

**CASTLE OAKS METROPOLITAN DISTRICT NO. 3  
Douglas County, Colorado**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2019**

**CASTLE OAKS METROPOLITAN DISTRICT NO. 3  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Castle Oaks Metropolitan District No. 3  
Douglas County, Colorado

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Castle Oaks Metropolitan District No. 3, as of December 31, 2019, and the respective changes in financial position thereof, 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.

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**Fiscal Focus Partners, LLC**

## **Other Matters**

### *Required Supplementary Information*

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement 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 District's basic financial statements. The supplementary information and other information (together, the information) as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Fiscal Focus Partners, LLC*

Greenwood Village, Colorado  
July 13, 2020

## **BASIC FINANCIAL STATEMENTS**

**CASTLE OAKS METROPOLITAN DISTRICT NO. 3  
STATEMENT OF NET POSITION  
DECEMBER 31, 2019**

	Governmental Activities
<b>ASSETS</b>	
Cash and Investments	\$ 3,719
Cash and Investments - Restricted	2,914,711
Receivable from County Treasurer	5,894
Property Taxes Receivable	1,148,698
Total Assets	4,073,022
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Cost of Bond Refunding	3,517,743
Total Deferred Outflows of Resources	3,517,743
 <b>LIABILITIES</b>	
Accounts Payable	14,201
Accrued Interest Payable	142,104
Noncurrent Liabilities	
Due in More Than One Year	34,490,649
Total Liabilities	34,646,954
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred Property Tax Revenue	1,148,698
Total Deferred Inflows of Resources	1,148,698
 <b>NET POSITION</b>	
Restricted For:	
Emergency Reserves	1,800
Debt Service	6,229
Unrestricted	(28,212,916)
Total Net Position	\$ (28,204,887)

See accompanying Notes to Basic Financial Statements.

**CASTLE OAKS METROPOLITAN DISTRICT NO. 3  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2019**

<b>FUNCTIONS/PROGRAMS</b>	Expenses	Program Revenues			Net Revenues (Expenses) and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental Activities:					
General Government	\$ 62,254	\$ -	\$ -	\$ -	\$ (62,254)
Interest and Related Costs on Long-Term Debt	1,896,265	-	-	836,000	(1,060,265)
Dedication of Capital Assets to Other Governments	28,163,939	-	-	-	(28,163,939)
Total Governmental Activities	\$ 30,122,458	\$ -	\$ -	\$ 836,000	(29,286,458)
 <b>GENERAL REVENUES</b>					
Property Taxes					648,284
Specific Ownership Taxes					65,023
Net Investment Income					64,088
Total General Revenues and Special Items					777,395
 <b>CHANGE IN NET POSITION</b>					
Net Position -Beginning of Year					304,176
 <b>NET POSITION - END OF YEAR</b>					
					\$ (28,204,887)

See accompanying Notes to Basic Financial Statements.

**CASTLE OAKS METROPOLITAN DISTRICT NO. 3  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2019**

	General	Debt Service	Total Governmental Funds
<b>ASSETS</b>			
Cash and Investments	\$ 3,719	\$ -	\$ 3,719
Cash and Investments - Restricted	1,800	2,912,911	2,914,711
Receivable from County Treasurer	472	5,422	5,894
Property Taxes Receivable	91,893	1,056,805	1,148,698
Total Assets	\$ 97,884	\$ 3,975,138	\$ 4,073,022
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts Payable	\$ 14,201	\$ -	\$ 14,201
Total Liabilities	14,201	-	14,201
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Property Tax Revenue	91,893	1,056,805	1,148,698
Total Deferred Inflows of Resources	91,893	1,056,805	1,148,698
<b>FUND BALANCES</b>			
Restricted For:			
Emergency Reserves	1,800	-	1,800
Debt Service	-	2,918,333	2,918,333
Unassigned	(10,010)	-	(10,010)
Total Fund Balances (Deficit)	(8,210)	2,918,333	2,910,123
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 97,884	\$ 3,975,138	

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	(34,105,000)
Bond Premium (Net of Amortization)	(268,358)
Bond Interest Payable	(142,104)
Deferred Cost on Bond Refunding	3,517,743
Developer Advances Payable	(100,000)
Accrued Interest on Developer Advances	(17,291)
	(38,614,910)
Net Position of Governmental Activities	\$ (28,204,887)

See accompanying Notes to Basic Financial Statements.

