

CitySet Metropolitan District No. 2

Annual Financial Report

December 31, 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Management
CitySet Metropolitan District No. 2

Opinions

We have audited the accompanying financial statements of the governmental activities and the major funds of CitySet Metropolitan District No. 2 as of and for the year ended 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major funds of CitySet Metropolitan District No. 2, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the CitySet Metropolitan District No. 2 and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the CitySet Metropolitan District No. 2's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 CitySet Metropolitan District No. 2's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the CitySet Metropolitan District No. 2's ability to continue as a going concern for a reasonable period of time.

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 an opinion on the financial statements that collectively comprise CitySet Metropolitan District No. 2's financial statements as a whole. The supplementary information section, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements.

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

Sincerely,

Haynie & Company

Littleton, Colorado

June 21, 2021

Basic Financial Statements

CitySet Metropolitan District No. 2
Statement of Net Position
December 31, 2020

Assets	Governmental Activities
Cash and cash equivalents	\$ 110,992
Cash and cash equivalents - restricted	822,789
Accounts receivable	241,264
Prepaid expenses	1,300
Capital assets, net of depreciation	<u>13,368,070</u>
Total Assets	<u>14,544,415</u>
Liabilities	
Accounts payable	48,255
Loans payable:	
Due in more than one year	17,615,000
Developer advance payable - general operations	144,579
Accrued interest payable - bonds	<u>179,875</u>
Total Liabilities	<u>17,987,709</u>
Net Position	
Net investment in capital assets	(4,426,805)
Restricted for:	
Emergencies	13,868
Debt service	1,112,823
Unrestricted	<u>(143,180)</u>
Total Net Position	<u>(3,443,294)</u>
Total Liabilities and Net Position	<u>\$ 14,544,415</u>

The accompanying notes are an integral part of these financial statements.

CitySet Metropolitan District No. 2
Statement of Activities
For the Year Ended December 31, 2020

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges</u> <u>for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	<u>Revenue and</u> <u>Changes in Net</u> <u>Position</u>
					<u>Governmental</u> <u>Activities</u>
Primary government:					
Governmental activities:					
General government	\$ 592,732	\$ -	\$ -	\$ -	\$ (592,732)
Interest and related costs on long term debt	1,349,289	-	-	-	(1,349,289)
	<u>\$ 1,942,021</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,942,021)</u>
General revenues:					
Public improvement fees					\$ 462,251
TIF collections					210,931
Property tax increment					395,798
Investment income					<u>2,318</u>
Total general revenues and transfers					<u>1,071,298</u>
Change in net position					(870,723)
Net position - beginning of year					<u>(2,572,571)</u>
Net position - end of year					<u>\$ (3,443,294)</u>

The accompanying notes are an integral part of these financial statements.

CitySet Metropolitan District No. 2
Governmental Funds Balance Sheet
and Reconciliation of Fund Balances to Net Position
December 31, 2020

Assets	General Fund	Debt Service Fund	Capital Projects Fund	Total
Cash and investments	\$ -	\$ 917,716	\$ 16,065	\$ 933,781
Accounts receivable	211,696	29,568	-	241,264
Due from other funds	-	165,539	-	165,539
Prepaid expense	1,300	-	-	1,300
Total assets	212,996	1,112,823	16,065	1,341,884
Liabilities				
Accounts payable	48,255	-	-	48,255
Due to other funds	164,741	-	798	165,539
Total liabilities	212,996	-	798	213,794
Fund Balances				
Non-spendable	1,300	-	-	1,300
Restricted for:				
Emergencies (TABOR)	13,868	-	-	13,868
Debt service	-	1,112,823	-	1,112,823
Assigned	-	-	15,267	15,267
Unassigned	(15,168)	-	-	(15,168)
Total fund balances	-	1,112,823	15,267	1,128,090
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 212,996	\$ 1,112,823	\$ 16,065	\$ 1,341,884
Total governmental fund balance per above				\$ 1,128,090
Amounts reported for governmental activities in the statement of net position excluded from the governmental fund balance because:				
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and are excluded from the funds.				13,368,070
Long term liabilities not payable in the current year are excluded as liabilities in the governmental funds. Interest on long-term debt is recognized as an expenditure in governmental funds when due. These liabilities consist of:				
Developer advances payable				(144,579)
Bonds payable				(17,615,000)
Accrued interest payable - bonds				(179,875)
Net position of governmental activities				\$ (3,443,294)

The accompanying notes are an integral part of these financial statements.

