institutions

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

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

At December 31, 2020, the District had escrow deposits in the amount of \$110,959.

Investments

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

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

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

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

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

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

As of December 31, 2020, the District had the following investments:

Investment	Maturity	Amount
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted-Average Under 60 Days	\$ 6,175,276

CSAFE

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE) (the Trust), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds, and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE is rated AAAM by Standard & Poor's. CSAFE records its investments at amortized cost and the District records its investments in CSAFE at net asset value as determined by amortized cost. There are no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

NOTE 4 LONG-TERM OBLIGATIONS

The following is an analysis of the changes in the District's long-term obligations for the year ended December 31, 2020:

	Balance - December 31, 2019	Additions	Reductions	Balance - December 31, 2020	Due Within One Year
Bonds Payable:					
Limited Tax General Obligation Bonds, Series 2015A	\$ 33,820,000	\$ -	\$ 675,000	\$ 33,145,000	\$ 725,000
Original Issue Discount, Series 2015A	(353,633)	-	(25,845)	(327,788)	-
Taxable Special Revenue Bonds, Series 2015B	2,825,000	-	-	2,825,000	-
Accrued Interest Series 2015B Bond	512,474	301,312	689,465	124,321	-
Total Bonds Payable	<u>\$ 36,803,841</u>	<u>\$ 301,312</u>	<u>\$ 1,338,620</u>	<u>\$ 35,766,533</u>	<u>\$ 725,000</u>

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

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

On August 25, 2015, the District issued \$34,615,000 in Limited Tax General Obligation Bonds, Series 2015A (the Series 2015A Bonds). The interest rate ranges from 5.125% to 5.750%. Interest is payable semi-annually on June 1 and December 1, beginning on December 1, 2015. Annual mandatory sinking fund principal payments are due on December 1, beginning on December 1, 2018. The Series 2015A Bonds mature on December 1, 2039, 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 (and if in part in such order of maturities as the District shall determine and by lot within maturities), on December 1, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
December 1, 2020, to and Including November 30, 2021	3.00%
December 1, 2021, to and Including November 30, 2022	2.00%
December 1, 2022, to and Including November 30, 2023	1.00%
December 1, 2023, and Thereafter	0.00%

If the redemption will be in whole, or if the redemption price is to be paid from the proceeds of bonds or other obligations issued to refund all or a portion of the Bonds, then on any date thereafter, or if the redemption is in part, and the redemption price will be paid from Pledged Revenue, then on any December 1 thereafter, upon payment of par, and accrued interest thereon, without redemption premium.

The proceeds from the sale of the Series 2015A Bonds were used for the purposes of (i) paying a portion of the costs of public improvements or reimbursing the Developer for the advancement of those costs, to the extent of available proceeds; (ii) providing capitalized interest; (iii) providing the Series 2015A Reserve Fund; and (iv) paying costs of issuance of the Series 2015A Bonds.

Pursuant to the Indenture, the District is obligated to impose a limited debt service mill levy. Pursuant to a Capital Pledge Agreement, Promenade at Castle Rock Metropolitan District No. 2 (under certain, limited circumstances which are not expected to occur) and Promenade at Castle Rock Metropolitan District No. 3 are obligated to impose a limited debt service mill levy. Revenue produced from such mill levies (collectively, the District Debt Service Mill Levy), including specific ownership taxes as a result of the District’s Debt Service Mill Levy, are pledged to the payment of the Series 2015A Bonds. The Indenture and the Pledge Agreement generally define the District Debt Service Mill Levy as a mill levy imposed upon all taxable property of the Districts each year in an amount calculated as follows:

- a) for any Mill Levy Certification Date occurring prior to the date on which no Series B Bonds remain outstanding (Add-On PIF Limitation Date), 40 mills (subject to adjustment); and

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

- b) for any Mill Levy Certification Date occurring on and after the Add-On PIF Limitation Date, the lesser of (A) 40 mills (subject to adjustment) plus the number of mills which, if imposed by the Districts, would generate revenue (net of the costs of collection) equal to the amount of Remaining Add-On PIF Revenue generated in the year of such Mill Levy Certification Date or (B) up to 47 mills; in no event shall the District Debt Service Mill Levy be set at more than 47 mills (subject to adjustment).

The District Debt Service Mill Levy is subject to adjustment per the Gallagher Amendment after January 1, 2014.

The Series 2015A Bonds are secured by and payable solely from the Series 2015A Pledged Revenue consisting of the following, net of costs of collection:

- a) Property Tax Revenue generated from the imposition of the District Debt Service Mill Levy by the Districts;
- b) Specific Ownership Tax Revenue generated from the imposition of the District Debt Service Mill Levy by the Districts;
- c) Credit PIF Revenue;
- d) Incremental Target Store Sales Tax;
- e) PILOT Revenue derived from a covenant recorded against the subject property imposing a payment in lieu of taxes against any portion of such property that is exempt from ad valorem property taxation;
- f) After the Series 2015B Bonds are no longer outstanding, Add-On PIF Revenue in any year, in an amount not to exceed the Maximum Add-On PIF Revenue Limit; and
- g) Any other legally available moneys which the District determines, in its absolute discretion, to credit to the Series 2015A Bond Fund.

The Series 2015A Bonds are further secured by the Series 2015A Reserve Fund which was funded upon issuance of the Series 2015A Bonds in the amount of the Series 2015A Reserve Requirement equal to \$3,097,888, by capitalized interest which was funded with proceeds of the Series 2015A Bonds in the amount of \$3,726,487, and by the Series 2015A Surplus Fund up to a maximum amount of \$2,848,484 which was not funded upon issuance of the Series 2015A Bonds. Amounts on deposit in the Series 2015A Reserve Fund on the maturity date of the Series 2015A Bonds shall be applied to the payment of the Series 2015A Bonds on such date.

On August 25, 2015, the District also issued \$2,825,000 Taxable Special Revenue Bonds, Series 2015B, (the Series 2015B Bonds). The interest rate is 9.00% and is payable annually on December 1, beginning on December 1, 2015. Annual mandatory sinking fund principal payments on the Series 2015B Bonds are due on December 1, to the extent of moneys on deposit, if any, in the Series 2015B Mandatory Redemption Account of the Series 2015B Bond Fund. The Series 2015B Bonds mature on December 1, 2039.

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

To the extent principal of any Bond is not paid when due, such principal shall remain outstanding until paid. To the extent interest on any Series 2015A Bond is not paid when due, such interest shall compound semi-annually on each interest payment date for the Series 2015A Bonds, at the rate then borne by the Series 2015A Bond and to the extent interest on any Series 2015B Bond is not paid when due, such interest shall compound annually on each interest payment date for the Series 2015B Bonds, at the rate then borne by the Series 2015B Bonds.

Proceeds from the sale of the Series 2015B Bonds were used to: (i) pay a portion of the costs of public improvements or reimbursing the Developer for the advancement of those costs, to the extent of available proceeds; and (ii) pay costs of issuance of the Series 2015B Bonds.

The Series 2015B Bonds are secured by and payable solely from the Series 2015B Pledged Revenue consisting of the following, net of costs of collection:

- a) Add-On PIF Revenue;
- b) At any time that the balance of the Series 2015A Surplus Fund is equal to the Series 2015A Surplus Target Amount, and on a basis subordinate to the Series 2015A Bond Year Requirements in every year, the Property Tax Revenue, Specific Ownership Tax Revenue, Credit PIF Revenue, PILOT Revenue, and Target Store Revenue, if any; and
- c) Any other legally available moneys which the District determines, in its absolute discretion, to credit to the Series 2015B Bond Fund.

The District's Series 2015A Bonds will mature as follows:

<u>Year Ending December 31.</u>	<u>Governmental Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2021	\$ 725,000	\$ 1,878,838	\$ 2,603,838
2022	800,000	1,841,681	2,641,681
2023	855,000	1,800,681	2,655,681
2024	940,000	1,756,863	2,696,863
2025	1,000,000	1,708,688	2,708,688
2026-2030	6,395,000	7,607,826	14,002,826
2031-2035	9,240,000	5,462,214	14,702,214
2036-2039	13,190,000	2,211,451	15,401,451
Total	<u>\$ 33,145,000</u>	<u>\$ 24,268,242</u>	<u>\$ 57,413,242</u>

The Series 2015B Bonds are cash flow bonds and principal and interest are payable to the extent of Series 2015B Pledged Revenues, therefore, there are no scheduled payments of principal and interest on the Series 2015B Bonds.

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

Authorized Debt

On May 6, 2014, a majority of the qualified electors of the District who voted in the election authorized the issuance of indebtedness in an amount not to exceed \$620,000,000, at an interest rate not to exceed 18% per annum. At December 31, 2020, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	Amount Authorized on May 6, 2014	Authorization Used 2015 Bonds	Authorized but Unissued at December 31, 2020
Streets	\$ 40,000,000	\$ 17,222,400	\$ 22,777,600
Park and Recreation	40,000,000	5,616,000	34,384,000
Water	40,000,000	1,677,312	38,322,688
Sanitation and Storm Sewer	40,000,000	3,564,288	36,435,712
Transportation	40,000,000	9,360,000	30,640,000
Mosquito Control	20,000,000	-	20,000,000
Traffic and Safety Controls	40,000,000	-	40,000,000
Fire Protection	40,000,000	-	40,000,000
TV Relay	40,000,000	-	40,000,000
Security	40,000,000	-	40,000,000
Operations and Maintenance	40,000,000	-	40,000,000
Refundings	200,000,000	-	200,000,000
Total	\$ 620,000,000	\$ 37,440,000	\$ 582,560,000

Pursuant to the Service Plan, the Districts are permitted to issue bond indebtedness of up to \$28,800,000 as might be required by the Public Finance Agreement.