**CASTLE OAKS METROPOLITAN DISTRICT NO. 3**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2019**

	General	Debt Service	Total Governmental Funds
<b>REVENUES</b>			
Property Taxes	\$ 51,861	\$ 596,423	\$ 648,284
Specific Ownership Taxes	5,202	59,821	65,023
Facility Fees	-	836,000	836,000
Net Investment Income	142	63,946	64,088
Total Revenues	57,205	1,556,190	1,613,395
<b>EXPENDITURES</b>			
Current:			
Accounting	28,358	-	28,358
Audit	5,950	-	5,950
County Treasurer's Fees	778	8,948	9,726
Insurance and Bonds	3,388	-	3,388
Dues and Subscriptions	306	-	306
Legal	23,474	-	23,474
Debt Service:			
Paying Agent Fees	-	3,500	3,500
Bond interest Series 2017	-	1,705,250	1,705,250
Total Expenditures	62,254	1,717,698	1,779,952
<b>NET CHANGE IN FUND BALANCES</b>	(5,049)	(161,508)	(166,557)
Fund Balances - Beginning of Year	(3,161)	3,079,841	3,076,680
<b>FUND BALANCES - END OF YEAR</b>	\$ (8,210)	\$ 2,918,333	\$ 2,910,123

See accompanying Notes to Basic Financial Statements.

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

Net Changes in Fund Balances - Total Governmental Funds \$ (166,557)

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 expense the allocation of any cost of any depreciable asset over the estimated useful life of the asset.

Dedication of Capital Assets to Other Governments (28,163,939)

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 Developer Advances - Change in Liability (7,000)

Amortization of Bond Premium 13,281

Amortization of Costs of Refunding (184,848)

Change in Net Position of Governmental Activities \$ (28,509,063)

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

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property Taxes	\$ 51,861	\$ 51,861	\$ 51,861	\$ -
Specific Ownership Taxes	5,190	5,202	5,202	-
Interest Income	-	142	142	-
Total Revenues	<u>57,051</u>	<u>57,205</u>	<u>57,205</u>	<u>-</u>
<b>EXPENDITURES</b>				
Accounting	15,000	28,358	28,358	-
Audit	5,900	5,950	5,950	-
County Treasurer's Fees	780	778	778	-
Dues and Licenses	350	306	306	-
Insurance and Bonds	3,600	3,388	3,388	-
Legal	30,000	23,474	23,474	-
Contingency	370	-	-	-
Total Expenditures	<u>56,000</u>	<u>62,254</u>	<u>62,254</u>	<u>-</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	1,051	(5,049)	(5,049)	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Developer Advance	7,000	-	-	-
Total Other Financing Sources (Uses)	<u>7,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	8,051	(5,049)	(5,049)	-
Fund Balance - Beginning of Year	<u>(5,841)</u>	<u>(3,161)</u>	<u>(3,161)</u>	<u>-</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 2,210</u>	<u>\$ (8,210)</u>	<u>\$ (8,210)</u>	<u>\$ -</u>

See accompanying Notes to Basic Financial Statements.

**CASTLE OAKS METROPOLITAN DISTRICT NO. 3**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 1 DEFINITION OF REPORTING ENTITY**

Castle Oaks Metropolitan District No. 3 (the District), a quasi-municipal corporation and a political subdivision of the State of Colorado, was organized by court order and decree of the District Court for the County of Douglas on June 27, 2006 and is governed pursuant to the provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District is located within the Town of Castle Rock, Colorado.

The District was established to provide financing for the operations and maintenance and design, acquisition, installation, construction, and completion of public improvements and services, including water, sanitation/storm sewer, streets, park and recreation, transportation, mosquito control, safety protection, television relay and translation, and security.

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

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

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

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Government-Wide and Fund Financial Statements**

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

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.

**CASTLE OAKS METROPOLITAN DISTRICT NO. 3  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Government-Wide and Fund Financial Statements (Continued)**

Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

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

**Budgets**

In accordance with the State Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures and other financing uses level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The total 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.