CitySet Metropolitan District No. 2
Governmental Fund Revenues, Expenditures,
and Changes in Fund Balances
For the Year Ended December 31, 2020

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Revenues:				
Public improvement fees	\$ 462,251	\$ -	\$ -	\$ 462,251
TIF collections	-	210,931	-	210,931
Property tax increment	-	395,798	-	395,798
Net investment income	-	2,318	-	2,318
Total General Revenues	<u>462,251</u>	<u>609,047</u>	<u>-</u>	<u>1,071,298</u>
Expenditures:				
General government				
Management and Accounting	34,109	-	-	34,109
Auditing	5,978	-	-	5,978
Election	1,031	-	-	1,031
Insurance/SDA Dues	27,368	-	-	27,368
Legal	38,881	-	-	38,881
PIF collection fees	9,245	-	-	9,245
URA collection fees	-	1,979	-	1,979
Tax increment collection fee	-	1,055	-	1,055
Miscellaneous	24,579	-	-	24,579
Repair and maintenance	86,053	-	-	86,053
Landscaping and snow removal	55,829	-	-	55,829
Furnishings	751	-	-	751
Engineering	-	-	797	797
Capital Outlay				
Paving and Landscape	-	-	151,307	151,307
Debt service				
Loan redemption	-	12,660,000	-	12,660,000
Interest - loan	-	351,729	-	351,729
Repayment - developer advances	-	-	151,307	151,307
Interest - developer advances	-	5,462,296	-	5,462,296
Bond issuance costs	-	456,752	4,548	461,300
Total Expenditures	<u>283,824</u>	<u>18,933,811</u>	<u>307,959</u>	<u>19,525,594</u>
Revenues over (under) expenditures	<u>178,427</u>	<u>(18,324,764)</u>	<u>(307,959)</u>	<u>(18,454,296)</u>
Other financing sources (uses):				
Bond proceeds	-	17,443,081	171,919	17,615,000
Developer advances	144,579	-	151,307	295,886
Interfund transfers	<u>(323,006)</u>	<u>323,006</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	(558,677)	15,267	(543,410)
Fund balances:				
Beginning of the year	<u>-</u>	<u>1,671,500</u>	<u>-</u>	<u>1,671,500</u>
End of the year	<u>\$ -</u>	<u>\$ 1,112,823</u>	<u>\$ 15,267</u>	<u>\$ 1,128,090</u>

The accompanying notes are an integral part of these financial statements.

CitySet Metropolitan District No. 2
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2020

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

Net change in fund balance—total governmental funds	\$ (543,410)
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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 the cost of any depreciable asset over the estimated useful life of the asset. In addition, in the Statement of Activities, conveyance of assets from other entities is reported as a revenue, and the assumption of debt is reported as an expense.

Capital Outlay	151,307
Depreciation	(305,077)

Long-term debt provides current financial resources to governmental funds, while the proceeds and the repayment of the principal of long-term debt provides or consumes the current financial resources of governmental funds.

Bond proceeds	(17,615,000)
Loan principal repayment	12,660,000
Developer advances	(295,886)
Developer repayment	151,307

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 - change in liability, loans	89,605
Accrued interest - change in liability, bonds	(179,875)
Accrued interest - change in liability, developer advances	<u>5,016,306</u>

Change in net position of governmental activities	<u>\$ (870,723)</u>
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The accompanying notes are an integral part of these financial statements.