NOTE 5 NET POSITION

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

Restricted net position includes assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net position as of December 31, 2020, as follows:

Restricted Net Position:	Governmental Activities
Debt Service	\$ 3,247,098
Total Restricted Net Position	\$ 3,247,098

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 5 NET POSITION (CONTINUED)

The District has a deficit in unrestricted net position. This deficit amount is a result of the District being responsible for the repayment of bonds issued for public improvements which were constructed by District No. 2.

NOTE 6 RELATED PARTY

The Developer of the property which constitutes the District is Promenade at Castle Rock, LLC. The members of the Board of Directors are employees, owners, or are otherwise associated with the Developer and its affiliates and may have conflicts of interest in dealing with the District.

NOTE 7 AGREEMENTS

Development Agreement

In 2015, the District entered into the Promenade at Castle Rock Development Agreement with the Town of Castle Rock, Promenade Castle Rock, LLC and District Nos. 2 and 3. The Development Agreement generally governs, without limitation, the development of the property in and facilities for the Development, the provision of municipal services by the Town, and water rights relating to property in the Development. Additionally, the Development Agreement establishes a cash construction escrow (the Escrow) as surety for the construction of public improvements in the Development.

Master Intergovernmental Agreement

On September 25, 2014, the District, District Nos. 2 and 3, and the Town entered into the Town of Castle Rock/Promenade at Castle Rock Metropolitan District Nos. 1 – 3 Master Intergovernmental Agreement (the Master Intergovernmental Agreement), which generally governs the relationship between the Town and the Districts and sets the parameters of the Districts' authority to finance and construct public improvements. The Master Intergovernmental Agreement states that the Districts have the authority to construct and finance public improvements in accordance with the standards and procedures set forth in the Service Plan, Public Finance Agreement, and the Town Requirements (generally defined as the rules and regulations of the Town, including those relating to zoning and land use). Pursuant to the Master Intergovernmental Agreement, the Districts agree to convey public facilities to the Town, and the Town agrees to operate, maintain, repair, and replace the facilities. The Master Intergovernmental Agreement further provides that the Districts shall only issue bonds in accordance with the Public Finance Agreement, the Service Plan, the Special District Act, and other laws of the state of Colorado.

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 7 AGREEMENTS (CONTINUED)

Amended and Restated Declaration of Covenants Imposing and Implementing the Promenade at Castle Rock Public Improvement Fee

On August 17, 2015, Promenade Castle Rock, LLC (the Declarant) entered into the Amended and Restated Declaration of Covenants Imposing and Implementing the Promenade at Castle Rock Public Improvement Fee, which replaced the Original PIF Covenant dated April 16, 2015. The Declaration of Covenants is imposed in consideration of the benefits to be provided to the Property with respect to construction, installation, operation, and maintenance of Project Improvements, (i) Declarant has agreed to impose a public improvement fee on the Property and (ii) the Town has agreed to credit a portion of the total Sales Tax due on PIF Sales occurring within the Property on which the Credit PIF is collected. The Declarant has pledged the PIF Revenues to the District for repayment of the Districts Series 2015 Bonds. The Add-On PIF initial amount is .25% and it will not exceed 0.50% of PIF Sales. The Credit PIF amount is 1.10% of PIF Sales.

Public Finance Agreement

On January 7, 2014, the District, the Developer, and the Town entered into the Public Finance Agreement, which agreement was amended and restated as the Amended and Restated Public Finance Agreement dated as of February 17, 2015, as amended by a First Amendment dated August 4, 2015 (as amended, the Public Finance Agreement). The Public Finance Agreement governs certain aspects of the Development, financing for the Development including the issuance of the Bonds, and regulatory approvals issued by the Town for the Development.

The Public Finance Agreement permits the issuance of "District Bonds", which is defined as one or more series of bonds issued or incurred by any of the Districts to finance or refinance the Eligible Costs in accordance with the terms and provisions of the Public Finance Agreement, including any bonds, other financial obligations, or securities issued by any of the Districts to refund the District Bonds, but specifically exclusive of any Reimbursement Agreement entered into between the Developer and any of the Districts. Notwithstanding the foregoing, or any other provision to the contrary, District Bonds shall not be refinanced without the written consent of the Town.

The Public Finance Agreement provides that District Bonds shall be issued in an amount not exceeding \$28,800,000 of Net Proceeds to pay Eligible Costs, subject to adjustment as provided in the Pledge Agreement. "Net Proceeds" is generally defined as net proceeds of one or more series of District Bonds in an amount not exceeding \$28,800,000 used to pay or reimburse Eligible Costs.

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 7 AGREEMENTS (CONTINUED)

Public Finance Agreement (Continued)

The District and District No. 3 (and to the extent hereinafter provided, District No. 2), covenant to impose the District Debt Service Mill Levy in the amount of not less than 40 mills and not more than 47 mills, as hereinafter provided, for so long as any District Bonds remain outstanding, and further covenant to pledge and cause remittance of the District Debt Service Mill Levy to the District Bond Trustee for such outstanding District Bonds. To the extent that the Add-On PIF Revenues are pledged 100% to the payment of outstanding District Bonds, the District Debt Service Mill Levy imposed by such Districts shall be no less than 40 mills. To the extent that less than 100% of the Add-On PIF Revenue is pledged to the payment of outstanding District Bonds, the District Debt Service Mill Levy imposed by such Districts shall be increased above 40 mills, up to a maximum of 47 mills. Each such District further covenants that so long as any District Bonds remain outstanding, that each such District will remit all District Specific Ownership Taxes to the District Bond Trustee for payment of outstanding District Bonds.

The Developer agrees to impose the Credit PIF and the Add-On PIF and to irrevocably assign the Pledged PIF Revenue and any amount of Remaining Add-On PIF Revenue that may be included in District Operating Revenue to the District designated in the District Bond Documents, through and until the payment in full of the District Bonds. The Add-On PIF means the public improvement fee in the amount of not less than 0.25% and not more than 0.50% of PIF Sales. The Credit PIF means the public improvement fee in the amount of 1.10% of PIF Sales.

The District Operating Revenue will be used to pay the normal and reasonable operating and maintenance expenses of the Districts or for any other lawful purpose. The District Operating Revenue means revenue produced by the Districts' imposition of a mill levy to pay the operations and maintenance expenses of any of the Districts, and certain Add-On PIF Revenue not pledged to pay District Bonds, as allowed under the District Bond Documents from time to time.

District Administrative Services Agreement

On March 5, 2015, the District entered into the District Administrative Services Agreement which provides that District No. 2 shall be solely responsible for the management, execution, and administration of the construction of the Public Improvements on behalf of the Districts. For the purpose of completing all or a portion of the Project, District No. 2 has entered into and anticipates entering into multiple contracts.

In order to fund the Administrative Costs, The District and District No. 3 (the Financing Districts) agree to levy on all of the taxable property of the Financing Districts, in addition to all other taxes, direct annual taxes to the extent necessary to provide for payment of the Administrative Costs, in the amount of the Required Mill Levy, or a lesser amount as determined by District No. 2. In addition, the Financing Districts agree to remit any available PIF Revenues, fees, or other Revenues to District No. 2 to fund the Administrative Costs.

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 7 AGREEMENTS (CONTINUED)

Capital Pledge Agreement

On August 25, 2015, the Districts and the Trustee entered into a Capital Pledge Agreement in order to generate additional revenue pledged to payment of the Series 2015A Bonds. Pursuant to the agreement, District No. 3 has agreed to pay its Property Tax Revenue generated by the debt service mill levy to the Trustee, and District No. 2 (under certain limited conditions) and District No. 3 are obligated to impose ad valorem property taxes in an amount equal to the District Debt Service Mill Levy, and pay the proceeds and Specific Ownership Tax Revenues as a result of the District Service Mill Levy to the Trustee.

Master Escrow Agreement

The Master Escrow Agreement was entered into on August 25, 2015, by the Districts, Town of Castle Rock, Land Title Guarantee Company, and Promenade Castle Rock, LLC. The District and the Town of Castle Rock appointed an Escrow Agent that established two accounts: (1) the Promenade 2015 Bond Proceeds Account; and (2) the Developer Advances Account.

The District will deposit all amounts permitted to be released from the Bond Project Fund under the terms of the Indenture with the Escrow Agent from the net proceeds of the Limited Tax General Obligation Bonds, Series 2015A and Taxable Special Revenue Bonds 2015B.

The Developer will deposit additional monies with the Escrow Agent for purposes of advancing monies for the benefit of the District as required by the Town of Castle Rock that are not otherwise available from the Districts or able to be released from the Project Fund, or to fund costs that do not constitute Eligible Costs.

Both accounts combined must have a continuing balance at least equal to the Minimum Surety Balance required by the Town of Castle Rock. Funds in excess of the minimum balance may be used for project costs.