**CASTLE OAKS METROPOLITAN DISTRICT NO. 3  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Budgets (Continued)**

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

**Pooled Cash and Investments**

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

**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 a deferred inflow of resources in the year they are levied and measurable. The deferred property tax revenues are recorded as revenue in the year they are available or collected.

**Facilities Fees**

On March 5, 2015, the District adopted a Resolution regarding the Imposition of Facilities Fees. The Facilities Fees are in the amount of: (i) \$4,000 per Type I residential unit, which includes single-family detached residences, single-family attached residences, townhomes and patio homes; and (ii) \$1,500 per Type II residential unit, which includes apartments or other multi-family residences. The Facilities Fees are payable to the District on or before the issuance of a building permit for the subject property. Real property conveyed to and/or owned by homeowners' associations is exempt from the Facilities Fee. In addition, Facilities Fees are not to be collected from any property within the District that is to be developed for non-residential purposes, such as the streets and roadways, clubhouse, commercial development, and similar nonresidential property, and shall not be imposed on real properties conveyed to and/or owned by a homeowners association.

**Capital Assets**

Capital assets, which include infrastructure assets, are reported in the applicable governmental activities column 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.

**CASTLE OAKS METROPOLITAN DISTRICT NO. 3**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Capital Assets (Continued)**

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 the net investment in capital assets component of the District's net position.

**Amortization**

**Original Issue Premium**

In the government-wide financial statements, bond premiums 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 premiums, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

**Cost of Bond Refunding**

In the government-wide financial statements, the deferred cost of bond refunding is being amortized using the interest method over the life of the new bonds. The amortization amount is a component of interest expense and the unamortized deferred cost is reflected as a deferred out of resources on the statement of net position.

**Deferred Inflow/Outflow of Resources**

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The government only has one item that qualifies for reporting in this category, the cost of bond refunding.

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.

**CASTLE OAKS METROPOLITAN DISTRICT NO. 3**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Equity (Continued)**

Fund Balance

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

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

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

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

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

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

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

**Deficit**

The General Fund reported a deficit in the fund financial statements as of December 31, 2019. The deficit in the fund financial statements as of December 31, 2019 was eliminated with the receipt of property tax revenues in 2020. Per the adopted 2020 budget, due to the increase of projected assessed valuations of property within the District and the resulting increase in property tax revenues, the District does not anticipate needing developer advances in 2020 to fund operations. The adopted 2020 budget anticipates receiving revenues in excess of expenditures such that the excess will remedy the deficit ending fund balance as of December 31, 2019 and will result in the subsequent year's ending fund balance to be in excess of TABOR Emergency Reserve requirements and to serve as an operating reserve.

**CASTLE OAKS METROPOLITAN DISTRICT NO. 3**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 3 CASH AND INVESTMENTS**

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

Statement of Net Position:

Cash and Investments	\$ 3,719
Cash and Investments - Restricted	<u>2,914,711</u>
Total Cash and Investments	<u><u>\$ 2,918,430</u></u>

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

Deposits with Financial Institutions	\$ 5,114
Investments	<u>2,913,316</u>
Total Cash and Investments	<u><u>\$ 2,918,430</u></u>

**Deposits with Financial Institutions**

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

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

At December 31, 2019, the District had a bank balance of \$5,114 and a carrying balance of \$5,114.

**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.

**CASTLE OAKS METROPOLITAN DISTRICT NO. 3  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2019**

**NOTE 3 CASH AND INVESTMENTS (CONTINUED)**

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

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

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

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted Average Under 60 Days	<u>\$ 2,913,316</u>

**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 as amortized cost. There are no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

**CASTLE OAKS METROPOLITAN DISTRICT NO. 3  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 4 CAPITAL ASSETS**

An analysis of the changes in property for the period ended December 31, 2019, follows:

	Balance at December 31, 2018	Additions	Deletions	Balance at December 31, 2019
Governmental Type Activities:				
Capital Assets Not Being Depreciated:				
Construction In Progress	\$ 28,163,939	\$ -	\$ 28,163,939	\$ -
Total Capital Assets, Not Being Depreciated	<u>\$ 28,163,939</u>	<u>\$ -</u>	<u>\$ 28,163,939</u>	<u>\$ -</u>

