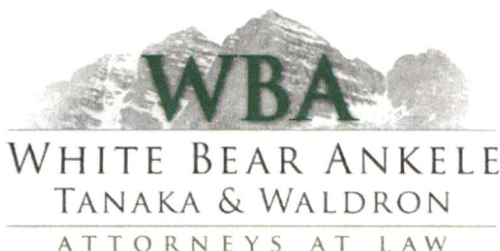


WILLIAM P. ANKELE, JR.
JENNIFER GRUBER TANAKA
CLINT C. WALDRON
KRISTIN BOWERS TOMPKINS
ROBERT G. ROGERS

OF COUNSEL:
KRISTEN D. BEAR
BLAIR M. DICKHONER



SEAN ALLEN
ZACHARY P. WHITE
CASEY K. LEKAHAL
TRISHA K. HARRIS
HEATHER L. HARTUNG
MEGAN J. MURPHY
KRISTIN J. SCHLEDORN
BRADLEY T. NEIMAN
EVE M. GRINA
JENNIFER F. KEMP

August 23, 2018

VIA ELECTRONIC AND U.S. MAIL

Bob Slentz, Esq.
Town Attorney
Town of Castle Rock
1001 N. Wilcox Street
Castle Rock, CO 80104

Re: Crystal Valley Metropolitan District Nos. 1 and 2
Consolidated Quinquennial Report

Dear Mr. Slentz:

As you know, our firm acts as legal counsel for Crystal Valley Metropolitan District Nos. 1 and 2 (the "Districts" and "District No. 1" and "District No. 2" respectively). Pursuant to the Amended Consolidated Service Plan for the Districts, including the First Amendment thereto, § 32-1-1101.5, C.R.S., and Castle Rock Municipal Code Section 11.02.210, if required by the Town, the Districts will submit applications for quinquennial findings of reasonable diligence to the Town of Castle Rock (the "Town") in every fifth calendar year after the calendar year in which the Districts' ballot issue to incur general obligation indebtedness was approved by its electors. The previous report was submitted in 2013, and the Town informed the Districts that a quinquennial review would be required in 2018 on July 17, 2018. As part of the Districts' continuing compliance requirements, the attached quinquennial report and application is hereby submitted for your review.

As part of the quinquennial findings issued by the Town in 2008, the District is precluded from issuing any new general obligation debt, specifically excepting "the refunding of any outstanding bond, note or other debt or financial obligation of the Districts." At the time of the 2008 review, the Town recognized a total of approximately \$42.5 million in outstanding District debt obligations. District No. 1 restructured its Series 2004 Bonds in 2012. District No. 2 refunded its 2004 Bonds through a loan agreement in 2015. District No. 1 refunded the outstanding 2004 Bonds in 2017. Neither of the Districts have issued new general obligation debt since the date of the last quinquennial review.

Please let us know if you need any additional information or have any questions.

Sincerely,

Blair M. Dickhoner, Esq.

Enclosures

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1
CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

QUINQUENNIAL REPORT

SUMMARY OF OUTSTANDING DEBT

Crystal Valley Metropolitan District No. 1

- Crystal Valley Metropolitan District No. 1 has no outstanding bonds and no mill levy for debt service

Crystal Valley Metropolitan District No. 2

Bond Series	Principal Balance	Annual Debt Service	Debt Service Mill Levy	Est. Retirement	Interest Rate
General Obligation Refunding Subordinate Bonds Series 2014A	28,370,000	NA – Subordinate to Series 2015 and Series 2017 Loans	NA – Subordinate to Series 2015 and Series 2017 Loans	12/1/2049	5.5%
General Obligation Refunding Subordinate Bonds Series 2014B	10,000,000	NA – Subordinate to Series 2015 and Series 2017 Loans	NA – Subordinate to Series 2015 and Series 2017 Loans	12/1/2049	0.0%
Limited Tax General Obligation Refunding Loan Series 2015	16,560,000	\$969,366 in 2018	38.046	12/1/2023	3.54%
Limited Tax General Obligation Refunding Loan Series 2017	6,110,000	\$288,575 in 2018	11.462	12/1/2023	3.25%

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1
CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

CONSOLIDATED QUINQUENNIAL REPORT

Submitted to the Town of Castle Rock, Douglas County, Colorado
August 23, 2018

In accordance with the requirements set forth in § 32-1-1101.5, C.R.S., below please find the required information:

AMOUNT OF AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION DEBT

2014 First Amendment to Amended Service Plan Authorization:

Total Debt: \$45,000,000

Election Authorization by Category:

Category	Crystal Valley Metropolitan District No. 1		
	1999	2000	2001
Water	\$18,000,000	\$18,000,000	\$18,000,000
Streets	\$29,300,000	\$29,300,000	\$0
Traffic Safety	\$500,000	\$500,000	\$0
Fire Protection/Rescue	\$0	\$0	\$2,000,000
Television Relay	\$500,000	\$500,000	\$0
Transportation	\$500,000	\$500,000	\$0
Parks and Rec.	\$3,250,000	\$3,250,000	\$0
Sanitation	\$6,600,000	\$6,600,000	\$0
Mosquito Control	\$100,000	\$100,000	\$0
Refunding	\$59,750,000	\$59,750,000	\$0
Operations/Maintenance	\$1,000,000	\$1,000,000	\$0
Contract Debt	\$59,750,000	\$59,750,000	\$0
Mortgage	\$0	\$0	\$0
Total	\$179,250,000	\$179,250,000	\$20,000,000
Cumulative Total	\$179,250,000	\$358,500,000	\$378,500,000

Category	Crystal Valley Metropolitan District No. 2		
	1999	2000	2001
Water	\$18,000,000	\$18,000,000	\$18,000,000
Streets	\$29,300,000	\$29,300,000	\$0
Traffic Safety	\$500,000	\$500,000	\$0
Fire Protection/Rescue	\$0	\$0	\$2,000,000
Television Relay	\$500,000	\$500,000	\$0
Transportation	\$500,000	\$500,000	\$0

Parks and Rec.	\$3,250,000	\$3,250,000	\$0
Sanitation	\$6,600,000	\$6,600,000	\$0
Mosquito Control	\$100,000	\$100,000	\$0
Refunding	\$59,750,000	\$59,750,000	\$0
Operations/Maintenance	\$1,000,000	\$1,000,000	\$0
Contract Debt	\$59,750,000	\$59,750,000	\$0
Mortgage	\$0	\$0	\$0
Total	\$179,250,000	\$179,250,000	\$20,000,000
Cumulative Total	\$179,250,000	\$358,500,000	\$378,500,000

Outstanding Debt:

The Districts' combined outstanding debt was \$61,040,000.00 as of December 31, 2017.

NO CURRENT OR ANTICIPATED PLAN TO ISSUE GENERAL OBLIGATION DEBT

Pursuant to Resolution No. 2008-51 of the Town Council of the Town of Castle Rock, Colorado, the Districts are denied authority to issue the remaining authorized general obligation debt, absent the further approval and consent of the Town Council.

- District No. 1 does not have any current or anticipated plans to issue such debt.
- District No. 2 does not have any current or anticipated plans to issue such debt.