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 7 AGREEMENTS (CONTINUED)

Master Escrow Agreement (Continued)

District No. 2 shall be entitled to make written requests for the payment of invoices related to the Construction Contracts from the Escrow on a monthly basis (each, a Requisition) to the Developer, Escrow Agent, and the Town. Each Requisition shall include: (i) reference to the underlying Construction Contract and a description of the work performed for which payment is being requested; (ii) the total amount of such Requisition; (iii) an accounting detailing the total amount of Construction Contracts issued by District No. 2, all payments made toward the same prior to the date of the Requisition, including copies of lien waivers, and the amount that will be outstanding after payment of the Requisition; (iv) the Account from which payment should be made; and (v) to the extent the Requisition is for payments of Eligible Costs to be made from the Promenade Bond Account, certification by the Districts' independent engineer that all costs to be paid from the Requisition constitute Eligible Costs. Upon submission of the Requisition to the Town, the Town shall consider the same for administrative approval and verification that funds, being requisitioned from the Escrow under the Promenade Bond Account are to be spent on Eligible Costs and that the Minimum Surety Balance is maintained subsequent to any proposed disbursement. The Town's approval of the Requisition shall be granted within five business days of receipt of the Requisition. In the event that the Town takes no action within the allotted five business days the Requisition shall be deemed approved. Any objection of the Town as to Requisition request shall be provided to District No. 2 in writing and shall specify all or the specific portions of the Requisition to which there is an objection and the specific reasons.

The Parties shall work in good faith to resolve any Town objections consistent with the intent of the Development Agreement and applicable SIA. The Escrow Agent shall make disbursement to District No. 2 within two business days of approval of the Requisition by the Town. Requisitioned funds for Eligible Costs shall be disbursed by the Escrow Agent from the Promenade Bond Account. The Minimum Surety Balance at December 31, 2020, was \$110,959. The Escrow Agent held account balances in the amount of \$110,959 at December 31, 2020.

NOTE 8 RISK MANAGEMENT

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

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

The District pays annual premiums to the Pool for liability, property, public officials' liability, and workers compensation coverage.

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 8 RISK MANAGEMENT (CONTINUED)

In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 9 TAX, SPENDING, AND DEBT LIMITATIONS

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

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

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the Emergency Reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. The District transfers its net operating revenue to District No. 2. Therefore, the Emergency Reserves related to the District's revenues are reported in District No. 2.

On May 6, 2014, a majority of the District's electors authorized the District to collect, spend, or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under TABOR.

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

NOTE 10 SUBSEQUENT EVENT

On April 15, 2021, the District issued Limited Tax General Obligation and Special Revenue Refunding and Improvement Loan, Series 2021 (the 2021 Loan) in the amount of \$64,236,780. The proceeds from the 2021 Loan were used for the purposes of: (i) refunding the Series 2015 Bonds, (ii) reimbursing the Developer for the advancement of funds for financing costs related to capital infrastructure improvements; (iii) providing the Reserve Fund; (iv) paying the costs of issuing the 2021 Loan; and (v) providing additional funds for the Project Fund. The 2021 Loan bear interest at a variable rate, payable semi-annually on June 1 and December 1, commencing on June 1, 2021. Principal payments are due on December 1, commencing on December 1, 2021. The 2021 Loan matures on December 1, 2050.

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 10 SUBSEQUENT EVENT (CONTINUED)

The 2021 Loan is secured by and payable from the Pledged Revenue consisting of monies derived by the District from the following sources: 1) all Property Tax Revenues, 2) all Specific Ownership Tax Revenues, 3) all Credit PIF Revenue, 4) all Add-On PIF Revenue, 5) all Incremental Target Store Sales Tax Revenue, 6) all PILOT Revenues, 7) any Counterparty Net Regularly Scheduled Swap Payments, 8) any Termination Payments paid by the 2021 Swap Counterparty, and 9) all other legally available moneys which the Board determines in its sole discretion to apply as Pledged Revenue.

SUPPLEMENTARY INFORMATION

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2020**

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property Taxes	\$ 249,417	\$ 249,414	\$ (3)
Specific Ownership Taxes	22,448	21,514	(934)
Net Investment Income	75,046	32,357	(42,689)
Other Income	5,905	-	(5,905)
Public Improvement Fees	2,651,017	2,187,709	(463,308)
Intergovernmental Revenue District No. 3	2,498,501	2,431,328	(67,173)
Total Revenues	<u>5,502,334</u>	<u>4,922,322</u>	<u>(580,012)</u>
EXPENDITURES			
General and Administrative:			
County Treasurer's Fees	3,741	3,741	-
PIF Collection Fee	35,000	25,000	10,000
Contingency	5,905	-	5,905
Debt Service:			
Paying Agent Fees	3,500	3,500	-
Bond Interest - Series 2015A	1,913,431	1,913,431	-
Bond Interest - Series 2015B	758,423	689,465	68,958
Bond Principal - Series 2015A	675,000	675,000	-
Bond Principal - Series 2015B	1,155,000	-	1,155,000
Total Expenditures	<u>4,550,000</u>	<u>3,310,137</u>	<u>1,239,863</u>
NET CHANGE IN FUND BALANCE	952,334	1,612,185	659,851
Fund Balance - Beginning of Year	<u>4,994,038</u>	<u>5,013,682</u>	<u>19,644</u>
FUND BALANCE - END OF YEAR	<u>\$ 5,946,372</u>	<u>\$ 6,625,867</u>	<u>\$ 679,495</u>

OTHER INFORMATION

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
DECEMBER 31, 2020**

	Limited Tax General Obligation Bonds Series 2015A Dated August 25, 2015 Interest Rate from 5.125% to 5.750% Interest Payable June 1 and December 1 Principal Payable December 1		
Bonds and Interest Maturing in the Year Ending December 31.	Principal	Interest	Total
2021	\$ 725,000	\$ 1,878,838	\$ 2,603,838
2022	800,000	1,841,681	2,641,681
2023	855,000	1,800,681	2,655,681
2024	940,000	1,756,863	2,696,863
2025	1,000,000	1,708,688	2,708,688
2026	1,095,000	1,657,438	2,752,438
2027	1,170,000	1,594,475	2,764,475
2028	1,280,000	1,527,200	2,807,200
2029	1,365,000	1,453,600	2,818,600
2030	1,485,000	1,375,113	2,860,113
2031	1,585,000	1,289,725	2,874,725
2032	1,720,000	1,198,588	2,918,588
2033	1,835,000	1,099,688	2,934,688
2034	1,985,000	994,175	2,979,175
2035	2,115,000	880,038	2,995,038
2036	2,280,000	758,425	3,038,425
2037	2,425,000	627,325	3,052,325
2038	2,610,000	487,888	3,097,888
2039	5,875,000	337,813	6,212,813
Total	\$ 33,145,000	\$ 24,268,242	\$ 57,413,242

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 1
SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED
DECEMBER 31, 2020**

Year Ended <u>December 31,</u>	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied		Total Property Taxes		Percentage Collected to Levied
		Operations	Debt Service	Levied	Collected	
2016	\$ 45,830	10.000	40.000	\$ 2,291	\$ 2,291	100.00 %
2017	307,620	10.000	40.000	15,381	15,435	100.35 %
2018	713,330	11.055	44.222	39,431	39,431	100.00 %
2019	2,869,300	11.055	44.222	158,606	158,606	100.00 %
2020	5,600,980	11.132	44.531	311,767	311,767	100.00 %
Estimated for the Year Ending <u>December 31,</u> 2021	\$ 5,592,840	11.132	44.531	\$ 311,313		

NOTE: Property taxes shown as collected in any one year include collection of delinquent property taxes or abatements of property taxes assessed in prior years. This presentation does not attempt to identify specific years of assessments. Information received from the County Treasurer does not permit identification of specific year of levy.

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 2
Douglas County, Colorado**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2020

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 2
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YEAR ENDED DECEMBER 31, 2020**

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Dazzio & Associates, PC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Promenade at Castle Rock Metropolitan District No. 2
Douglas County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Promenade at Castle Rock Metropolitan District No. 2 as of and for the year December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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• Member American Institute of Certified Public Accountants • Member Colorado Society of Certified Public Accountants •

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 Promenade at Castle Rock Metropolitan District No. 2, as of December 31, 2020, and the respective changes in financial position and the budgetary comparisons for the General Fund and the Common Area Maintenance Special Revenue 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 Promenade at Castle Rock Metropolitan District No. 2's basic financial statements. The Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual, for the Capital Projects Fund (the Supplementary Information) is presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Dussio & Associates, P.C.

September 23, 2021

BASIC FINANCIAL STATEMENTS

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET POSITION
DECEMBER 31, 2020**

	Governmental Activities
ASSETS	
Cash and Investments	\$ 259,579
Cash and Investments - Restricted	60,143
Prepaid Expenses	2,835
Accounts Receivable - CAM	815
Intergovernmental Receivable District No. 1	4,471
Capital Assets Not Being Depreciated:	
Construction in Progress	45,937,500
Total Assets	46,265,343
 LIABILITIES	
Accounts Payable	56,526
Due to District No. 3	194
Unearned Revenue	573
Noncurrent Liabilities:	
Due in More Than One Year	20,192,363
Total Liabilities	20,249,656
 NET POSITION	
Restricted For:	
Emergency Reserves	20,300
Unrestricted	25,995,387
Total Net Position	\$ 26,015,687

See accompanying Notes to Basic Financial Statements.