**NOTE 5 LONG-TERM OBLIGATIONS**

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

	Balance at December 31, 2018	Additions	Retirement of Long-Term Obligations	Balance at December 31, 2019	Due Within One Year
G.O. Bonds - Series 2017	\$ 34,105,000	\$ -	\$ -	\$ 34,105,000	\$ -
Developer Advances	100,000	-	-	100,000	-
Accrued Interest - Developer Advances	10,291	7,000	-	17,291	-
Bond Premium	281,639	-	13,281	268,358	-
	<u>\$ 34,496,930</u>	<u>\$ 7,000</u>	<u>\$ 13,281</u>	<u>\$ 34,490,649</u>	<u>\$ -</u>

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

**General Obligation Limited Tax Refunding Bonds - Series 2017**

On December 28, 2017, the District issued its General Obligation Limited Tax Refunding Bonds, Series 2017 (the Bonds), in the aggregate amount of \$34,105,000, with an original issue premium of \$293,924. The proceeds from the sale of the Bonds will be used for purposes of: (i) advance refunding \$17,800,000 of General Obligation Limited Tax Bonds, Series 2015, (ii) advance refunding \$13,370,000 of General Obligation Limited Tax Completion Bonds, Series 2016, (iii) funding the Reserve Fund, (iv) funding an initial deposit to the Surplus Fund, and (v) paying the costs of issuance on the Bonds.

The Bonds include a \$12,325,000 term bond maturing on December 1, 2037, and a \$21,780,000 term bond maturing on December 1, 2047 with an interest rate of 5.00% (a yield of 4.83%), and are payable semi-annually on June 1 and December 1, beginning on June 1, 2018. Annual mandatory sinking fund principal payments are due December 1, beginning on December 1, 2024. The Bonds have the option of early redemption starting on December 1, 2020, depending on the redemption date, the amount redeemed may be subject to a redemption premium. The premium starts at 3% for the first year and decreases by 1% every year thereafter.

**CASTLE OAKS METROPOLITAN DISTRICT NO. 3  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)**

**General Obligation Limited Tax Refunding Bonds - Series 2017 (Continued)**

The Series 2017 Bonds are secured by and payable solely from Pledged Revenue, net of any costs of collection, including: (i) property taxes derived from the Required Mill Levy; (ii) the Refunded Bonds Mill Levy revenue; (iii) Facilities fees; (iv) specific ownership taxes attributable to the Required Mill Levy; and, (v) any other legally available moneys of the District in its absolute discretion, credited to the Bond Fund.

The Series 2017 Bonds are also secured by amounts accumulated, if any, in the Surplus Fund. After the initial deposit from bond proceeds of \$1,385,000, any available pledge revenues are to be accumulated in the Surplus Fund up to a maximum surplus amount of \$5,115,750. As of December 31, 2019, the Surplus Fund balances was \$1,352,776.

Additionally, the Series 2017 is secured by amounts on deposit in the Reserve Fund. The Reserve Fund has a required balance of \$1,385,000. As of December 31, 2019, the Reserve fund balances was \$1,386,314.

The Indenture provides a Required Mill Levy be imposed in an amount sufficient, when combined with moneys held in the Bond Fund and moneys in the Surplus Fund, if any, in excess of the Minimum Surplus Amount to pay the principal of and interest on the Bonds, and to fund the Reserve Fund up to the Required Reserve, but not in excess of 74.402 mills (as adjusted) and for so long as the Surplus Fund is less than the Maximum Surplus Amount of \$5,115,750, not less than 50.855 mills (as adjusted). Such maximum and minimum mill levies are subject to adjustment per the Gallagher Amendment from January 9, 2001 and are currently 74.922 and 51.211, respectively.