DEVELOPMENT THRESHOLDS

During the Districts' 2008 quinquennial review, the Districts reported that approximately 80% of public improvements had been completed and there were for remaining major projects: a pedestrian bridge, the Interstate 25 Interchange, the North Two Lanes, and infrastructure around the recreation center.

During the Districts' 2013 quinquennial review, the Districts reported that the pedestrian bridge was completed and accepted by the Town, the Interstate 25 Interchange was pending, the trigger date for the North Two Lanes had not yet occurred, and the infrastructure around the recreation center was completed.

As of this report, the Interstate 25 Interchange is still pending, however all fees required to be paid to the Town have been paid. The infrastructure around the recreation center and the North Two Lanes of Crystal Valley Parkway have been completed.

AUDIT OR APPLICATION FOR EXEMPTION FROM AUDIT

Copies of the 2017 audits for District No. 1 and District No. 2 are enclosed, as well as copies of the 2018 budgets for District No. 1 and District No. 2.

End of Report

Crystal Valley Metropolitan District No. 1
2017 Audit

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

Financial Statements

Year Ended December 31, 2017

with

Independent Auditor's Report

C O N T E N T S

	<u>Page</u>
<u>Independent Auditor's Report</u>	I
<u>Basic Financial Statements</u>	
Balance Sheet/Statement of Net Position - Governmental Funds	1
Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities - Governmental Funds	2
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	3
Notes to Financial Statements	4
<u>Supplemental Information</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Debt Service Fund	19
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Capital Projects Fund	20



Hiratsuka & Associates, L.L.P.
Certified Public Accountants & Business Advisors

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Crystal Valley Metropolitan District No. 1
Douglas County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Crystal Valley Metropolitan District No. 1 (the District), Douglas County, Colorado, as of and for the year ended December 31, 2017, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of Crystal Valley Metropolitan District No. 1, Douglas County, Colorado, as of December 31, 2017, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in conformity with U.S. GAAP.

Other Matters

Required Supplementary Information

Management has not presented Management's Discussion and Analysis. Such missing information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Information

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

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

Hiratsuka & Associates, LLP

July 30, 2018
Wheat Ridge, Colorado

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

BALANCE SHEET/STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Cash and investments	\$ 16,111	\$ -	\$ -	\$ 16,111	\$ -	\$ 16,111
Cash and investments - restricted	2,220	117,286	4,828,466	4,947,972	-	4,947,972
Accounts receivable:						
County treasurer	3	17	-	20	-	20
Property taxes receivable	3,166	-	-	3,166	-	3,166
Investor contribution	-	-	241,213	241,213	-	241,213
Special assessment fees	-	-	8,820	8,820	-	8,820
Prepaid expenses	2,355	-	-	2,355	-	2,355
Capital assets not being depreciated	-	-	-	-	11,924,726	11,924,726
Total Assets	<u>\$ 23,855</u>	<u>\$ 117,303</u>	<u>\$ 5,078,499</u>	<u>\$ 5,219,657</u>	<u>11,924,726</u>	<u>17,144,383</u>
LIABILITIES						
Accounts payable	\$ 5,719	\$ -	\$ 241,868	\$ 247,587	-	247,587
Total Liabilities	<u>5,719</u>	<u>-</u>	<u>241,868</u>	<u>247,587</u>	<u>-</u>	<u>247,587</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	3,166	-	-	3,166	-	3,166
Total Deferred Inflows of Resources	<u>3,166</u>	<u>-</u>	<u>-</u>	<u>3,166</u>	<u>-</u>	<u>3,166</u>
FUND BALANCES						
Fund Balances:						
Nonspendable:						
Prepays	2,355	-	-	2,355	(2,355)	-
Restricted:						
Emergencies	2,220	-	-	2,220	(2,220)	-
Debt service	-	117,303	-	117,303	(117,303)	-
Capital projects	-	-	4,836,631	4,836,631	(4,836,631)	-
Unassigned	10,395	-	-	10,395	(10,395)	-
Total Fund Balances	<u>14,970</u>	<u>117,303</u>	<u>4,836,631</u>	<u>4,968,904</u>	<u>(4,968,904)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 23,855</u>	<u>\$ 117,303</u>	<u>\$ 5,078,499</u>	<u>\$ 5,219,657</u>		
NET POSITION						
Net investment in capital assets					11,924,726	11,924,726
Restricted for:						
Emergencies					2,220	2,220
Debt service					117,303	117,303
Capital projects					4,836,631	4,836,631
Unrestricted					12,750	12,750
Total Net Position					<u>\$ 16,893,630</u>	<u>\$ 16,893,630</u>

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES						
Accounting and audit	\$ 31,866	\$ -	\$ -	\$ 31,866	\$ -	\$ 31,866
Insurance	3,028	-	-	3,028	-	3,028
Legal	32,731	-	-	32,731	-	32,731
Miscellaneous expenses	386	-	-	386	-	386
Treasurer's fees	7	34	-	41	-	41
Bond principal	-	5,133,000	-	5,133,000	(5,133,000)	-
Bond interest expense	-	562,485	-	562,485	(204,489)	357,996
Trustee fees	-	3,000	-	3,000	-	3,000
Capital improvements	-	-	5,692,255	5,692,255	(5,692,255)	-
Total Expenditures	68,018	5,698,519	5,692,255	11,458,792	(11,029,744)	429,048
PROGRAM REVENUES						
Development fees	-	-	520,980	520,980	-	520,980
Total Program Revenues	-	-	520,980	520,980	-	520,980
Net Program Income (Expenses)	(68,018)	(5,698,519)	(5,171,275)	(10,937,812)	11,029,744	91,932
GENERAL REVENUES						
Property taxes	497	2,285	-	2,782	-	2,782
Specific ownership taxes	55	252	-	307	-	307
Fire station fees	-	16,800	-	16,800	-	16,800
Transfer from District 2	65,000	5,695,455	-	5,760,455	-	5,760,455
Interest income	-	1	2,911	2,912	-	2,912
Total General Revenues	65,552	5,714,793	2,911	5,783,256	-	5,783,256
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,466)	16,274	(5,168,364)	(5,154,556)	11,029,744	5,875,188
OTHER FINANCING SOURCES (USES)						
Investor contributions	-	-	5,636,599	5,636,599	-	5,636,599
Total Other Financing Sources (Uses)	-	-	5,636,599	5,636,599	-	5,636,599
NET CHANGES IN FUND BALANCES	(2,466)	16,274	468,235	482,043	(482,043)	-
CHANGE IN NET POSITION					11,511,787	11,511,787
FUND BALANCES/NET POSITION:						
BEGINNING OF YEAR	17,436	101,029	4,368,396	4,486,861	894,982	5,381,843
END OF YEAR	\$ 14,970	\$ 117,303	\$ 4,836,631	\$ 4,968,904	\$ 11,924,726	\$ 16,893,630