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 2
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020

		Program Revenues			Net Revenue (Expense) and Change in Net Position
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
FUNCTIONS/PROGRAMS					
Primary Government:					
Government Activities:					
General Government	\$ 375,586	\$ 210,997	\$ 674,628	\$ -	\$ 510,039
Interest and Related Costs on Long-Term Debt	1,003,970	-	-	-	(1,003,970)
Total Government Activities	\$ 1,379,556	\$ 210,997	\$ 674,628	\$ -	(493,931)
GENERAL REVENUES					
Other					158
Total General Revenues					158
CHANGE IN NET POSITION					(493,773)
Net Position - Beginning of Year					26,509,460
NET POSITION - END OF YEAR					\$ 26,015,687

See accompanying Notes to Basic Financial Statements.

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2020**

	General	Special Revenue Fund	Capital Projects	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 259,579	\$ -	\$ -	\$ 259,579
Cash and Investments - Restricted	20,300	39,843	-	60,143
Accounts Receivable - CAM	-	815	-	815
Prepaid Expenses	2,835	-	-	2,835
Intergovernmental Receivable District No. 1	4,471	-	-	4,471
Total Assets	\$ 287,185	\$ 40,658	\$ -	\$ 327,843
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 16,441	\$ 40,085	\$ -	\$ 56,526
Unearned Revenue	-	573	-	573
Due to District No. 3	194	-	-	194
Total Liabilities	16,635	40,658	-	57,293
FUND BALANCES				
Nonspendable:				
Prepaid Expenses	2,835	-	-	2,835
Restricted For:				
Emergency Reserve	20,300	-	-	20,300
Unassigned	247,415	-	-	247,415
Total Fund Balances (Deficit)	270,550	-	-	270,550
Total Liabilities and Fund Balances	\$ 287,185	\$ 40,658	\$ -	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Capital Assets 45,937,500

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

Developer Advance Payable (15,280,628)
Developer Advance Interest Payable (4,911,735)

Net Position of Governmental Activities \$ 26,015,687

See accompanying Notes to Basic Financial Statements.

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2020

	General	Special Revenue Fund	Capital Projects	Total Governmental Funds
REVENUES				
Intergovernmental Revenue Promenade No. 1	\$ 66,797	\$ -	\$ -	\$ 66,797
Intergovernmental Revenue Promenade No. 3	607,831	-	-	607,831
CAM Revenue	-	210,997	-	210,997
Other Revenue	158	-	-	158
Total Revenues	<u>674,786</u>	<u>210,997</u>	<u>-</u>	<u>885,783</u>
EXPENDITURES				
Current:				
Accounting	60,036	30,000	582	90,618
Audit	12,000	-	-	12,000
District Management	19,095	8,100	-	27,195
Dues and Membership	2,391	-	-	2,391
Electricity	-	5,263	-	5,263
Election Expense	146	-	-	146
Insurance	13,834	-	-	13,834
Landscaping	-	132,469	-	132,469
Legal	54,406	-	-	54,406
Miscellaneous	2,099	315	-	2,414
Portering	-	9,882	-	9,882
Repairs and Maintenance	-	450	-	450
Snow Removal	-	2,582	-	2,582
Water	-	21,936	-	21,936
Capital Outlay	-	-	88,688	88,688
Total Expenditures	<u>164,007</u>	<u>210,997</u>	<u>89,270</u>	<u>464,274</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	510,779	-	(89,270)	421,509
OTHER FINANCING SOURCES (USES)				
Developer Advance	-	-	61,432	61,432
Transfers (To) From Other Funds	(233,925)	-	233,925	-
Total Other Financing Sources (Uses)	<u>(233,925)</u>	<u>-</u>	<u>295,357</u>	<u>61,432</u>
NET CHANGE IN FUND BALANCES	276,854	-	206,087	482,941
Fund Balances (Deficits) - Beginning of Year	<u>(6,304)</u>	<u>-</u>	<u>(206,087)</u>	<u>(212,391)</u>
FUND BALANCES - END OF YEAR	<u>\$ 270,550</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 270,550</u>

See accompanying Notes to Basic Financial Statements.

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020**

Net Change in Fund Balances - Governmental Funds \$ 482,941

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

Governmental funds report capital outlays as expenditures. In the statement of activities capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation/amortization expense the allocation of the cost of any depreciable asset over the estimated useful life of the asset. Therefore, this is the amount of capital outlay, net of depreciation/amortization, in the current period.

Expenditures for Capital Assets 88,688

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Current Year Developer Advance (61,432)

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

Interest on Developer Advance (1,003,970)

Changes in Net Position of Governmental Activities \$ (493,773)

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 2
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2020**

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Intergovernmental Revenue Promenade No. 1	\$ 67,027	\$ 66,797	\$ (230)
Intergovernmental Revenue Promenade No. 3	624,625	607,831	(16,794)
Other revenue	-	158	158
Total Revenues	<u>691,652</u>	<u>674,786</u>	<u>(16,866)</u>
EXPENDITURES			
Current:			
Accounting	60,000	60,036	(36)
Audit	12,500	12,000	500
Contingency	9,600	-	9,600
Detention Pond	2,000	-	2,000
District Management	25,000	19,095	5,905
Dues and Membership	3,800	2,391	1,409
Insurance and Bonds	11,900	13,834	(1,934)
Election	-	146	(146)
Legal	125,000	54,406	70,594
Miscellaneous	2,000	2,099	(99)
Snow Removal	5,800	-	5,800
Utilities	3,200	-	3,200
Total Expenditures	<u>260,800</u>	<u>164,007</u>	<u>96,793</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	430,852	510,779	79,927
OTHER FINANCING SOURCES (USES)			
Repayment of Developer Advance	(200,000)	-	200,000
Transfers to Other Funds	(57,446)	(233,925)	(176,479)
Total Other Financing Sources (Uses)	<u>(257,446)</u>	<u>(233,925)</u>	<u>23,521</u>
NET CHANGE IN FUND BALANCE	173,406	276,854	103,448
Fund Balance - Beginning of Year	<u>60,653</u>	<u>(6,304)</u>	<u>(66,957)</u>
FUND BALANCE - END OF YEAR	<u>\$ 234,059</u>	<u>\$ 270,550</u>	<u>\$ 36,491</u>

See accompanying Notes to Basic Financial Statements.

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 2
SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2020**

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
CAM Revenue	\$ 235,554	\$ 210,997	\$ (24,557)
Total Revenues	<u>235,554</u>	<u>210,997</u>	<u>(24,557)</u>
EXPENDITURES			
Current:			
Accounting	30,000	30,000	-
Contingency	5,200	-	5,200
District Management	10,800	8,100	2,700
Detention Pond	5,000	-	5,000
Electricity	7,500	5,263	2,237
Fence and Sign Maintenance	2,000	-	2,000
Landscaping	125,000	132,469	(7,469)
Miscellaneous	5,000	315	4,685
Other CAM Expenses	1,000	-	1,000
Portering	11,500	9,882	1,618
Repairs and Maintenance	25,000	450	24,550
Snow Removal	20,000	2,582	17,418
Water	45,000	21,936	23,064
Total Expenditures	<u>293,000</u>	<u>210,997</u>	<u>82,003</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(57,446)	-	57,446
OTHER FINANCING SOURCES (USES)			
Transfers from Other Funds	57,446	-	(57,446)
Total Other Financing Sources (Uses)	<u>57,446</u>	<u>-</u>	<u>(57,446)</u>
NET CHANGE IN FUND BALANCE	-	-	-
Fund Balance - Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying Notes to Basic Financial Statements.

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 DEFINITION OF REPORTING ENTITY

Promenade at Castle Rock Metropolitan District No. 2 (District), a quasi-municipal corporation and political subdivision of the State of Colorado was organized by order and decree of the District Court of Douglas County on May 28, 2014 and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District operates under a Consolidated Service Plan for the District, Promenade at Castle Rock Metropolitan District No. 1, and Promenade at Castle Rock Metropolitan District No. 3 (collectively the Districts), approved by the Town of Castle Rock, Colorado on January 7, 2014. The District's service area is located entirely within the Town of Castle Rock, Douglas County, Colorado. The District was established for the purpose of financing and providing public improvements and related operations and maintenance services within and outside of the boundaries of the District. The public improvements include water, streets, sanitation, parks and recreation, traffic and safety controls, transportation, mosquito and pest control, and television relay and translator.

The District's service plan allows for the ability to pay for administration, operations, and maintenance associated with the Public Improvements as necessary from the District Operating Revenue. The General Fund Mill Levy at December 31, 2020 was 11.132 mills for Promenade at Castle Rock No. 1 and 10.000 mills for Promenade at Castle Rock No. 3. The Property taxes generated, net of fees were transferred to the District, the Operating District, which pays all administrative expenditures for the Districts pursuant to the District Administrative Services Agreement.

The maximum debt mill levy allowed by the service plan is 50.000 mills as adjusted for changes in the method of calculating assessed value. The Maximum Debt Mill Levy at December 31, 2020, was 44.531 mills for Promenade at Castle Rock Metropolitan District No. 1 and 40.000 mills for Promenade at Castle Rock Metropolitan District No. 3. The Property taxes generated, net of fees by Promenade at Castle Rock Metropolitan District No. 3 were transferred to District No. 1, the Financing District, which pays all debt service payments.

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

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

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

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-Wide and Fund Financial Statements

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

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are intergovernmental revenues and developer advances for reimbursed expenditures. All other revenue items are considered to be measurable and available only when cash is received by the District. The District determined that Developer advances are not considered as revenue susceptible to accrual, except Developer Advances for reimbursed expenditures. Expenditures, other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation is due.