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

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
Series 2017			
2020	\$ -	\$ 1,705,250	\$ 1,705,250
2021	-	1,705,250	1,705,250
2022	-	1,705,250	1,705,250
2023	-	1,705,250	1,705,250
2024	210,000	1,705,250	1,915,250
2025-2029	3,110,000	8,213,750	11,323,750
2030-2034	5,040,000	7,228,500	12,268,500
2035-2039	7,090,000	5,774,250	12,864,250
2040-2044	9,805,000	3,744,000	13,549,000
2045-2047	8,850,000	969,250	9,819,250
	<u>\$ 34,105,000</u>	<u>\$ 34,456,000</u>	<u>\$ 68,561,000</u>

**CASTLE OAKS METROPOLITAN DISTRICT NO. 3  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)**

At December 31, 2019, the District had authorized but unissued general obligation indebtedness in the following amounts for the following purposes:

	Authorized November 3rd, 2015 Election	Authorization Used - Series 2015 Bonds	Authorization Used - Series 2016 Bonds	Authorization Used - Series 2017 Bonds	Remaining at December 31, 2019
Streets	\$ 36,000,000	\$ 5,091,000	\$ 3,824,000	\$ -	\$ 27,085,000
Parks and Recreation	36,000,000	4,037,000	3,032,000	-	28,931,000
Water	36,000,000	3,536,000	2,656,000	-	29,808,000
Sewer	36,000,000	4,936,000	3,708,000	-	27,356,000
Transportation	36,000,000	-	-	-	36,000,000
Mosquito Control	36,000,000	-	-	-	36,000,000
Safety Protection	36,000,000	200,000	150,000	-	35,650,000
Television & Relay	36,000,000	-	-	-	36,000,000
Security	36,000,000	-	-	-	36,000,000
Operations	36,000,000	-	-	-	36,000,000
Refunding	36,000,000	-	-	34,105,000	1,895,000
IGA Debt	36,000,000	-	-	-	36,000,000
	<u>\$ 432,000,000</u>	<u>\$ 17,800,000</u>	<u>\$ 13,370,000</u>	<u>\$ 34,105,000</u>	<u>\$ 366,725,000</u>

**Debt Authorization**

On November 3, 2015, District voters authorized the District to issue \$432,000,000 of general obligation bonds or other financial obligations for the infrastructure development of the services noted in Note 1, however, the District's amended Service Plan limits its general obligation debt to \$36,000,000.

**NOTE 6 NET POSITION**

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

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 a restricted net position of \$1,800 for Emergency Reserves and \$6,229 for Debt Service.

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

The District has a deficit in unrestricted net position. This deficit amount is a result of the District being responsible for the repayment of bonds issued for public improvements which were conveyed to other governmental entities and which costs were removed from the District's financial records.

**CASTLE OAKS METROPOLITAN DISTRICT NO. 3**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 7 AGREEMENTS**

**Funding and Reimbursement Agreement**

The District, Castle Oaks Metropolitan District, Castle Oaks Metropolitan District No. 2, and the Developer entered into a reimbursement agreement on October 14, 2010, with the First Amendment and Extension occurring on January 1, 2012, which was amended and restated on December 16, 2015, to provide for the District's reimbursement amounts expended by the Developer on the District permitted costs, not to exceed the aggregate amount of \$450,000, through December 31, 2016 (the "Funding and Reimbursement Agreement"). The Districts agree to repay the Developer and to pay interest at the rate of 7.0% per annum from the date of any such advance. The agreement further provides, however, that the District's obligations do not constitute a debt of the Districts within the meaning of any constitutional or statutory provision, and all reimbursements to the Developer are subject to annual appropriation by the District.

Effective January 1, 2017, the District and the Developer executed the First Amendment and Extension of the Amended and Restated agreement, whereby the funding period was extended through December 31, 2018. During 2019, the District received \$0 in Developer advances. At December 31, 2019, the District owed \$100,000 for Developer advances and has accrued \$17,291 in interest.

**NOTE 8 RELATED PARTY**

The Developer of the property which constitutes the District is SLV Castle Oaks, L.L.C. Certain members of the Board of Directors are employees of, owners of, or otherwise associated with the Developer, and may have conflicts of interest in dealing with the District.