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2017

	Original and <u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 497	\$ 497	\$ -
Specific ownership taxes	40	55	15
Reimbursements from District 2	<u>245,107</u>	<u>65,000</u>	<u>(180,107)</u>
Total Revenues	<u>245,644</u>	<u>65,552</u>	<u>(180,092)</u>
EXPENDITURES			
Accounting and audit	35,000	31,866	3,134
Insurance	3,500	3,028	472
Legal	35,000	32,731	2,269
Miscellaneous expenses	500	386	114
Treasurer's fees	7	7	-
Contingency	423,856	-	423,856
Emergency reserve	<u>2,220</u>	<u>-</u>	<u>2,220</u>
Total Expenditures	<u>500,083</u>	<u>68,018</u>	<u>432,065</u>
NET CHANGE IN FUND BALANCE	(254,439)	(2,466)	251,973
FUND BALANCE:			
BEGINNING OF YEAR	<u>254,439</u>	<u>17,436</u>	<u>(237,003)</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 14,970</u>	<u>\$ 14,970</u>

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2017

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Crystal Valley Metropolitan District No. 1, (the "District"), located in Douglas County, Colorado, conform to the accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized in 1986, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was organized concurrently with Crystal Valley Metropolitan District No. 2, ("District No. 2"). The District has the power to provide water, streets, traffic and safety controls, televisions relay and translator, transportation, park and recreation, mosquito and pest control, fire protection and emergency medical services, sanitation facilities and other related improvements for the benefit of the taxpayers and service users within both the District and District No. 2 boundaries. The Service Plan anticipates that the District will convey water, sanitation facilities, streets and other facilities to the Town of Castle Rock, Colorado (the "Town"), or Douglas County (the "County") for operation and maintenance purposes. The District may, however, upon mutual agreement with the Town, retain ownership in the facilities and/or retain responsibility for operations and maintenance. The District is governed by an elected Board of Directors.

The District is intended to serve as the "Operating District" while Crystal Valley Metropolitan District No. 2 is intended to serve as the "Taxing District". The Operating District is responsible for providing the day-to day operations and administrative management for both Districts. (See Note 6.)

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB, Statement No. 61, *The Financial Reporting Entity: Omnibus, which amended* GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which provides guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency. The pronouncements also require including a possible component unit if it would be misleading to exclude it. The District is not financially accountable for any other organization. The District has no component units as defined by the GASB.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2017

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

Basis of Presentation

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

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *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.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2017

The material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The District reports the following major governmental funds:

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

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

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

Budgetary Accounting

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

In 2017, the District amended its total appropriations in the Debt Service Fund from \$323,571 to \$6,500,000 primarily due to the repayment of Series 2004B Bonds (See Note 4).

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

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2017, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2017

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

Interfund Balances

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

Estimates

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

Deferred Outflows/Inflows of Resources

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

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

Capital Assets

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements

December 31, 2017

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated. No depreciation expense was recognized during 2017.

Property Taxes

Property taxes are levied by the District's and District No. 2's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the Districts. The District receives from District No. 2 such taxes, rates, fees and charges needed to fund the costs of the administration and operations of both Districts as well as the debt service expenses for the District.

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

Long-Term Obligations

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

Fund Equity

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

Nonspendable Fund Balance

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2017

Restricted Fund Balance

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

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$2,220 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$117,303 is restricted for the payment of the debt service costs associated with the General Obligation Refunding Loan Series 2015 held by District No. 2.

The restricted fund balance in the Capital Projects Fund in the amount of \$4,836,631 is restricted for the payment of the costs for capital improvements within the District.

Committed Fund Balance

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

Assigned Fund Balance

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

Unassigned Fund Balance

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

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

Net Position

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

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets. The District has capital assets in the amount of \$11,924,725.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements

December 31, 2017

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

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

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

Note 2: Cash and Investments

As of December 31, 2017, cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and investments	\$ 16,111
Cash and investments - Restricted	<u>4,947,972</u>
Total	\$ <u>4,964,083</u>

Cash and investments as of December 31, 2017 consist of the following:

Deposits with financial institutions	\$ 4,963,943
Investments - COLOTRUST	<u>140</u>
	\$ <u>4,964,083</u>

Deposits:

Custodial Credit Risk

The Colorado Public Deposit Protection Act, ("PDPA") requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

The District does not have a formal policy for deposits. None of the District's deposits were exposed to custodial credit risk.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements

December 31, 2017

Investments:

Credit Risk

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

Custodial and Concentration of Credit Risk

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

Interest Rate Risk

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

Investment Valuation

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

As of December 31, 2017, the District had the following investments:

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust ("COLOTRUST") is rated AAAM by Standard & Poor's with a weighted average maturity of under 60 days. COLOTRUST is an investment trust/joint ventures established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. The trusts operate similarly to a money market fund with each share maintaining a value of \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. Designated custodian banks provide safekeeping and depository services to the trusts. Substantially all securities owned by the trusts are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians' internal records identify the investments owned by COLOTRUST. At December 31, 2017, the District had \$140 invested in COLOTRUST.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2017

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2017 follows:

	Balance 01/01/17	Additions	Conveyances	Balance 12/31/17
Construction in progress	\$ 6,232,471	\$ 5,692,255	\$ -	\$ 11,924,726

It is anticipated that the District will convey the completed infrastructure to the Town or County for operations and maintenance purposes. The District retains the right to maintain ownership in the facilities and/or retain responsibility for operations and maintenance. Construction in progress is not subject to depreciation, therefore there were no depreciation expenses in 2017.

Note 4: Long Term Debt

A description of the long-term obligations as of December 31, 2017, is as follows:

Demand Revenue Bonds Series 2004A/B. On February 24, 2012, the District remarketed the Series 2004 Bonds. The amount of \$10,490,000 of the remarketed bonds will be Series 2004A Bonds and bear interest at 3.36% and mature on December 1, 2018. Interest payments are paid June 1st and December 1st. The amount of \$9,681,000 of the Series 2004 Bonds was remarketed as Subordinate Series 2004B Developer Bonds maturing December 1, 2041. The interest rate shall not exceed 9% accruing and compounding until paid. The remaining \$569,000 was redeemed from District Funds and cancelled. The bonds are subject to a mandatory sinking fund redemption commencing on December 1, 2012. The Bonds are subject to an early redemption at the option of the District commencing December 1, 2012 with prepayment fee of 2% if prior to March 1, 2013 and 1% if prior to March 1, 2015 and par value if prepayments are received after March 1, 2015. The Bonds are secured by Pledged Revenues including fire station fees and property tax mill levies designated for debt service. The taxes are collected by District No. 2. In 2017, the District received \$16,800 in fire station fees and \$65,000 in property tax mill levy for debt service payment as outlined in the District Facilities Construction and Service Agreement. On December 23, 2015, the Series 2004A bonds were fully refunded by the Series 2015 Refunding Loan and \$4,548,000 of the Series 2004B were refunded with the Series 2015 Loan held by District No. 2. On November 1, 2017, the Series 2004B bonds were fully refunded by the Series 2017 Refunding Loan held by District No. 2.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2017

Debt Authorization

As of December 31, 2017, the District had remaining voted debt authorization of approximately \$93,543,989. 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 the date of this audit, the amount and timing of any debt issuances is not determinable. Per the District's Service Plan, the District debt is limited to \$45,000,000 of which \$1,043,989 is remaining.