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The District reports the following major governmental funds:

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

The Special Revenue Fund is used to account for financial resources to be used for Common Area Maintenance.

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

Budgets

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

The District has amended its annual budget for the year ended December 31, 2020.

Pooled Cash and Investments

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

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets, which include property and equipment, easements and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Capital assets which are anticipated to be conveyed to other governmental entities are recorded as construction in progress, and are not included in the calculation of net investment in capital assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Equity

Net Position

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

Fund Balance

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned.

Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

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

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

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

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity (Continued)

Fund Balance (Continued)

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

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

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

NOTE 3 CASH AND INVESTMENTS

Cash and investments as of December 31, 2020, are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Investments	\$ 259,579
Cash and Investments - Restricted	60,143
Total Cash and Investments	\$ 319,722

Cash and investments as of December 31, 2020, consist of the following:

Deposits with Financial Institutions	\$ 319,662
Investments	60
Total Cash and Investments	\$ 319,722

Deposits with Financial Institutions

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

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

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Deposits with Financial Institutions (Continued)

At December 31, 2020, the District's cash deposits had a bank balance of \$319,662 and carrying balance of \$319,662.

Investments

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

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

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

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

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

As of December 31, 2020, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted-Average Under 60 Days	\$ 60

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

CSAFE

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE) (the Trust), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds, and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE is rated AAAM by Standard & Poor's. CSAFE records its investments at amortized cost and the District records its investments in CSAFE at net asset value as determined by amortized cost. There are no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

NOTE 4 CAPITAL ASSETS

An analysis of the change in capital assets for the year ended December 31, 2020, follows:

	Balance - December 31, 2019	Increases	Decreases	Balance - December 31, 2020
Governmental Activities:				
Capital assets, Not Being Depreciated:				
Construction in Progress	\$ 45,848,812	\$ 88,688	\$ -	\$ 45,937,500
Total Capital Assets, Not Being Depreciated	45,848,812	88,688	-	45,937,500
Total Capital Assets, Net	<u>45,848,812</u>	<u>88,688</u>	<u>-</u>	<u>45,937,500</u>
Governmental Activities Capital Assets, Net	<u>\$ 45,848,812</u>	<u>\$ 88,688</u>	<u>\$ -</u>	<u>\$ 45,937,500</u>

Upon completion and acceptance, a significant portion of capital assets will be conveyed by the District to other local governments. The District will not be responsible for the maintenance of those assets. Upon acceptance of the improvements, the District will remove the cost of construction from its capital assets.

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 5 LONG-TERM OBLIGATIONS

The following is an analysis of the changes in the District's long-term obligations for the year ended December 31, 2020:

	Balance - December 31, 2019	Additions	Reductions	Balance - December 31, 2020	Due Within One Year
Developer Advances - O&M	\$ 456,041	\$ -	\$ -	\$ 456,041	\$ -
Developer Advances - Capital	14,763,155	61,432	-	14,824,587	-
Developer Advance Interest - O&M	131,619	29,913	-	161,532	-
Developer Advance Interest - Capital	3,776,146	974,057	-	4,750,203	-
Total	<u>\$ 19,126,961</u>	<u>\$ 1,065,402</u>	<u>\$ -</u>	<u>\$ 20,192,363</u>	<u>\$ -</u>

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

Developer Advances

The District has entered into a Funding and Reimbursement Agreement with the Developer as follows:

Funding and Reimbursement Agreement (Capital and O&M)

The funding and reimbursement agreement (capital and operations & maintenance) was entered into on March 5, 2015, as amended February 6, 2017, with Promenade Castle Rock, LLC (Developer) wherein the Developer or District has the right to construct improvements known as the Promenade at Castle Rock project (Project). The District has incurred and will continue to incur costs related to the Project and for general operating, administrative and maintenance costs (O&M) necessary to maintain the District. The Developer has agreed to loan the District money (Developer Advances) on the condition that the District agrees to repay the Developer Advances based on the terms set forth in the agreement. Advances shall bear interest per annum at prime plus 3% on all unpaid amounts. As of December 31, 2020, outstanding advances under this agreement totaled \$15,280,628 and accrued interest totaled \$4,911,735.

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Authorized Debt

On May 6, 2014, a majority of the qualified electors of the District who voted in the election authorized the issuance of indebtedness in an amount not to exceed \$900,000,000 at an interest rate not to exceed 18% per annum. At December 31, 2020, the District had authorized but unissued debt in the following amounts allocated for the following purposes:

	Amount Authorized on May 6, 2014	Authorized but Unissued at December 31, 2020
Streets	\$ 40,000,000	\$ 40,000,000
Park and Recreation	40,000,000	40,000,000
Water	40,000,000	40,000,000
Sanitation	40,000,000	40,000,000
Transportation	40,000,000	40,000,000
Mosquito Control	20,000,000	20,000,000
Traffic/Safety Controls	40,000,000	40,000,000
Fire Protection	40,000,000	40,000,000
TV Relay	40,000,000	40,000,000
Security	40,000,000	40,000,000
Operations and Maintenance	40,000,000	40,000,000
Private Agreements	40,000,000	40,000,000
Special Assessment Debt	40,000,000	40,000,000
IGA	200,000,000	200,000,000
Refundings	200,000,000	200,000,000
Total	\$ 900,000,000	\$ 900,000,000

Pursuant to the Service Plan, the Districts are permitted to issue bond indebtedness of up to \$28,800,000 as may be required by the Public Finance Agreement.

NOTE 6 NET POSITION

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

Restricted assets include net position that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net position as of December 31, 2020, as follows:

	<u>Governmental Activities</u>
Restricted Net Position:	
Emergency Reserves	\$ 20,300
Total Restricted Net Position	\$ 20,300

The District's unrestricted net position as of December 31, 2020, total \$25,995,387.

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 7 RELATED PARTY

The Developer of the property which constitutes the District is Promenade Castle Rock, LLC. The members of the Board of Directors are employees, owners or are otherwise associated with the Developer and its affiliates and may have conflicts of interest in dealing with the District. See Note 5 for transactions related to advances made by the Developer to the District and Note 9 for transactions related to construction and reimbursed expenditures.

NOTE 8 ECONOMIC DEPENDENCY

The District has not yet established a revenue base sufficient to pay operational expenditures. Until an independent revenue base is established, continuation of operations in the District will be dependent upon funding by the Developer pursuant to the Funding and Reimbursement Agreement (Capital and O&M) as discussed in Note 5.

NOTE 9 AGREEMENTS

Development Agreement

In 2015, the District entered into the Promenade at Castle Rock Development Agreement with the Town of Castle Rock, Promenade Castle Rock, LLC and District Nos. 1 and 3. The Development Agreement generally governs, without limitation, the development of the property in and facilities for the Development, the provision of municipal services by the Town, and water rights relating to property in the Development. Additionally, the Development Agreement establishes a cash construction escrow (the Escrow) as surety for the construction of public improvements in the Development.

Master Intergovernmental Agreement

On September 25, 2014, the District, District Nos. 1 and 3 and the Town entered into the Town of Castle Rock/Promenade at Castle Rock Metropolitan District Nos 1 – 3 Master Intergovernmental Agreement (the Master Intergovernmental Agreement), which generally governs the relationship between the Town and the Districts and sets the parameters of the Districts' authority to finance and construct public improvements. The Master Intergovernmental Agreement states that the Districts have the authority to construct and finance public improvements in accordance with the standards and procedures set forth in the Service Plan, Public Finance Agreement, and the Town Requirements (generally defined as the rules and regulations of the Town, including those relating to zoning and land use). Pursuant to the Master Intergovernmental Agreement, the Districts agree to convey public facilities to the Town, and the Town agrees to operate, maintain, repair, and replace the facilities. The Master Intergovernmental Agreement further provides that the Districts shall only issue bonds in accordance with the Public Finance Agreement, the Service Plan, the Special District Act, and other laws of the State of Colorado.

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 9 AGREEMENTS (CONTINUED)

Public Finance Agreement

On January 7, 2014, the Districts, the Developer, and the Town entered into the Public Finance Agreement, which agreement was amended and restated as the Amended and Restated Public Finance Agreement dated as of February 17, 2015, as amended by a First Amendment dated August 4, 2015 (as amended, the "Public Finance Agreement"). The Public Finance Agreement governs certain aspects of the Development, financing for the Development, including the issuance of the Bonds, and regulatory approvals issued by the Town for the Development.

The Public Finance Agreement permits the issuance of "District Bonds", which is defined as one or more series of bonds issued or incurred by any of the Districts to finance or refinance the Eligible Costs in accordance with the terms and provisions of the Public Finance Agreement, including any bonds, other financial obligations or securities issued by any of the Districts to refund the District Bonds, but specifically exclusive of any Reimbursement Agreement entered into between the Developer and any of the Districts. Notwithstanding the foregoing, or any other provision to the contrary, District Bonds shall not be refinanced without the written consent of the Town.

The Public Finance Agreement provides that District Bonds shall be issued in an amount not exceeding \$28,800,000 of Net Proceeds to pay Eligible Costs, subject to adjustment as provided in the Pledge Agreement. "Net Proceeds" is generally defined as net proceeds of one or more series of District Bonds in an amount not exceeding \$28,800,000 used to pay or reimburse Eligible Costs.