CitySet Metropolitan District No. 2
Statement of Revenue, Expenditures
and Changes in Fund Balance—Actual and Budget
Governmental Fund Type—General Fund
For the Year Ended December 31, 2020

	Original & Final Budget	Actual	Variance Favorable (Unfavorable)
Revenue:			
Public improvement fees	\$ 830,000	\$ 462,251	\$ (367,749)
Miscellaneous	1,000	-	(1,000)
Total revenue	831,000	462,251	(368,749)
Expenditures:			
General government			
Management and Accounting	30,000	34,109	(4,109)
Auditing	6,000	5,978	22
Election	10,000	1,031	8,969
Insurance/SDA dues	28,000	27,368	632
Legal	10,000	38,881	(28,881)
PIF collection fee	16,600	9,245	7,355
Miscellaneous	2,000	24,579	(22,579)
Repair and maintenance	110,000	86,053	23,947
Landscaping	-	55,829	(55,829)
Furnishings	5,000	751	4,249
Contingency	6,872	-	6,872
Emergency Reserve	6,528	-	6,528
Total Expenditures	231,000	283,824	(52,824)
Revenue Over (Under) Expenditures	600,000	178,427	(421,573)
Other Sources and (Uses)			
Developer advances	-	144,579	144,579
Interfund transfers	(600,000)	(323,006)	276,994
Total Sources and (Uses)	(600,000)	(178,427)	421,573
Net Change in Fund Balance	-	-	-
Fund Balance—Beginning of year	-	-	-
Fund Balance—End of Year	\$ -	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

CitySet Metropolitan District No. 2

Notes to Financial Statements

December 31, 2020

1. Definition of Reporting Entity

CitySet Metropolitan District No. 2 (the District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized on March 3, 2011 and is governed pursuant to provisions of the Colorado Special District Act (Title 32). The District's service area is located in the City of Glendale, Colorado. The District operates under a Service Plan to provide for the design, acquisition, construction, installation, financing, relocation and redevelopment, and operation and maintenance of certain water, sanitation, stormwater, street, traffic and safety control, park and recreation, TV and relay, fire protection, safety protection, transportation, and mosquito control improvements.

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 contracts for all of its management and professional services.

The District is not a component unit of any other primary governmental entity.

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. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities are currently supported by public improvement fees, TIF collections, and debt financing.

CitySet Metropolitan District No. 2

Notes to Financial Statements

December 31, 2020

2. Summary of Significant Accounting Policies (continued)

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

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. Expenditures for capital outlay are shown as increases in assets and redemption of long-term debts are 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 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 public improvement fees and TIF collections. Nearly all revenue items are considered to be measurable and available only when cash is received by the District. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred, or the long-term obligation paid.

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.

CitySet Metropolitan District No. 2

Notes to Financial Statements

December 31, 2020

2. Summary of Significant Accounting Policies (continued)

- The *Debt Service Fund* is used to account for financial resources to be used for the acquisition and repayment of debt obligations.
- The *Capital Projects Fund* is used to account for all financial resources that are restricted, committed, or assigned to expenditures for capital outlays.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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 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 presented on the modified accrual basis of accounting.

The Board of Directors may amend the budget subsequent to adoption, in accordance with provisions of Colorado Revised State Statutes. In September 2020, the District amended its total appropriations in the Debt Service Fund from \$13,518,454 to \$19,820,000 primarily due to higher than expected developer repayments.

Capital Assets

Capital assets, which include infrastructure assets (e.g. road, water, sewer improvements 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 estimated fair value at the date of donation.

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, by the straight-line method. Depreciable lives of capital assets are as follows:

Parking garage	40 years
Lift station	20 years

CitySet Metropolitan District No. 2
Notes to Financial Statements
December 31, 2020

2. Summary of Significant Accounting Policies (continued)

Fund Equity

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 lenders), 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 policy to use the most restrictive classification first.

The total fund balance of the governmental funds was \$1,128,090 as of December 31, 2020. Of this balance, \$1,300 was non-spendable since it had already been used to pre-pay expenses of 2021; \$13,868 is restricted for emergencies, as required by TABOR; \$1,112,823 is restricted for debt service; \$15,267 is assigned for capital projects; and the remaining balance is an unassigned deficit of \$15,168.

CitySet Metropolitan District No. 2
Notes to Financial Statements
December 31, 2020

3. Cash and Cash Equivalents

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 equal to 102% of the aggregate uninsured deposits.

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

As of December 31, 2020, the District's cash deposits had a carrying balance of \$933,781 and bank balance of \$944,100, of which \$572,789 was not FDIC insured, but collateralized by the PDPA.