Note 5: Related Party

Two of the Board of Directors are employees, owners, consultants or are otherwise associated with Crystal Valley Ranch Development Co., LLC, (the "Developer"), and may have conflicts of interest in dealing with the District. Two other members of the Board of Directors of the District are consultants, directly or indirectly, to Paulson Property Management, LLC, (the "Investor") which has ownership and/or development interests in property within the District. Management believes that all potential conflicts, if any, have been disclosed to the Secretary of State and the Board of Directors.

Note 6: Agreements

District Development Fees

On June 4, 2001, the District and District No. 2 adopted and approved the Joint Resolution Concerning Imposition of the District Development Fee. The Districts approved the fee of \$2,100 for a single family equivalent ("SFE") dwelling unit and \$1,260 for multi-family attached dwelling units with a five percent (5%) increase at the Board's discretion, as the same is determined on an annual basis. The fees were designated to repay the prepaid development fees paid by the developer in 2005. The repayment of the prepaid fees obligation has been met, therefore the next \$300,000 in fees collected are now designated to the construction of the highway interchange. Once that has been satisfied or the Districts determine that funding of the project is no longer necessary, the fees will be a revenue source for the payment of subordinate indebtedness of the Districts. The fees are due at the time a building permit is obtained by the builder. In January 2012, the SFE fee was raised to \$2,205. There was no fee increase for 2017. In 2017, the District received \$520,980 in SFE fees.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2017

Development and Cost Reimbursement Agreement

In 2005, the District entered into a Development and Cost Reimbursement Agreement with Crystal Crossing Metropolitan District ("Crystal Crossing"), and Lanterns Metropolitan District ("Lanterns"), whereby the three districts would pay the costs of building a bridge, which would extend Crystal Valley Parkway over Plum Creek and Union Pacific Railroad. The Agreement states that the District is responsible for 76% of the costs while Lanterns and Crystal Crossing are each responsible for 12% of the costs respectively. Each District agreed to fund 115% of the amount of their Track Bridge Share of the construction costs. Additionally, Lanterns is not obligated to fund any portion of its share until 35 days after recordation of a Development Plat. As such, the District funded 86.4% of the costs and Crystal Crossing the remaining 13.6%. All construction costs incurred in 2011 were expensed. The District has paid all costs on their behalf. As part of this project, the District entered into an Intergovernmental Agreement with the County whereby the County would manage the construction project. Construction costs related to this project were conveyed immediately to the County. Lanterns currently owes the District \$1,192,986, however, does not have the capacity to repay the District therefore, the receivable is not recorded in the financial statements.

Assignment of Revenues under the Track Bridge Agreement

Pursuant to the Assignment of Revenues under the Track Bridge Agreement dated January 23, 2006, and amended July 19, 2006 and February 17, 2012, Developer paid the District \$1,200,000 to help finance Lanterns' obligation for the construction of the track bridge. As the repayment is contingent upon Lanterns' ability to repay the District, the amount was recorded as revenue and does not accrue interest. In 2010, \$988,805 of this amount was repaid with the settlement received from Union Pacific Railroad. Per this agreement, all revenues received from Lanterns are assigned to the Developer from the District. When Lanterns is able to repay the amount owed, a portion of the funds will be used to repay the December 31, 2017 balance of \$211,195 on this assignment. The remaining moneys received will be applied to long-term debt obligations.

Development Agreement

Pursuant to the terms of the Crystal Valley Ranch Second Amended and Restated Development Agreement ("Agreement"), dated as of February 24, 2012, notwithstanding, it is anticipated that the District will participate in construction of a Highway Interchange (the "Interchange"). To date, the District has allocated bond proceeds of \$1,386,064 into an escrow account (the "Interchange Escrow") and funded \$88,018 in engineering costs from the escrow. In addition, the District has expended monies totaling \$1,693,976 toward qualifying expenditures for the Interchange. The remaining responsibility for Interchange costs attributable to the Crystal Valley development was approximately \$2,300,000. Per the agreement, the investor contributed \$3,000,000 of which \$687,153 was disbursed to the District. The balance of \$2,312,847 was retained by the Interchange Escrow. As of December 31, 2017, the District has \$3,704,176 in escrow to be used for the Interchange construction.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2017

District Facilities Construction and Service Agreement

On June 4, 2001, and as amended on February 24, 2012, the District entered into a District Facilities Construction and Service Agreement with District No. 2 under which the District coordinates the financing, acquisition, construction, installation, completion, operation, maintenance and repair of public improvements and the management, administration and provision of services benefitting both Districts. District No. 2 will financially support the repayment of bonds and other obligations incurred in connection with the completion, operation, maintenance and repair of public improvements and the management, administration and provision of services by District No. 1.

Improvement and Escrow Agreement

On June 9, 2016, the District entered into an Improvement and Escrow Agreement with the Investor and Melody Homes, ("Melody"), and Heritage Title Company, Inc., ("Escrow Agent"). Melody has agreed to purchase 234 lots within the District No. 2. The Investor has agreed to construct, install and obtain acceptance by all applicable governmental entities of North / South drainage system and Ditmars Road Extension. Per this agreement, the Investor deposited \$2,743,026 with the Escrow Agent to fund the cost of the improvements on behalf of the District. The moneys are treated as Investor contributions on the Income Statement. As of December 31, 2017, the Investor has contributed \$6,099,054 for the project which also includes the addition of the East / West Drainage project and several approved change orders.

Property Owner Contribution Agreement

In 2016, the District entered into a Property Owner Contribution Agreement with the Investor. The District has entered into certain contracts for the construction of the Crystal Valley Parkway improvements, (the "Westbound Lanes"). Since the District does not have the funding to complete the Westbound Lanes, the Investor has agreed to contribute to the District the funds not to exceed \$3,066,710 unless there are any change orders that would increase the contract and the Investor does not object, the funds contributed may increase. The moneys are treated as Investor contributions on the Income Statement. As of December 31, 2017, the Investor has contributed \$3,602,538.

Property Owner Contribution Agreement

On August, 23, 2016, the District entered into a Property Owner Contribution Agreement with the Investor. The District has entered into certain contracts for the construction of the retaining wall and overlot grading, ("Filing 12 Improvements"). Since the District does not have the funding to complete the Filing 12 Improvements, the Investor has agreed to contribute to the District the funds not to exceed \$984,401 unless there are any change orders that would increase the contract and the Investor does not object, the funds contributed may increase. The moneys are treated as Investor contributions on the Income Statement. As of December 31, 2017, the Investor has contributed \$1,624,435.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2017

Note 6: Tax, Spending and Debt Limitations

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

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

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

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

On November 6, 2001, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

Note 7: Risk Management

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

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2017

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

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

- 1) capital improvements used in government activities are not financial resources and, therefore are not reported in the funds; and
- 2) long-term liabilities such as bonds payable and accrued bond interest payable are not due and payable in the current period and, therefore, are not in the funds.

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

- 1) governmental funds report capital outlays as expenditures, however, in the statement of activities, the costs of those assets are held as construction in process pending transfer to other governmental entities or depreciated over their useful lives;
- 2) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities;
- 3) governmental funds report developer advances and/or bond proceeds as revenue; and,
- 4) governmental funds report long-term debt payments as expenditures, however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long-term liabilities.