District Nos. 1 and 3 (and to the extent hereinafter provided, the District), covenant to impose the District Debt Service Mill Levy in the amount of not less than 40 mills and not more than 47 mills, as hereinafter provided, for so long as any District Bonds remain outstanding, and further covenant to pledge and cause remittance of the District Debt Service Mill Levy to the District Bonds Trustee for such outstanding District Bonds. To the extent that the Add-On PIF Revenues are pledged 100% to the payment of outstanding District Bonds, the District Debt Service Mill Levy imposed by such Districts shall be no less than 40 mills. To the extent that less than 100% of the Add-On PIF Revenue is pledged to the payment of outstanding District Bonds, the District Debt Service Mill Levy imposed by such Districts shall be increased above 40 mills, up to a maximum of 47 mills. Each such District further covenants that so long as any District Bonds remain outstanding, that each such District will remit all District Specific Ownership Taxes to the District Bond Trustee for payment of outstanding District Bonds.

The Developer agrees to impose the Credit PIF and the Add-On PIF and to irrevocably assign the Pledged PIF Revenue and any amount of Remaining Add-On PIF Revenue that may be included in District Operating Revenue to the District designated in the District Bond Documents, through and until the payment in full of the District Bonds. The Add-On PIF means the public improvement fee in the amount of not less than 0.25% and not more than 0.50% of PIF Sales. The Credit PIF means the public improvement fee in the amount of 1.10% of PIF Sales.

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 9 AGREEMENTS (CONTINUED)

Public Finance Agreement (Continued)

The District Operating Revenue will be used to pay the normal and reasonable operating and maintenance expenses of the Districts or for any other lawful purpose. District Operating Revenue means revenue produced by the Districts' imposition of a mill levy to pay the operations and maintenance expenses of any of the Districts, and certain Add-On PIF Revenue not pledged to pay District Bonds, as allowed under the District Bond Documents from time to time.

District Administrative Services Agreement

On March 5, 2015 the District entered into the District Administrative Services Agreement which provides that the District shall be solely responsible for the management, execution and administration of the construction of the Public Improvements on behalf of the Districts. For the purpose of completing all or a portion of the Project, the District has entered into and anticipates entering into multiple contracts. In order to fund the Administrative Costs, District Nos. 1 and 3 (the Financing Districts) agree to levy on all of the taxable property of the Financing Districts, in addition to all other taxes, direct annual taxes to the extent necessary to provide for payment of the Administrative Costs, in the amount of the Required Mill Levy, or a lesser amount as determined by the District. In addition, the Financing Districts agree to remit any available PIF Revenues, fees or other Revenues to the District to fund the Administrative Costs.

Intergovernmental Agreement Regarding District Construction Administration

The Intergovernmental Agreement Regarding District Construction Administration was entered into by Castle Pines Commercial Metropolitan District Nos. 1, 3 & 4 (each a "CPC District" and collectively, "CPC Districts") and the District on March 5th, 2015. The parties agreed that the District will undertake construction administration services on behalf of the CPC Districts, and will be responsible for the construction of the public improvements contemplated in the service plan for the CPC Districts. CPC District No. 1 agrees that it will authorize its District Representative to submit a project fund requisition for all eligible project costs upon request by the District for all amounts due under a contract awarded or anticipated to be awarded for the construction of public improvements benefitting the CPC Districts. The Boards of Directors of the CPC Districts agree that the District may utilize such funds for any eligible project costs in its discretion. No amount was requisitioned by the District from CPC District No. 1 during 2020.

The Agreement shall be effective upon execution hereof by all the parties and shall terminate at such time that construction of public improvements is complete and all warranties have run, or no further proceeds remain available in CPC District No. 1's Bond Issuance Project Fund.

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 9 AGREEMENTS (CONTINUED)

Capital Pledge Agreement

On August 25, 2015, the Districts and the Trustee entered into a Capital Pledge Agreement in order to generate additional revenue pledged to payment of the Series 2015A Bonds. Pursuant to the agreement, District No. 3 has agreed to pay its 2015 Property Tax Revenue generated by the debt service mill levy to the Trustee, and the District (under certain limited conditions) and District No. 3 are obligated to impose ad valorem property taxes in an amount equal to the District Debt Service Mill Levy, and pay the proceeds and Specific Ownership Tax Revenues as a result of the District Debt Service Mill Levy to the Trustee.

Master Escrow Agreement

The Master Escrow Agreement was entered into on August 25, 2015 by the Districts, Town of Castle Rock, Land Title Guarantee Company, and Promenade Castle Rock, LLC. The District and the Town of Castle Rock appointed an Escrow Agent that established two accounts (1) the Promenade 2015 Bond Proceeds Account and (2) the Developer Advances Account.

The District will deposit all amounts permitted to be released from the Bond Project Fund under the terms of the Indenture with the Escrow Agent from the net proceeds of the Limited Tax General Obligation Bonds, Series 2015A and Taxable Special Revenue Bonds Series 2015B.

The Developer will deposit additional monies with the Escrow Agent for purposes of advancing monies for the benefit of the District as required by the Town of Castle Rock that are not otherwise available from the Districts or able to be released from the Project Fund, or to fund costs that do not constitute Eligible Costs. Both accounts combined must have a continuing balance at least equal to the Minimum Surety Balance required by the Town of Castle Rock. Funds in excess of the minimum balance may be used for project costs. The Escrow accounts held by the Escrow Agent are recorded in District No. 1's financial statements.

During 2020, the District has not incurred Developer related construction costs.

Site Development Agreement – Japanese Tree Lilac, LLC and Ledges Promenade at Castle Rock, LLC

On April 6, 2016, the District entered into the Site Development Agreement with Japanese Tree Lilac, LLC (Developer) and Ledges Promenade at Castle Rock, LLC (Ledges), for the purpose of allowing the Developer and/or Ledges to have a Takeover Right to provide for the site work that is not completed (i) by the site work completion dated of September 30, 2016 or (ii) upon completion, any portion of the site work is not certified by the Engineers or is not accepted by the Town and/or the County, as applicable, Ledges may give written notice of default to the Developer and the District. If the Developer and/or the District fail to cure the default, Ledges shall have the right (the Takeover Right), but not the obligation, to assume control of the construction of all or any designated portion of the incomplete site work and have the ability to seek reimbursement under the Infrastructure Reimbursement Agreement. As of December 31, 2020, the District has received no notice of default.

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 9 AGREEMENTS (CONTINUED)

Infrastructure Reimbursement Agreement – Ledges Promenade at Castle Rock, LLC

On April 6, 2016, the District entered into the Infrastructure Reimbursement Agreement with Ledges Promenade at Castle Rock, LLC (Property Owner) for the purpose of providing the Property Owner the ability to be reimbursed for any site work that may be completed by the Property Owner under the terms of the Site Development Agreement. As of December 31, 2020, there have been no requests for reimbursement.

Infrastructure Reimbursement Agreement – Sam’s West, Inc.

During 2016, the District entered into the Infrastructure Reimbursement Agreement with Sam’s West, Inc. (Sam’s) for the purpose of providing Sam’s the ability to be reimbursed for any site work that may be completed by Sam’s to the extent the District does not complete the same pursuant to the terms of the Development Agreement. As of December 31, 2020, there have been no requests for reimbursement.

NOTE 10 INTERFUND TRANSFERS

The transfer from the Capital Improvement fund to the General Fund was the result of the General fund paying for costs related to the Capital Improvement Fund.

NOTE 11 RISK MANAGEMENT

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

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

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

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 12 TAX, SPENDING, AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR), contains tax, spending, revenue and debt limitations that 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. As of December 31, 2019, the District had provided for but did not fund an Emergency Reserve, which may be a violation of the Constitutional Amendment.

On May 6, 2014, 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 TABOR.

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

NOTE 13 SUBSEQUENT EVENT

On April 15, 2021, Promenade at Castle Rock Metropolitan District No. 1. issued a Special Revenue Refunding and Improvement Tax Free Loan, Series 2021 (2021 Loan) in the amount of \$64,236,780. The proceeds from the sale of the 2021 Loan were used for the purposes of: (i) refunding the District No. 1 Series 2015 Bonds (ii) reimbursing the Developer for the advancement of funds for financing costs related to capital infrastructure improvements; (iii) providing the Reserve Fund; (iv) paying the costs of issuing the 2021 Loan; and (v) providing new funds for the Project Fund. \$19,844,501 of the 2021 Loan proceeds were transferred to the District to repay the District's capital developer advance principal and interest outstanding.

SUPPLEMENTARY INFORMATION

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO 2
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2020**

	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Total Revenues	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Capital Outlay - Current:				
Accounting	-	582	582	-
Capital Outlay	-	88,688	88,688	-
Total Expenditures	-	89,270	89,270	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(89,270)	(89,270)	-
OTHER FINANCING SOURCES (USES)				
Developer Advance	-	61,432	61,432	-
Transfers from Other Funds	-	233,925	233,925	-
Total Other Financing Sources (Uses)	-	295,357	295,357	-
NET CHANGE IN FUND BALANCE	-	206,087	206,087	-
Fund Balance (Deficit) - Beginning of Year	-	(206,087)	(206,087)	-
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**PROMENADE AT CASTLE ROCK
METROPOLITAN DISTRICT NO. 3
Douglas County, Colorado**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2020

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 3
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YEAR ENDED DECEMBER 31, 2020**

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Dazzio & Associates, PC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Promenade at Castle Rock Metropolitan District No. 3
Douglas County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Promenade at Castle Rock Metropolitan District No. 3 as of and for the year December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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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 Promenade at Castle Rock Metropolitan District No. 3, as of December 31, 2020, and the respective changes in financial position and the 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 Promenade at Castle Rock Metropolitan District No. 3's basic financial statements. The budget to actual schedule for the Debt Service Fund (the Supplementary Information) and the Schedule of Assessed Valuation, Mill Levy and Property Taxes Collected (the Other Information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The Other Information 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.