4. Capital Assets

An analysis of the changes in net capital asset during 2020 follows:

	December 31, 2019	Additions	Disposals	December 31, 2020
Governmental Activities:				
Capital assets, non-depreciable:				
Land	\$ 3,707,541	\$ 151,307	\$ -	\$ 3,858,848
Capital assets, depreciable:				
Lift Station	208,100	-	-	208,100
Parking Garage	11,786,861	-	-	11,786,861
Accumulated depreciation	<u>(2,180,662)</u>	<u>(305,077)</u>	<u>-</u>	<u>(2,485,739)</u>
Total depreciable capital assets, net	<u>9,814,299</u>	<u>(305,077)</u>	<u>-</u>	<u>9,509,222</u>
Total capital assets, net	<u>\$ 13,521,840</u>	<u>\$ (153,770)</u>	<u>\$ -</u>	<u>\$ 13,368,070</u>

Depreciation expense charged in 2020 to the governmental functions of the District was \$305,077.

CitySet Metropolitan District No. 2
Notes to Financial Statements
December 31, 2020

5. Long-Term Liabilities

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

	December 31, 2019	Increases	Decreases	December 31, 2020
<u>General Obligation Bonds:</u>				
Series 2020 Bonds	\$ -	\$ 17,615,000	\$ -	\$ 17,615,000
	<u>-</u>	<u>17,615,000</u>	<u>-</u>	<u>17,615,000</u>
<u>Notes from direct borrowing and direct placements:</u>				
Series 2015 Loan	12,660,000	-	(12,660,000)	-
Developer advances	-	295,886	(151,307)	144,579
	<u>12,660,000</u>	<u>295,886</u>	<u>(12,811,307)</u>	<u>144,579</u>
Total	<u>\$ 12,660,000</u>	<u>\$ 17,910,886</u>	<u>\$ (12,811,307)</u>	<u>\$ 17,759,579</u>

Series 2015 Loan

On October 16, 2015, the District entered into a loan agreement with CoBiz Public Finance, Inc. in the original principal amount of \$15,000,000 for the series 2015 loan. This series bore an interest rate of 2.8%, with interest payments on the loan due quarterly. In 2020, the balance of the loan was fully repaid by the proceeds of the Series 2020 Bonds.

Limited Tax General Obligation and Special Revenue Refunding and Improvement Bonds, Series 2020

On October 1, 2020, the District issued \$17,615,000 of Limited Tax General Obligation and Special Revenue Refunding and Improvement Bonds, Series 2020 (Series 2020 Bonds). The Series 2020 Bonds were issued to repay the Series 2015 Loan (see above) and accrued interest on developer advances, to pay certain project costs and bond issuance costs, and to fund the initial deposit of the Suplus Fund, as defined in bond indenture.

The Series 2020 Bonds are limited tax and special revenue obligations of the District secured by and payable from the Pledged Revenue, including (i) the property tax increment revenue, the pledged sales tax increment revenue, and the pledged lodger’s tax revenue, (ii) the PIF pledged revenue, (iii) the property tax revenue, (iv) specific ownership tax revenue, which are collected by the District, (v) any other legally available amounts that the District may designate by resolution of the Board, to be paid to the trustee for deposit into the Revenue Fund, or otherwise held under the indenture, and (vi) all income or other gain, if any, from any investment of the foregoing. PIF pledged revenue is defined as the amount received by the District from the Public Improvement Fees (see Note 9), less an amount equal to the operations and maintenance costs, which is limited to \$130,000 in calendar year 2020 and, thereafter, to increase one and one-half percent annually.

CitySet Metropolitan District No. 2
Notes to Financial Statements
December 31, 2020

5. Long-Term Liabilities (continued)

The Series 2020 Bonds include interest at rates ranging from 3.500% to 4.500% payable semiannually on each June 1 and December 1, commencing on June 1, 2021, and mature on 2045. The Series 2020 Bonds are subject to both optional and mandatory redemption, in whole or in part, upon payment of par, accrued interest, and a redemption premium. The optional redemption begins December 1, 2025 and the mandatory redemption begins December 1, 2022, December 1, 2031, and December 1, 2041.