SUPPLEMENTAL INFORMATION

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - DEBT SERVICE FUND

For the Year Ended December 31, 2017

	Original <u>Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES				
Property taxes	2,285	\$ 2,285	\$ 2,285	\$ -
Specific ownership taxes	183	183	252	69
Fire station fees	-	16,800	16,800	-
Transfer from District 2	317,483	6,508,573	5,695,455	(813,118)
Interest income	<u>-</u>	<u>1</u>	<u>1</u>	<u>-</u>
Total Revenues	<u>319,951</u>	<u>6,527,842</u>	<u>5,714,793</u>	<u>(813,049)</u>
EXPENDITURES				
Bond interest expense	317,483	1,000,000	562,485	437,515
Bond principal expense	-	5,200,000	5,133,000	67,000
Miscellaneous	-	293,966	-	293,966
Paying agent fees	6,000	6,000	3,000	3,000
Treasurer's fees	<u>34</u>	<u>34</u>	<u>34</u>	<u>-</u>
Total Expenditures	<u>323,517</u>	<u>6,500,000</u>	<u>5,698,519</u>	<u>801,481</u>
NET CHANGE IN FUND BALANCE	(3,566)	27,842	16,274	(11,568)
FUND BALANCE:				
BEGINNING OF YEAR	<u>89,461</u>	<u>89,461</u>	<u>101,029</u>	<u>11,568</u>
END OF YEAR	<u>\$ 85,895</u>	<u>\$ 117,303</u>	<u>\$ 117,303</u>	<u>\$ -</u>

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - CAPITAL PROJECTS FUND

For the Year Ended December 31, 2017

	Original and <u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Interest income	\$ 1,000	\$ 2,911	\$ 1,911
System development fees	<u>167,580</u>	<u>520,980</u>	<u>353,400</u>
Total Revenues	<u>168,580</u>	<u>523,891</u>	<u>355,311</u>
EXPENDITURES			
Capital improvements	8,406,021	5,692,255	2,713,766
Miscellaneous	<u>2,000</u>	<u>-</u>	<u>2,000</u>
Total Expenditures	<u>8,408,021</u>	<u>5,692,255</u>	<u>2,715,766</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(8,239,441)	(5,168,364)	3,071,077
OTHER FINANCING SOURCES (USES)			
Investor contributions	<u>4,000,000</u>	<u>5,636,599</u>	<u>1,636,599</u>
Total Other Financing Sources (Uses)	<u>4,000,000</u>	<u>5,636,599</u>	<u>1,636,599</u>
NET CHANGE IN FUND BALANCE	(4,239,441)	468,235	4,707,676
FUND BALANCE:			
BEGINNING OF YEAR	<u>4,239,441</u>	<u>4,368,396</u>	<u>128,955</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 4,836,631</u>	<u>\$ 4,836,631</u>

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

Crystal Valley Metropolitan District No. 2
2017 Audit

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Financial Statements

Year Ended December 31, 2017

with

Independent Auditor's Report

C O N T E N T S

	<u>Page</u>
<u>Independent Auditor's Report</u>	I
<u>Basic Financial Statements</u>	
Balance Sheet/Statement of Net Position - Governmental Funds	1
Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities - Governmental Funds	2
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	3
Notes to Financial Statements	4
<u>Supplemental Information</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Debt Service Fund	18
Summary of Assessed Valuation, Mill Levy and Property Taxes Collected	19



Hiratsuka & Associates, L.L.P.
Certified Public Accountants & Business Advisors

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Crystal Valley Metropolitan District No. 2
Douglas County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Crystal Valley Metropolitan District No. 2 (the District), Douglas County, Colorado, as of and for the year ended December 31, 2017, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of Crystal Valley Metropolitan District No. 2, Douglas County, Colorado, as of December 31, 2017, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in conformity with U.S. GAAP.

Other Matters

Required Supplementary Information

Management has not presented Management's Discussion and Analysis. Such missing information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Information

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

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

Hiratsuka & Associates, LLP

July 30, 2018
Wheat Ridge, Colorado

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

BALANCE SHEET/STATEMENT OF NET POSITION GOVERNMENTAL FUNDS December 31, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS					
Cash and investments	\$ 426,423	\$ -	\$ 426,423	\$ -	\$ 426,423
Cash and investments - restricted	540	1,141,012	1,141,552	-	1,141,552
Receivable - County Treasurer	1,797	8,255	10,052	-	10,052
Property taxes receivable	364,094	1,672,754	2,036,848	-	2,036,848
Prepaid expenses	<u>3,367</u>	<u>-</u>	<u>3,367</u>	<u>-</u>	<u>3,367</u>
Total Assets	<u>\$ 796,221</u>	<u>\$ 2,822,021</u>	<u>\$ 3,618,242</u>	<u>-</u>	<u>3,618,242</u>
LIABILITIES					
Accounts payable	\$ 61	\$ -	\$ 61	-	61
Accrued interest on bonds	-	-	-	5,769,073	5,769,073
Long-term liabilities:					
Due within one year	-	-	-	465,000	465,000
Due in more than one year	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,575,000</u>	<u>60,575,000</u>
Total Liabilities	<u>61</u>	<u>-</u>	<u>61</u>	<u>66,809,073</u>	<u>66,809,134</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred property taxes	<u>364,094</u>	<u>1,672,754</u>	<u>2,036,848</u>	<u>-</u>	<u>2,036,848</u>
Total Deferred Inflows of Resources	<u>364,094</u>	<u>1,672,754</u>	<u>2,036,848</u>	<u>-</u>	<u>2,036,848</u>
FUND BALANCES/NET POSITION					
Fund Balances:					
Nonspendable:					
Prepays	3,367	-	3,367	(3,367)	-
Restricted:					
Emergencies	540	-	540	(540)	-
Debt service	-	1,149,267	1,149,267	(1,149,267)	-
Unassigned	<u>428,159</u>	<u>-</u>	<u>428,159</u>	<u>(428,159)</u>	<u>-</u>
Total Fund Balances	<u>432,066</u>	<u>1,149,267</u>	<u>1,581,333</u>	<u>(1,581,333)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances					
	<u>\$ 796,221</u>	<u>\$ 2,822,021</u>	<u>\$ 3,618,242</u>		
Net Position:					
Restricted for:					
Emergencies				540	540
Debt service				(4,619,806)	(4,619,806)
Unrestricted				<u>(60,608,474)</u>	<u>(60,608,474)</u>
Total Net Position				<u>\$ (65,227,740)</u>	<u>\$ (65,227,740)</u>