Duggio & Associates, P.C.

September 9, 2021

BASIC FINANCIAL STATEMENTS

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 3
STATEMENT OF NET POSITION
DECEMBER 31, 2020**

	Governmental Activities
ASSETS	
Cash and Investments - Restricted	\$ 1
Property Taxes Receivable	3,034,755
Due from District No. 1	777
Due from District No. 2	194
Total Assets	3,035,727
LIABILITIES	
Due to County	971
Total Liabilities	971
DEFERRED INFLOWS OF RESOURCES	
Deferred Property Tax Revenue	3,034,755
Total Deferred Inflows of Resources	3,034,755
NET POSITION	
Total Net Position	\$ 1

See accompanying Notes to Basic Financial Statements.

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 3
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020**

		Program Revenues			Net Revenue (Expense) and Change in Net Position
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
FUNCTIONS/PROGRAMS					
Primary Government:					
Government Activities:					
General Government	\$ 3,081,706	\$ -	\$ -	\$ -	\$ (3,081,706)
Total Government Activities	\$ 3,081,706	\$ -	\$ -	\$ -	(3,081,706)
 GENERAL REVENUES					
Property Taxes					2,817,328
Specific Ownership					234,678
Net Investment Income					29,701
Total General Revenues					3,081,707
 CHANGE IN NET POSITION					
Net Position - Beginning of Year					-
NET POSITION - END OF YEAR					\$ 1

See accompanying Notes to Basic Financial Statements.

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 3
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2020**

	General	Debt Service	Total Governmental Funds
ASSETS			
Cash and Investments - Restricted	\$ -	\$ 1	\$ 1
Due from District No. 1	-	777	777
Due from District No. 2	194	-	194
Property Taxes Receivable	606,951	2,427,804	3,034,755
Total Assets	\$ 607,145	\$ 2,428,582	\$ 3,035,727
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Due to County	\$ 194	\$ 777	\$ 971
Total Liabilities	194	777	971
DEFERRED INFLOWS OF RESOURCES			
Deferred Property Tax Revenue	606,951	2,427,804	3,034,755
Total Deferred Inflows of Resources	606,951	2,427,804	3,034,755
FUND BALANCES			
Restricted for:			
Debt Service	-	1	1
Total Fund Balances	-	1	1
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 607,145	\$ 2,428,582	\$ 3,035,727

Amounts reported for governmental activities in the statement of net position are the same as above.

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2020**

	General	Debt Service	Total Governmental Funds
REVENUES			
Property Taxes	\$ 563,465	\$ 2,253,863	\$ 2,817,328
Specific Ownership Taxes	46,935	187,743	234,678
Net Investment Income	5,940	23,761	29,701
Total Revenues	616,340	2,465,367	3,081,707
EXPENDITURES			
Current:			
County Treasurer's Fees	8,509	34,038	42,547
Intergovernmental Expenditures - District No. 1	-	2,431,328	2,431,328
Intergovernmental Expenditures - District No. 2	607,831	-	607,831
Total Expenditures	616,340	2,465,366	3,081,706
NET CHANGE IN FUND BALANCES	-	1	1
Fund Balances - Beginning of Year	-	-	-
FUND BALANCES - END OF YEAR	\$ -	\$ 1	\$ 1

Amounts reported for governmental activities in the statement of activities are the same as above.

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 3
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2020**

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property Taxes	\$ 575,795	\$ 563,465	\$ (12,330)
Specific Ownership Taxes	51,822	46,935	(4,887)
Net Investment Income	7,383	5,940	(1,443)
Total Revenues	<u>635,000</u>	<u>616,340</u>	<u>(18,660)</u>
EXPENDITURES			
Current:			
County Treasurer's Fees	8,637	8,509	128
Contingency	1,738	-	1,738
Intergovernmental Expenditures - District No. 2	<u>624,625</u>	<u>607,831</u>	<u>16,794</u>
Total Expenditures	<u>635,000</u>	<u>616,340</u>	<u>18,660</u>
NET CHANGE IN FUND BALANCES	-	-	-
Fund Balance - Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying Notes to Basic Financial Statements.

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 DEFINITION OF REPORTING ENTITY

Promenade at Castle Rock Metropolitan District No. 3 (the District), a quasi-municipal corporation and political subdivision of the state of Colorado was organized by order and decree of the District Court of Douglas County on June 23, 2014, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District operates under a Consolidated Service Plan for the District, Promenade at Castle Rock Metropolitan District No. 1, and Promenade at Castle Rock Metropolitan District No. 2 (collectively, the Districts), approved by the Town of Castle Rock, Colorado on January 7, 2014. The District's service area is located entirely within the Town of Castle Rock, Douglas County, Colorado (the Town). The District was established for the purpose of financing and providing public improvements and related operations and maintenance services within and outside of the boundaries of the District. The public improvements include water, streets, sanitation, parks and recreation, traffic and safety controls, transportation, mosquito and pest control, and television relay and translator.

Pursuant to a Capital Pledge Agreement, the District (the Taxing District) has limited tax general obligations to Promenade at Castle Rock Metropolitan District No. 1 (see Note 7). Property taxes to be generated from the Taxing District debt service mill levies, including specific ownership taxes to be received as a result of imposition of such mill levies, are expected to be transferred, net of fees, to Promenade at Castle Rock Metropolitan District No. 1 to pay for debt service expenditures. District No. 2 is considered the Operating District.

The District's service plan allows for the ability to pay for administration, operations, and maintenance associated with the Public Improvements as necessary from the District Operating Revenue. The General Fund Mill Levy at December 31, 2020, was 10.000 mills and the Property taxes generated, net of fees, were transferred to District No. 2, the Operating District, pursuant to the District Administrative Services Agreement which pays all administrative expenditures for the District.

For the year 2020, the maximum debt mill levy allowed by the service plan is 50.000 mills as adjusted for changes in the method of calculating assessed value. The Maximum Debt Mill Levy at December 31, 2020, was 40.000 mills.

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

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

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

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-Wide and Fund Financial Statements

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

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes and specific ownership taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. The District determined that Developer advances are not considered as revenue susceptible to accrual. Expenditures, other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation is due.

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The District reports the following major governmental funds:

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

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

Budgets

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

Pooled Cash and Investments

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

Property Taxes

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

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

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows of Resources

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

Equity

Net Position

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

Fund Balance

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned.

Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

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

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

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

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

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity (Continued)

Fund Balance (Continued)

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

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

NOTE 3 CASH AND INVESTMENTS

Cash and investments as of December 31, 2020, are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Investments - Restricted	\$ 1
Total Cash and Investments	\$ 1

Cash and investments as of December 31, 2020, consist of the following:

Investments	\$ 1
Total Cash and Investments	\$ 1

Deposits with Financial Institutions

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

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

At December 31, 2020, the District had no deposits with financial institutions.

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Investments

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

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

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

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

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

As of December 31, 2020, the District had the following investments:

Investment	Maturity	Amount
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted-Average Under 60 Days	\$ 1

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

CSAFE

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE) (the Trust), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all state statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds, and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE is rated AAA by Standard & Poor's. CSAFE records its investments at amortized cost and the District records its investments in CSAFE at net asset value as determined by amortized cost. There are no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

NOTE 4 LONG-TERM OBLIGATIONS

Authorized Debt

On May 6, 2014, a majority of the qualified electors of the District who voted in the election authorized the issuance of indebtedness in an amount not to exceed \$620,000,000, at an interest rate not to exceed 18% per annum. At December 31, 2020, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	Amount Authorized on May 6, 2014	Authorized but Unissued at December 31, 2020
Streets	\$ 40,000,000	\$ 40,000,000
Park and Recreation	40,000,000	40,000,000
Water	40,000,000	40,000,000
Sanitation and Storm Sewer	40,000,000	40,000,000
Transportation	40,000,000	40,000,000
Mosquito Control	20,000,000	20,000,000
Traffic and Safety Controls	40,000,000	40,000,000
Fire Protection	40,000,000	40,000,000
TV Relay	40,000,000	40,000,000
Security	40,000,000	40,000,000
Operations and Maintenance	40,000,000	40,000,000
Refunding	200,000,000	200,000,000
Total	<u>\$ 620,000,000</u>	<u>\$ 620,000,000</u>

Pursuant to the Service Plan, the Districts are permitted to issue bonds indebtedness of up to \$28,800,000 as may be required by the Public Finance Agreement.

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 3
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2020**

NOTE 5 NET POSITION

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

The restricted component of net position consists of assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net position as of December 31, 2020, as follows:

	Governmental Activities
Restricted Net Position:	
Debt Service	\$ 1
Total Restricted Net Position	\$ 1

The District's unrestricted net position as of December 31, 2020, is \$0.

NOTE 6 RELATED PARTY

The Developer of the property which constitutes the District is Promenade at Castle Rock, LLC. The members of the Board of Directors are employees, owners, or are otherwise associated with the Developer and its affiliates and may have conflicts of interest in dealing with the District.