Events of default for the Series 2020 Bonds include: (i) failure by the District to impose the required mill levy or to apply the pledged revenue as required by the indenture; (ii) default by the District in the performance of any other of the covenants, agreements, or conditions in the indenture and failure by the District to remedy; or (iii) the District files a petition under federal bankruptcy laws or other applicable bankruptcy laws seeking to adjust the obligation represented by the Series 2020 Bonds.

The following is a summary of the annual long-term debt principal and interest requirements on the Series 2020 Bonds:

<u>Year Ending December 31,</u>	Govenmental Activities		
	Principal	Interest	Total
2021	\$ -	\$ 841,721	\$ 841,721
2022	450,000	721,475	1,171,475
2023	475,000	705,725	1,180,725
2024	580,000	689,100	1,269,100
2025	605,000	668,800	1,273,800
2026-2030	3,965,000	2,974,575	6,939,575
2031-2035	5,150,000	2,118,781	7,268,781
2036-2040	3,210,000	1,079,938	4,289,938
2041-2045	3,180,000	444,600	3,624,600
Total	\$ 17,615,000	\$ 10,244,715	\$ 27,859,715

Developer Advances

The District assumed rights and obligations of that certain Facilities Funding and Acquisition Agreement, as amended, and an Operation Funding Agreement, as amended, (the Funding Agreements) with the Cherry Creek Lodging, LLC; Stonebridge Realty Advisors, Inc.; Sonley Lodging, LLC; Sonley Retail, LLC; Dimond Holdings, LLC; and Group Four Holdings, LLC (collectively, the “Developer”) from CitySet Metropolitan District No. 1 by virtue of that certain Termination, Assignment and Assumption of Facilities Funding, Construction and Operations Agreement dated October 16, 2015 where the Developer is to provide for the advancement of certain monies to the District for capital improvement costs and operation and

CitySet Metropolitan District No. 2

Notes to Financial Statements

December 31, 2020

5. Long-Term Liabilities (continued)

maintenance costs. The District agrees to repay the Developer, along with accrued interest, at a rate of 12% compounded interest. As of December 31, 2020, \$144,579 of developer advances are receivable in 2021.

Debt Authorization

On November 2, 2010, qualified electors of the District approved the District to issue debt of up to \$540,000,000 for the purposes of financing construction or acquisition of capital improvements. As of December 31, 2020, the District had \$507,385,000 in authorized but unissued debt. Pursuant to the Intergovernmental Agreement with the City of Glendale, Colorado, the District will not issue more than \$60,000,000 in indebtedness. In the future, the District may issue a portion or all of the remaining authorized but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District's service area; however, as of December 31, 2020, the amount and timing of any debt issuance is not determinable.

Line of Credit

As of December 31, 2020, the District has no unused line of credit.

6. Net Position

The District has net position consisting of three components – net investment in capital assets, restricted and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, less the outstanding balance of debt or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted net position includes items that are restricted for use either externally imposed by 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 of \$1,126,691 as of December 31, 2020 which are restricted for debt service and emergencies as required by Colorado legislation. The District's unrestricted net position as of December 31, 2020 totaled a deficit of \$143,180, which is expected to be remedied through future income and developer advances.

7. Related Parties

One of the Developers of the property which constitutes the District is Stonebridge Realty Advisors, Inc. The members of the Board of Directors of the District are officers, employees or otherwise associated with the Developer and may have conflicts of interest in dealing with the District.

CitySet Metropolitan District No. 2

Notes to Financial Statements

December 31, 2020

8. Risk Management

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

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

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.

9. Intergovernmental Agreements

City of Glendale Intergovernmental Agreement

On April 15, 2011, the District entered into an intergovernmental agreement (the "City IGA") with the City of Glendale, Colorado (the "City"). The City IGA describes the rights and responsibilities of the District regarding operation and ownership of public facilities, agreements relative to certain regional improvements and continued oversight by the City. The District is to finance such activities through fees and levies imposed by the District. The mill levy of the District is limited to 50 mills and total debt issued may not exceed \$60,000,000.