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES GOVERNMENTAL FUNDS

For the Year Ended December 31, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES					
Insurance	\$ 3,371	\$ -	\$ 3,371	\$ -	\$ 3,371
Audit	4,100	-	4,100	-	4,100
Directors fees	1,600	-	1,600	-	1,600
Payroll taxes	122	-	122	-	122
Miscellaneous	148	16	164	-	164
Transfer to District No. 1	65,000	5,695,455	5,760,455	-	5,760,455
Paying agent / trustee fees	-	1,500	1,500	-	1,500
Costs of issuance	-	254,700	254,700	-	254,700
Treasurer's fees	3,675	16,884	20,559	-	20,559
Interest expense	-	621,682	621,682	1,864,822	2,486,504
Principal payment	-	300,000	300,000	(300,000)	-
Total Expenditures	<u>78,016</u>	<u>6,890,237</u>	<u>6,968,253</u>	<u>1,564,822</u>	<u>8,533,075</u>
GENERAL REVENUES					
Property taxes	244,810	1,124,659	1,369,469	-	1,369,469
Specific ownership taxes	26,827	123,243	150,070	-	150,070
Interest income	<u>1,953</u>	<u>9,693</u>	<u>11,646</u>	<u>-</u>	<u>11,646</u>
Total General Revenues	<u>273,590</u>	<u>1,257,595</u>	<u>1,531,185</u>	<u>-</u>	<u>1,531,185</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	195,574	(5,632,642)	(5,437,068)	(1,564,822)	(7,001,890)
OTHER FINANCING SOURCES (USES)					
Loan proceeds	<u>-</u>	<u>6,110,000</u>	<u>6,110,000</u>	<u>(6,110,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>6,110,000</u>	<u>6,110,000</u>	<u>(6,110,000)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	195,574	477,358	672,932	(672,932)	
CHANGE IN NET POSITION				(7,001,890)	(7,001,890)
FUND BALANCES/NET POSITION:					
BEGINNING OF YEAR	<u>236,492</u>	<u>671,909</u>	<u>908,401</u>	<u>(59,134,251)</u>	<u>(58,225,850)</u>
END OF YEAR	<u>\$ 432,066</u>	<u>\$ 1,149,267</u>	<u>\$ 1,581,333</u>	<u>\$ (66,809,073)</u>	<u>\$ (65,227,740)</u>

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2017

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 244,895	\$ 244,810	\$ (85)
Specific ownership taxes	19,592	26,827	7,235
Interest income	243	1,953	1,710
Total Revenues	264,730	273,590	8,860
EXPENDITURES			
Insurance	3,500	3,371	129
Audit	4,500	4,100	400
Directors fees	6,000	1,600	4,400
Payroll taxes	500	122	378
Legal	-	-	-
Miscellaneous	1,000	148	852
Transfer to District No. 1	245,107	65,000	180,107
Treasurer's fees	3,673	3,675	(2)
Emergency reserve	450	-	450
Total Expenditures	264,730	78,016	186,714
NET CHANGE IN FUND BALANCE	-	195,574	195,574
FUND BALANCE:			
BEGINNING OF YEAR	-	236,492	236,492
END OF YEAR	\$ -	\$ 432,066	\$ 432,066

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements

December 31, 2017

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Crystal Valley Metropolitan District No. 2, (the "District"), located in Douglas County, Colorado, conform to the accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized in 1986 concurrently with Crystal Valley Metropolitan District No. 1 ("District No. 1"), as a quasi-municipal organization established under the State of Colorado Special District Act. District No. 1 has the power to provide water, streets, traffic and safety controls, television relay and translator, transportation, park and recreation, mosquito and pest control, fire protection and emergency medical services, sanitation facilities and other related improvements for the benefit of the taxpayers and service users within both District No. 1 and No. 2 boundaries. The Service Plan anticipates that the District No. 1 will convey water, sanitation facilities, streets and other facilities to the Town of Castle Rock, Colorado ("the Town") or Douglas County ("the County") for operation and maintenance purposes. District No. 1 may however, upon mutual agreement with the Town, retain ownership in the facilities and/or retain responsibility for operations and maintenance.

The District is intended to serve as the "Taxing District" while District No. 1 is intended to serve as the "Operating District". The District collects property and specific ownership taxes, and on a yearly basis remits payments to District No. 1 for the purpose of funding operational expenses and the retirement of long-term debt.

The Operating District is responsible for providing the day-to-day operations and administrative management for both Districts.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB, Statement No. 61, *The Financial Reporting Entity: Omnibus, which amended* GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which provides guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2017

Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency. The pronouncements also require including a possible component unit if it would be misleading to exclude it.

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

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

Basis of Presentation

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

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements

December 31, 2017

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

The District reports the following major governmental funds:

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

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

Budgetary Accounting

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

In October 2017, the District amended the appropriations in the Debt Service Fund from \$1,242,703 to \$7,500,000 primarily due to the issuance of the Series 2017 loan (see Note 3).

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

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2017, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2017

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

Estimates

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

Deferred Outflows/Inflows of Resources

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

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

Property Taxes

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

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2017

Long-Term Obligations

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

Fund Equity

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

Nonspendable Fund Balance

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

Restricted Fund Balance

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

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$540 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$1,149,267 is restricted for the payment of the debt service costs associated with the General Obligation Refunding Loan Series 2015 (see Note 3) and for the transfer to District No. 1 as outlined in the District Facilities Construction and Service Agreement with District No. 1 on June 4, 2001 and amended February 21, 2012 (see Note 6).

Committed Fund Balance

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

Assigned Fund Balance

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2017

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund, all other funds can report negative amounts. For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

Net Position

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

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets. At December 31, 2017, the District did not have any amounts to report in this category.

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

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

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

Note 2: Cash and Investments

As of December 31, 2017, cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and investments	\$ 426,423
Cash and investments - Restricted	<u>1,141,552</u>
Total	<u>\$ 1,567,975</u>

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2017

Cash and investments as of December 31, 2017 consist of the following:

Deposits with financial institutions	\$ 843,799
Investments - COLOTRUST	<u>724,176</u>
	\$ <u>1,567,975</u>

Deposits

Custodial Credit Risk

The Colorado Public Deposit Protection Act, ("PDPA") requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

The District does not have a formal policy for deposits, however, none of the District's deposits were exposed to custodial credit risk.

Investments

Credit Risk

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

Custodial and Concentration of Credit Risk

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

Interest Rate Risk

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2017

Investment Valuation

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

As of December 31, 2017, the District had the following investments:

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust ("COLOTRUST") is rated AAAM by Standard & Poor's with a weighted average maturity of under 60 days. COLOTRUST is an investment trust/joint ventures established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. The trusts operate similarly to a money market fund with each share maintaining a value of \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. Designated custodian banks provide safekeeping and depository services to the trusts. Substantially all securities owned by the trusts are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians' internal records identify the investments owned by COLOTRUST. At December 31, 2017, the District had \$724,176 invested in COLOTRUST.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2017

Note 3: Long Term Debt

A description of the long-term obligations as of December 31, 2017, is as follows:

General Obligation Refunding Subordinate Bonds Series 2014A and Series 2014B

On August 1, 2014, the District issued \$28,370,000 of General Obligation Refunding Subordinate Bonds Series 2014A at an interest rate of 5.5% and \$10,000,000 of General Obligation Refunding Subordinate Bonds Series 2014B at an interest rate of 0%. The 2014A and 2014B Bonds mature on December 15, 2049. Both sets of bonds were issued for the purpose of refunding developer notes, including any accrued interest, held by District No. 1.