**NOTE 9 RISK MANAGEMENT**

Except as provided in the Colorado Governmental Immunity Act, §24-10-101, et seq., C.R.S., the District may be exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

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

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

**CASTLE OAKS METROPOLITAN DISTRICT NO. 3**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 10 TAX, SPENDING AND DEBT LIMITATIONS**

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

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

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the Emergency Reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. 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 November 3, 2015, the District's voters approved for an annual increase in taxes of \$10,000,000 for general operations and maintenance without limitation of rate. This election question allowed the District to collect and spend the additional revenue without regard to any spending, revenue raising, or other limitations contained within 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**

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

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Property Taxes	\$ 596,421	\$ 596,423	\$ 2
Specific Ownership Taxes	59,640	59,821	181
Facility Fees	1,252,000	836,000	(416,000)
Interest Income	40,000	63,946	23,946
Total Revenues	<u>1,948,061</u>	<u>1,556,190</u>	<u>(391,871)</u>
<b>EXPENDITURES</b>			
County Treasurer's Fees	8,950	8,948	2
Bond Interest Series 2017	1,705,250	1,705,250	-
Contingency	3,800	-	3,800
Paying Agent Fees	7,000	3,500	3,500
Total Expenditures	<u>1,725,000</u>	<u>1,717,698</u>	<u>7,302</u>
<b>NET CHANGE IN FUND BALANCE</b>	223,061	(161,508)	(384,569)
Fund Balance - Beginning of Year	<u>2,827,487</u>	<u>3,079,841</u>	<u>252,354</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 3,050,548</u>	<u>\$ 2,918,333</u>	<u>\$ (132,215)</u>

## **OTHER INFORMATION**

**CASTLE OAKS METROPOLITAN DISTRICT NO. 3  
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY  
DECEMBER 31, 2019**

Bonds and Interest Maturing in the Year Ending December 31,	\$34,105,000 General Obligation Refunding Bonds Dated December 28, 2017 Series 2017 Interest Rate of 5.000% Interest Payable June 1 and December 1 Principal Payable December 1		
	Principal	Interest	Total
2020	\$ -	\$ 1,705,250.00	\$ 1,705,250.00
2021	-	1,705,250	1,705,250
2022	-	1,705,250	1,705,250
2023	-	1,705,250	1,705,250
2024	210,000	1,705,250	1,915,250
2025	380,000	1,694,750	2,074,750
2026	550,000	1,675,750	2,225,750
2027	640,000	1,648,250	2,288,250
2028	750,000	1,616,250	2,366,250
2029	790,000	1,578,750	2,368,750
2030	875,000	1,539,250	2,414,250
2031	920,000	1,495,500	2,415,500
2032	1,015,000	1,449,500	2,464,500
2033	1,065,000	1,398,750	2,463,750
2034	1,165,000	1,345,500	2,510,500
2035	1,225,000	1,287,250	2,512,250
2036	1,335,000	1,226,000	2,561,000
2037	1,405,000	1,159,250	2,564,250
2038	1,525,000	1,089,000	2,614,000
2039	1,600,000	1,012,750	2,612,750
2040	1,735,000	932,750	2,667,750
2041	1,820,000	846,000	2,666,000
2042	1,965,000	755,000	2,720,000
2043	2,065,000	656,750	2,721,750
2044	2,220,000	553,500	2,773,500
2045	2,330,000	442,500	2,772,500
2046	2,505,000	326,000	2,831,000
2047	4,015,000	200,750	4,215,750
Total	<u>\$34,105,000.00</u>	<u>\$34,456,000.00</u>	<u>\$68,561,000.00</u>

**CASTLE OAKS METROPOLITAN DISTRICT NO. 3  
SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED  
DECEMBER 31, 2019**

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied		Total Property Taxes		Percentage Collected to Levied
		General	Debt Service	Levied	Collected	
2015	\$ 751,030	10.000	46.000	\$ 42,058	\$ 42,058	100.00%
2016	1,380,170	4.000	46.000	69,009	69,010	100.00
2017	2,798,920	4.000	46.000	139,946	139,947	100.00
2018	8,293,230	4.422	50.855	458,425	458,427	100.00
2019	11,727,880	4.422	50.855	648,282	648,284	100.00
Estimated for the Year Ending December 31, 2020	\$ 20,636,280	4.453	51.211	\$ 1,148,698		

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