NOTE 7 AGREEMENTS

Development Agreement

In 2015, the District entered into the Promenade at Castle Rock Development Agreement with the Town of Castle Rock, Promenade Castle Rock, LLC and District Nos. 1 and 2. The Development Agreement generally governs, without limitation, the development of the property in and facilities for the Development, the provision of municipal services by the Town, and water rights relating to property in the Development. Additionally, the Development Agreement establishes a cash construction escrow (the Escrow) as surety for the construction of public improvements in the Development.

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 7 AGREEMENTS (CONTINUED)

Master Intergovernmental Agreement

On September 25, 2014, the District, District Nos. 1 and 2 and the Town entered into the Town of Castle Rock/Promenade at Castle Rock Metropolitan District Nos. 1 – 3 Master Intergovernmental Agreement (the Master Intergovernmental Agreement), which generally governs the relationship between the Town and the Districts and sets the parameters of the Districts' authority to finance and construct public improvements. The Master Intergovernmental Agreement states that the Districts have the authority to construct and finance public improvements in accordance with the standards and procedures set forth in the Service Plan, Public Finance Agreement, and the Town Requirements (generally defined as the rules and regulations of the Town, including those relating to zoning and land use). Pursuant to the Master Intergovernmental Agreement, the Districts agree to convey public facilities to the Town, and the Town agrees to operate, maintain, repair, and replace the facilities. The Master Intergovernmental Agreement further provides that the Districts shall only issue bonds in accordance with the Public Finance Agreement, the Service Plan, the Special District Act, and other laws of the state of Colorado.

Amended and Restated Declaration of Covenants Imposing and Implementing the Promenade at Castle Rock Public Improvement Fee

On August 17, 2015, Promenade Castle Rock, LLC (the Declarant) entered into the Amended and Restated Declaration of Covenants Imposing and Implementing the Promenade at Castle Rock Public Improvement Fee, which replaced the Original PIF Covenant dated April 16, 2015. The Declaration of Covenants is imposed in consideration of the benefits to be provided to the Property with respect to construction, installation, operation, and maintenance of Project Improvements, (i) Declarant has agreed to impose a public improvement fee on the Property and (ii) the Town has agreed to credit a portion of the total Sales Tax due on PIF Sales occurring within the Property on which the Credit PIF is collected. The Declarant has pledged the PIF Revenues to the District for repayment of the Districts Series 2015 Bonds. The Add-On PIF initial amount is 0.25% and it will not exceed 0.50% of PIF Sales. The Credit PIF amount is 1.10% of PIF Sales.

Public Finance Agreement

On January 7, 2014, the District, the Developer, and the Town entered into the Public Finance Agreement, which agreement was amended and restated as the Amended and Restated Public Finance Agreement dated as of February 17, 2015, as amended by a First Amendment dated August 4, 2015 (as amended, the Public Finance Agreement). The Public Finance Agreement governs certain aspects of the Development, financing for the Development including the issuance of the Bonds, and regulatory approvals issued by the Town for the Development.

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 7 AGREEMENTS (CONTINUED)

Public Finance Agreement (Continued)

The Public Finance Agreement permits the issuance of "District Bonds", which is defined as one or more series of bonds issued or incurred by any of the Districts to finance or refinance the Eligible Costs in accordance with the terms and provisions of the Public Finance Agreement, including any bonds, other financial obligations, or securities issued by any of the Districts to refund the District Bonds, but specifically exclusive of any Reimbursement Agreement entered into between the Developer and any of the Districts. Notwithstanding the foregoing, or any other provision to the contrary, District Bonds shall not be refinanced without the written consent of the Town.

The Public Finance Agreement provides that District Bonds shall be issued in an amount not exceeding \$28,800,000 of Net Proceeds to pay Eligible Costs, subject to adjustment as provided in the Pledge Agreement. "Net Proceeds" is generally defined as net proceeds of one or more series of District Bonds in an amount not exceeding \$28,800,000 used to pay or reimburse Eligible Costs.

The District and District No. 1 (and to the extent hereinafter provided, District No. 2), covenant to impose the District Debt Service Mill Levy in the amount of not less than 40 mills and not more than 47 mills, as hereinafter provided, for so long as any District Bonds remain outstanding, and further covenant to pledge and cause remittance of the District Debt Service Mill Levy to the District Bond Trustee for such outstanding District Bonds. To the extent that the Add-On PIF Revenues are pledged 100% to the payment of outstanding District Bonds, the District Debt Service Mill Levy imposed by such Districts shall be no less than 40 mills. To the extent that less than 100% of the Add-On PIF Revenue is pledged to the payment of outstanding District Bonds, the District Debt Service Mill Levy imposed by such Districts shall be increased above 40 mills, up to a maximum of 47 mills. Each such District further covenants that so long as any District Bonds remain outstanding, that each such District will remit all District Specific Ownership Taxes to the District Bond Trustee for payment of outstanding District Bonds.

The Developer agrees to impose the Credit PIF and the Add-On PIF and to irrevocably assign the Pledged PIF Revenue and any amount of Remaining Add-On PIF Revenue that may be included in District Operating Revenue to the District designated in the District Bond Documents, through and until the payment in full of the District Bonds. The Add-On PIF means the public improvement fee in the amount of not less than 0.25% and not more than 0.50% of PIF Sales. The Credit PIF means the public improvement fee in the amount of 1.10% of PIF Sales. The District Operating Revenue will be used to pay the normal and reasonable operating and maintenance expenses of the Districts or for any other lawful purpose. District Operating Revenue means revenue produced by the Districts' imposition of a mill levy to pay the operations and maintenance expenses of any of the Districts, and certain Add-On PIF Revenue not pledged to pay District Bonds, as allowed under the District Bond Documents from time to time.

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 7 AGREEMENTS (CONTINUED)

District Administrative Services Agreement

On March 5, 2015, the District entered into the District Administrative Services Agreement which provides that District No. 2 shall be solely responsible for the management, execution, and administration of the construction of the Public Improvements on behalf of the Districts. For the purpose of completing all or a portion of the Project, District No. 2 has entered into and anticipates entering into multiple contracts.

In order to fund the Administrative Costs, The District and District No. 1 (the Financing Districts) agree to levy on all of the taxable property of the Financing Districts, in addition to all other taxes, direct annual taxes to the extent necessary to provide for payment of the Administrative Costs, in the amount of the Required Mill Levy, or a lesser amount as determined by District No.2. In addition, the Financing Districts agree to remit any available PIF Revenues, fees or other Revenues to District No. 2 to fund the Administrative Costs.

Capital Pledge Agreement

On August 25, 2015, the Districts and the Trustee entered into a Capital Pledge Agreement in order to generate additional revenue pledged to payment of the Series 2015A Bonds, issued by District No. 1. Pursuant to the agreement, the District has agreed to pay its Property Tax Revenue generated by the debt service mill levy to the Trustee, and District No. 2 (under certain limited conditions) and the District are obligated to impose ad valorem property taxes in an amount equal to the District Debt Service Mill Levy, and pay the proceeds and Specific Ownership Tax Revenues as a result of the District Service Mill Levy to the Trustee.

NOTE 8 RISK MANAGEMENT

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

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

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

PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 9 TAX, SPENDING, AND DEBT LIMITATIONS

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

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

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the Emergency Reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. The District transfers its net operating revenue to District No. 2. Therefore, the Emergency Reserves related to the District's revenues are reported in District No. 2.

On May 6, 2014, a majority of the District's electors authorized the District to collect, spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under TABOR.

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

SUPPLEMENTARY INFORMATION

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 3
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2020**

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property Taxes	\$ 2,303,182	\$ 2,253,863	\$ (49,319)
Specific Ownership Taxes	207,286	187,743	(19,543)
Net Investment Income	-	23,761	23,761
Other Income	24,532	-	(24,532)
Total Revenues	<u>2,535,000</u>	<u>2,465,367</u>	<u>(69,633)</u>
EXPENDITURES			
Current:			
County Treasurer's Fees	34,548	34,038	510
Contingency	1,951	-	1,951
Intergovernmental Expenditures - District No. 1	2,498,501	2,431,328	67,173
Total Expenditures	<u>2,535,000</u>	<u>2,465,366</u>	<u>69,634</u>
NET CHANGE IN FUND BALANCES	-	1	1
Fund Balance - Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 1</u>

OTHER INFORMATION

**PROMENADE AT CASTLE ROCK METROPOLITAN DISTRICT NO. 3
SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED
DECEMBER 31, 2020**

Year Ended <u>December 31.</u>	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied		Total Property Taxes		Percentage Collected to Levied
		Operations	Debt Service	Levied	Collected	
2016	\$ 2,234,860	10.000	40.000	\$ 111,743	\$ 82,856	74.15%
2017	9,138,350	10.000	40.000	456,918	470,097	102.88%
2018	30,954,210	10.000	40.000	1,547,710	1,513,970	97.82%
2019	39,964,940	10.000	40.000	1,998,247	1,917,418	95.96%
2020	57,579,540	10.000	40.000	2,878,977	2,817,328	97.86%
Estimated for the Year Ending <u>December 31.</u> 2021	\$ 60,695,110	10.000	40.000	\$ 3,034,755		

NOTE: Property taxes shown as collected in any one year include collection of delinquent property taxes or abatements of property taxes assessed in prior years. This presentation does not attempt to identify specific years of assessments. Information received from the County Treasurer does not permit identification of specific year of levy.