Declaration of Covenants Imposing and Implementing the Public Improvement Fees ("PIF Covenant")

On December 23, 2009, Cherry Creek Lodging, LLC executed the PIF Covenant and caused the same to be recorded in the real property records of Arapahoe County against the real property located in the boundaries of the District (the "PIF Covenant Area"). The PIF Covenant obligates all Retailers located within the PIF Covenant Area to collect a public improvement fee in the amount of: (i) two percent (2%) of all PIF Sales (defined below) that occur within the PIF Covenant Area; and (ii) an additional one percent (1%)(for a total of three percent (3%)) on all Lodging PIF Sales (as defined below) that occur within the PIF Covenant Area (collectively, the "PIF Revenues"). PIF Sales means any exchange of goods or services for money or other media of exchange initiated, consummated, conducted or otherwise occurring from or within the PIF Covenant Area upon which a Sales Tax would be payable pursuant to Sales Tax Ordinances. Lodging PIF Sales means an exchange of services for money or other media of exchange relating to overnight lodging for one or more nights, which

CitySet Metropolitan District No. 2

Notes to Financial Statements

December 31, 2020

9. Intergovernmental Agreements (continued)

is initiated, consummated, conducted, transacted or otherwise occurring from or within the PIF Covenant Area, and that is subject to sales taxation by the City of Glendale pursuant to its Sales Tax Ordinances. Under the PIF Covenant, the PIF Revenues are intended to pay for eligible costs of public improvements.

PIF Collection Agreement

Cherry Creek Lodging, LLC, Cherry Creek-Sonley Public Improvement Corporation and the City of Glendale entered into that certain PIF Collection Agreement dated March 1, 2010 (the “PIF Collection Agreement”). Cherry Creek-Sonley Public Improvement Corporation subsequently assigned its rights and obligations under the PIF Collection Agreement to CitySet Metropolitan District No. 1 by virtue of that certain Assignment of PIF Collection Agreement dated June 18, 2012. CitySet Metropolitan District No. 1 assigned its rights and obligations under the PIF Collection Agreement to the District by virtue of that certain Assignment of PIF Collection Agreement dated October 16, 2015. Under the PIF Collection Agreement the Retailers are to collect and remit the PIF to the PIF Collection Agent. The City of Glendale (the “City”) has agreed to act as the PIF Collection Agent.

Under the PIF Collection Agreement, the City receives the PIF Revenues and after deduction of the City’s reimbursable expenses, remits the PIF Revenues to the District for payment of eligible costs of public improvements.

Cooperation Agreement

The property within the District is located within the CitySet Urban Renewal Area (the “Plan Area”). The City and the Glendale Economic Redevelopment Authority (the “Authority”) entered into that certain Cooperation Agreement dated August 30, 2011 with respect to the Plan Area. Under the Cooperation Agreement, the City agreed to remit to the Authority the Pledged Sales Tax Increment Revenues and the Pledged Lodger’s Tax Increment Revenues. The Pledged Lodger’s Tax Increment Revenue is 35% of the Lodger’s Tax Increment Revenues and the Pledged Sales Tax Increment Revenues is 35% of the Sales Tax Increment Revenues. The Lodger’s Tax Increment Revenues is the total amount of revenues actually produced from the levy of a Lodger’s Tax within Parcel B in the Plan Area following the Lodger’s Tax Base year. The Sales Tax Increment Revenues is all of that portion of the municipal sales tax revenue above the Sales Base produced by a levy of 3.75% imposed by the City upon all sales transactions subject to the municipal sales tax after deducted from such revenue the actual cost of collection and enforcement of such sales tax revenue. The Sales Tax Base is the amount of revenues actually produced from the levy of the Sales Taxes within Parcel B in the Sales Tax Base Year which amount is zero.

CitySet Metropolitan District No. 2

Notes to Financial Statements

December 31, 2020

9. Intergovernmental Agreements (continued)

Reimbursement Agreement

The Authority and the CitySet Metropolitan District No. 1 entered into that certain Reimbursement Agreement dated as of August 30, 2011. On October 16, 2015 CitySet Metropolitan District No. 1 assigned its rights and obligations under the Reimbursement Agreement to the District by virtue of that certain Assignment of Reimbursement Agreement.