The amounts of all other Subordinate Debt of District No. 1, as listed above, that is not otherwise restructured into the Series 2014A and Series 2014B Bonds have been discharged in its entirety. Per a Limited Mutual Release between the Districts and the Subordinate Bondholders, dated July 2, 2014, both the Series 2014A and 2014B Bonds are subject to discharge in their entirety thirty-five years after issuance, unless litigation is filed against the developer entity, Bondholders or current or past board members by or through the Districts challenging the enforceability or terms of the Bonds, or relating in any way to the operations of the District. The Subordinate Bondholders also agree to release the Districts, their successors, administrators, principals, board members, officers and assigns and any construction management fees of any possible challenges on the past, present or future operations of the Districts. If such litigation is filed by either party, the principal and interest due on the Series 2014A and Series 2014B Bonds will not be discharged at year thirty-five (35) but rather will be due and payable until paid in full.

Limited Tax General Obligation Refunding Loan Series 2015

On December 23, 2015, the District authorized the issuance of Limited Tax General Obligation Refunding Loan Series 2015, (the "Series 2015 Loan") for refunding of the outstanding Limited Tax General Obligation Bonds Series 2004A and a portion of the Series 2004B bonds held by District No. 1. The loan bears interest at 3.54% per annum, payable semiannually on each June 1 and December 1, commencing on June 1, 2016. The loan is subject to mandatory sinking fund redemption commencing on December 1, 2016. The 2015 Series Loan is secured by Pledged Revenues including (i) the Required Mill Levy; (ii) the portion of the Specific Ownership Tax which is collected as a result of the imposition of the Required Mill Levy; and (iii) any other legally available moneys which the District determines, in its absolute discretion, to transfer to the Trustee for application as Pledged Revenue.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2017

Limited Tax General Obligation Refunding Loan Series 2017

On November 1, 2017, the District authorized the issuance of Limited Tax General Obligation Refunding Loan Series 2017, (the "Series 2017 Loan") for refunding of the outstanding Limited Tax General Obligation Bonds Series 2004B bonds held by District No. 1. The loan bears interest at 3.25% per annum, payable semiannually on each June 1 and December 1, commencing on December 1, 2017. The loan is subject to mandatory sinking fund redemption commencing on December 1, 2018. The 2017 Series Loan is secured by Pledged Revenues including (i) the Required Mill Levy; (ii) the portion of the Specific Ownership Tax which is collected as a result of the imposition of the Required Mill Levy; and (iii) any other legally available moneys which the District determines, in its absolute discretion, to transfer to the Trustee for application as Pledged Revenue.

The District funded a Reserve Fund for the Series 2015 Loan and the Series 2017 Loan in the amount of \$696,339. The Reserve Fund shall be maintained by the Trustee until the date upon the Series 2015 Loan and the Series 2017 Loan are fully repaid.

Amended and Restated Intercreditor Agreement

The District entered into an Amended and Restated Intercreditor Agreement with District No. 1 and all bond holders of both Districts, dated August 1, 2014, in order to set priority of payment of the debt issued by District No. 1 and the District. Under the obligations of the Master IGA, the District is to provide revenues to District No. 1 to pay its debt service obligations. The Series 2004A Bonds issued by District No. 1 have priority of the revenues provided by the District for interest and principal payments followed by the Series 2004B Bonds (also issued by District No. 1), the Series 2014A Bonds and finally the Series 2014B Bonds if not discharged. On December 23, 2015, the Series 2015 Loan repayment replaced the Series 2004A Bonds. On November 1, 2017, the Series 2017 Loan replaced the Series 2004B Bonds.

The following is a summary of the annual long-term debt principal and interest requirements for the Series 2015 Loan:

	Principal	Interest	Total
2018	\$ 375,000	\$ 594,366	\$ 969,366
2019	390,000	580,907	970,907
2020	420,000	568,462	988,462
2021	435,000	551,834	986,834
2022	470,000	832,555	1,302,555
2023	14,470,000	815,268	15,285,268
	<u>\$ 16,560,000</u>	<u>\$ 3,943,392</u>	<u>\$ 20,503,392</u>

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2017

The following is a summary of the annual long-term debt principal and interest requirements for the Series 2017 Loan:

	Principal	Interest	Total
2018	\$ 90,000	\$ 198,575	\$ 288,575
2019	95,000	195,650	290,650
2020	105,000	192,563	297,563
2021	110,000	189,150	299,150
2022	115,000	185,575	300,575
2023 - 2027	25,000	1,407,238	1,432,238
2028 - 2032	60,000	1,530,100	1,590,100
2033 - 2037	420,000	1,480,325	1,900,325
2038 - 2042	985,000	1,305,425	2,290,425
2043 - 2047	4,105,000	898,700	5,003,700
	<u>\$ 6,110,000</u>	<u>\$ 7,583,300</u>	<u>\$ 13,693,300</u>

The following is an analysis of changes in long-term debt for the period ending December 31, 2017:

	Balance 1/1/2017	Additions	Deletions	Balance 12/31/2017	Current Portion
G.O. Refunding Sub. Bonds 2014A	\$ 28,370,000	\$ -	\$ -	\$ 28,370,000	\$ -
G.O. Refunding Sub. Bonds 2014B	10,000,000	-	-	10,000,000	-
G.O. Refunding Loan 2015	16,860,000	-	300,000	16,560,000	375,000
G.O. Refunding Loan 2017	-	6,110,000	-	6,110,000	90,000
Total	<u>\$ 55,230,000</u>	<u>\$ 6,110,000</u>	<u>\$ 300,000</u>	<u>\$ 61,040,000</u>	<u>\$ 465,000</u>

The schedules for the Series 2014A and Series 2014B bonds are not presented as the repayments of those bonds are subordinate to the Series 2015 and Series 2017 loans.

Debt Authorization

In 1999, 2000 and 2001, a majority of the qualified electors of the District who voted in the election authorized the issuance of indebtedness of \$137,500,000. As of December 31, 2017, the amount of debt authorized by the District's electorate but unissued was \$99,130,000. Per the District's Service Plan, the District debt is limited to \$45,000,000 of which \$6,630,000 is remaining. The District has not budgeted to issue any new debt during 2018.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2017

Note 5: Related Party

Two members of the Board of Directors of the District are consultants, directly or indirectly, to Paulson Property Management, LLC, (the "Investor") which acquired significant ownership and/or development interests in property within the District in February 2012. In February 2012, one of the board members who provided consulting services to the Investor was hired as the Executive Vice President of Raintree Investment Corporation, the exclusive agent for the Investor. Management believes that all potential conflicts, if any, have been disclosed to the Secretary of State and the Board of Directors.

Note 6: Agreements

District Facilities Construction and Service Agreement

On June 4, 2001, and as amended on February 24, 2012, the District entered into a District Facilities Construction and Service Agreement with District No. 2 under which the District coordinates the financing, acquisition, construction, installation, completion, operation, maintenance and repair of public improvements and the management, administration and provision of services benefitting both Districts. District No. 2 will financially support the repayment of bonds and other obligations incurred in connection with the completion, operation, maintenance and repair of public improvements and the management, administration and provision of services by District No. 1.