Pursuant to the Reimbursement Agreement, the Authority has pledged certain revenues to the District for the District's repayment of bonds issued in connection with the District's construction of eligible public improvements. Under the Reimbursement Agreement, the Authority agrees to remit to the District: (i) 35% of the incremental revenues collected by the City and received by the Authority from the imposition of the City's 6.5% Lodger's Tax on the private improvements on Parcel B within the District's service area; (ii) 35% of that portion of the municipal sales tax revenue received by the City from a levy of three and three quarters percent (3.75%) imposed by the City upon all transactions subject to municipal sales tax within the private improvements or otherwise on Parcel B within the District's service area after deducted from such revenue the actual cost of collection and enforcement of such sales tax revenue; (iii) Property Tax Increment Revenue which is equal to the annual ad valorem

property tax revenue received by the Authority from the Arapahoe County Treasurer in excess of the amount produced by the levy of those taxing bodies that levy property taxes against the base assessed value of the taxable property in the Urban Renewal Area; (iv) any portion of the Districts' Debt Service Mill Levy (if imposed) and (v) any funds obtained or actually recovered by the Developer or the Districts as reimbursement for any and all expenditures for eligible public improvements, including amounts recovered from public utility companies, other metropolitan districts and other developers or property owners.

Facilities Funding, Construction and Operations Agreement

The District and CitySet Metropolitan District No. 1 ("District No. 1" and collectively, with the District, the "Districts") entered into that certain Facilities Funding, Construction and Operations Agreement (the "FFCO") on November 30, 2011 to coordinate the financing, construction, operation and maintenance of the public improvements within the service area of the Districts and to establish the relationship between the respective responsibilities of the Districts. The FFCO provides a framework for the equitable allocation over time among the Districts of the costs of administration of the Districts and the costs of financing, constructing, operating and maintaining the public improvements contemplated therein. Pursuant to the FFCO, District No. 1 is the "Operating District" and is generally responsible for providing the financing, construction, operations and maintenance of the public infrastructure to serve the service area. The District is the Taxing District and is generally responsible for cooperating with the Operating District to effectuate the financing of the public improvements. The FFCO is intended to constitute a multiple fiscal year financial obligation of the Districts, and as such,

CitySet Metropolitan District No. 2

Notes to Financial Statements

December 31, 2020

9. Intergovernmental Agreements (continued)

it was submitted to and approved by the electorates of each of the Districts prior to being executed. The FFCO Agreement terminated October 16, 2015, by virtue of that certain Termination, Assignment, and Assumption of FCCO Agreement.

2011-2012 Operation Funding Agreement

On March 3, 2011, CitySet Metropolitan District No. 1, Cherry Creek Lodging, LLC and Stonebridge Realty Advisors, Inc., entered into that certain 2011-2012 Operation Funding Agreement (the “OFA”). The OFA was amended by that certain First Amendment dated effective November 11, 2011 and that certain Second Amendment dated effective November 30, 2011 which added the following parties as the Developer: Sonley Retail, LLC, Sonley Lodging, LLC, Dimond Holdings, LLC and Group Four Holdings, LLC (collectively, with Cherry Creek Lodging, LLC and Stonebridge Realty Advisors, Inc., the “Developer”). CitySet Metropolitan District No. 1 assigned its rights and obligations under the OFA to the District by virtue of that certain Termination, Assignment and Assumption of Facilities Funding, Construction and Operations Agreement dated October 16, 2015.

As of December 31, 2020, the amount of \$144,579 advanced by the Developer are receivable in 2021.

Facilities Funding and Acquisition Agreement

CitySet Metropolitan District No. 1 and Cherry Creek Lodging, LLC and Stonebridge Realty Advisors, Inc., entered into a Facilities Funding and Acquisition Agreement dated October 11, 2011 (the “FFAA”). The FFAA was amended by a First Amendment dated November 11, 2011 to add the following parties as the Developer: Sonley Retail, LLC, Sonley Lodging, LLC, Dimond Holdings, LLC and Group Four Holdings, LLC (collectively, with Cherry Creek Lodging, LLC and Stonebridge Realty Advisors, Inc., the “Developer”). Pursuant to the FFAA, the District acknowledged that the Developer expended certain funds for Organizational Expenses. In addition, the District and the Developer agreed that the Developer would design, construct and complete certain public improvements. The FFAA provided for the District’s acquisition of the public improvements from the Developer and repayment of the Organizational Expenses. The interest rate on such amounts is established at 12% per annum on the amounts outstanding commencing from the date(s) set forth in the FFAA. The agreement was further amended on December 2, 2013, to set the priority of payments as being first applied to principal and second to accrued and unpaid interest. CitySet Metropolitan District No. 1 assigned its rights and obligations under the FFAA to the District by virtue of that certain Termination, Assignment and Assumption Agreement as to Facilities Funding, Construction and Operations Agreement dated October 16, 2015.

CitySet Metropolitan District No. 2

Notes to Financial Statements

December 31, 2020

10. 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 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 revenues (excluding debt service). At December 31, 2020, the District had an emergency reserve of \$13,868. Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

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

Supplementary Information

CitySet Metropolitan District No. 2
Statement of Revenue, Expenditures
and Changes in Fund Balance—Actual and Budget
Debt Service Fund
For the Year Ended December 31, 2020

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
TIF collections	\$ 385,000	\$ 200,000	\$ 210,931	\$ 10,931
Property tax increment	360,000	400,000	395,798	(4,202)
Net investment income	5,000	4,000	2,318	(1,682)
Total Revenue	<u>750,000</u>	<u>604,000</u>	<u>609,047</u>	<u>5,047</u>
Expenditures:				
TIF collection fees	1,925	1,000	-	1,000
URA collection fees	-	-	1,979	(1,979)
Tax increment collection fee	1,800	2,000	1,055	945
Loan principal	12,660,000	12,660,000	12,660,000	-
Loan interest	351,729	351,729	351,729	-
Developer payments	500,000	5,458,925	5,462,296	(3,371)
Cost of issuance	-	595,000	456,752	138,248
Paying agent fees	3,000	3,000	-	3,000
Miscellaneous	-	748,346	-	748,346
Total Expenditures	<u>13,518,454</u>	<u>19,820,000</u>	<u>18,933,811</u>	<u>886,189</u>
Revenue Over (Under) Expenditures	(12,768,454)	(19,216,000)	(18,324,764)	891,236
Other Sources and (Uses)				
Bond/Loan proceeds	12,000,000	17,000,000	17,443,081	443,081
Bond premium	-	800,000	-	(800,000)
Interfund transfers	600,000	256,400	323,006	66,606
Total Sources and (Uses)	<u>12,600,000</u>	<u>18,056,400</u>	<u>17,766,087</u>	<u>(290,313)</u>
Net Change in Fund Balance	(168,454)	(1,159,600)	(558,677)	600,923
Fund Balance—Beginning of year	<u>1,719,631</u>	<u>1,719,631</u>	<u>1,671,500</u>	<u>(48,131)</u>
Fund Balance—End of Year	<u>\$ 1,551,177</u>	<u>\$ 560,031</u>	<u>\$ 1,112,823</u>	<u>\$ 552,792</u>

CitySet Metropolitan District No. 2
Statement of Revenue, Expenditures
and Changes in Fund Balance—Actual and Budget
Governmental Fund Type—Capital Projects Fund
For the Year Ended December 31, 2020

	Original Budget	Actual	Variance Favorable (Unfavorable)
Expenditures:			
Cost of insurance	\$ -	\$ 4,548	\$ (4,548)
Engineering	-	797	(797)
Paving and Landscape	400,000	151,307	248,693
Total Expenditures	400,000	156,652	243,348
Revenue Over (Under) Expenditures	(400,000)	(156,652)	(243,348)
Other Sources and Uses			
Developer advances	-	151,307	151,307
Developer repayment	-	(151,307)	(151,307)
Bond/Loan proceeds	500,000	171,919	(328,081)
Total Sources and Uses	500,000	171,919	(328,081)
Net Change	100,000	15,267	(84,733)
Fund Balance—Beginning of year	-	-	-
Fund Balance—End of Year	\$ 100,000	\$ 15,267	\$ (84,733)