Note 7: Tax, Spending and Debt Limitations

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

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

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

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements

December 31, 2017

On November 6, 2001, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution

Note 8: Risk Management

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

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

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

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

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

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

- 1) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities;
- 2) governmental funds report developer advances and/or bond proceeds as revenue; and,
- 3) governmental funds report long-term debt payments as expenditures, however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long-term liabilities.

SUPPLEMENTAL INFORMATION

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - DEBT SERVICE FUND

For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 1,125,048	\$ 1,125,048	\$ 1,124,659	\$ (389)
Specific ownership taxes	78,753	78,753	123,243	44,490
Interest income	500	500	9,693	9,193
Total Revenues	<u>1,204,301</u>	<u>1,204,301</u>	<u>1,257,595</u>	<u>53,294</u>
EXPENDITURES				
Miscellaneous	5,500	5,500	16	5,484
Transfer to District No. 1	317,483	6,295,234	5,695,455	599,779
Paying agent / trustee fees	6,000	6,000	1,500	4,500
Costs of issuance	-	254,700	254,700	-
Treasurer's fees	16,876	16,884	16,884	-
Interest expense	596,844	621,682	621,682	-
Principal payment	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>-</u>
Total Expenditures	<u>1,242,703</u>	<u>7,500,000</u>	<u>6,890,237</u>	<u>609,763</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(38,402)	(6,295,699)	(5,632,642)	663,057
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	6,110,000	6,110,000	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>6,110,000</u>	<u>6,110,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(38,402)	(185,699)	477,358	663,057
FUND BALANCE:				
BEGINNING OF YEAR	<u>584,740</u>	<u>584,740</u>	<u>671,909</u>	<u>87,169</u>
END OF YEAR	<u>\$ 546,338</u>	<u>\$ 399,041</u>	<u>\$ 1,149,267</u>	<u>\$ 750,226</u>

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED

December 31, 2017

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>	<u>Mills Levied</u>		<u>Total Property Tax</u>		<u>Percent Collected to Levied</u>
		<u>General Fund</u>	<u>Debt Service</u>	<u>Budgeted</u>	<u>Collected</u>	
2003	\$ 58,390	40.000	0.000	\$ 2,336	\$ 2,339	100.15%
2004	\$ 1,554,320	1.000	47.940	\$ 76,068	\$ 77,900	102.41%
2005	\$ 4,648,370	1.000	45.940	\$ 218,194	\$ 230,085	105.45%
2006	\$ 6,905,280	1.000	45.940	\$ 324,134	\$ 390,995	120.63%
2007	\$ 14,088,457	1.000	45.940	\$ 661,312	\$ 663,021	100.26%
2008	\$ 18,898,700	1.000	45.940	\$ 887,105	\$ 798,105	89.97%
2009	\$ 18,965,710	1.000	45.940	\$ 890,250	\$ 703,655	79.04%
2010	\$ 17,990,510	10.000	45.940	\$ 1,006,389	\$ 1,005,743	99.94%
2011	\$ 18,241,110	10.000	45.940	\$ 1,020,408	\$ 1,022,812	100.24%
2012	\$ 14,771,930	10.000	45.940	\$ 826,342	\$ 819,337	99.15%
2013	\$ 14,710,110	10.000	45.940	\$ 822,884	\$ 820,305	99.69%
2014	\$ 15,147,230	10.000	45.940	\$ 847,336	\$ 847,327	100.00%
2015	\$ 16,535,800	10.000	45.940	\$ 925,013	\$ 924,958	99.99%
2016	\$ 21,544,050	10.000	45.940	\$ 1,205,174	\$ 1,205,243	100.01%
2017	\$ 24,489,510	10.000	45.940	\$ 1,369,943	\$ 1,369,469	99.97%
Estimated for year ending December 31, 2018	\$ 33,787,540	10.776	49.508	\$ 2,036,848		

NOTE

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

Crystal Valley Metropolitan District No. 1
2018 Budget

RESOLUTION
ADOPTING BUDGET, IMPOSING MILL LEVY AND APPROPRIATING FUNDS

(2018)

The Board of Directors of Crystal Valley Metropolitan District No. 1 (the "Board"), City of Aurora, Colorado (the "District") held a special meeting at 2160 Fox Haven Dr., Castle Rock, Colorado, on Tuesday, October 24, 2017, at the hour of 10:00 A.M.

Prior to the meeting, each of the directors was notified of the date, time and place of the budget meeting and the purpose for which it was called and a notice of the meeting was posted or published in accordance with §29-1-106, C.R.S.

[Remainder of Page Intentionally Left Blank.]

NOTICE AS TO PROPOSED 2018 BUDGET

AFFIDAVIT OF PUBLICATION

State of Colorado)ss
County of Douglas

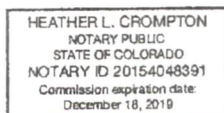
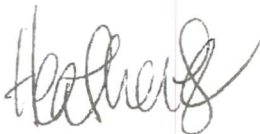
This Affidavit of Publication for the Douglas County News Press, a weekly newspaper, printed and published for the County of Douglas, State of Colorado, hereby certifies that the attached legal notice was published in said newspaper once in each week, for 1 successive week(s), the last of which publication was made the 12th day of October A.D., 2017, and that copies of each number of said paper in which said Public Notice was published were delivered by carriers or transmitted by mail to each of the subscribers of said paper, according to their accustomed mode of business in this office.



for the Douglas County News Press

State of Colorado)
County of Douglas)ss

The above Affidavit and Certificate of Publication was subscribed and sworn to before me by the above named Gerard Healey, publisher of said newspaper, who is personally known to me to be the identical person in the above certificate on 12th day of October A.D., 2017. Gerard Healey has verified to me that he has adopted an electronic signature to function as his signature on this document.



Notary Public

My Commission Expires 12/18/19

NOTICE OF PUBLIC HEARING ON THE PROPOSED 2018 BUDGETS AND NOTICE OF PUBLIC HEARING ON THE AMENDED 2017 BUDGETS

NOTICE IS HEREBY GIVEN that proposed 2018 budgets have been submitted to the Boards of Directors (each a "Board," collectively the "Boards") of the CRYSTAL VALLEY METROPOLITAN DISTRICT NOS. 1 & 2 (each a "District," collectively the "Districts"). A copy of the proposed budgets are on file in the office of Simmons & Wheeler, P.C., 304 Inverness Way South, Suite 490, Englewood, Colorado, where the same are open for public inspection.

NOTICE IS FURTHER GIVEN that amendment to the 2017 budgets have been submitted to the Districts. Copies of the proposed amended budgets are on file in the office of Simmons & Wheeler, P.C., 304 Inverness Way South, Suite 490, Englewood, Colorado, where the same are open for public inspection.

Such proposed budgets and amended budgets will be considered at a public hearing during a joint meeting of the Districts to be held at 2160 Fox Haven Dr., Castle Rock, Colorado, on Tuesday, October 24, 2017 at 10:00 A.M. Any interested elector of the Districts may file any objections to the proposed budgets or amended budgets at any time prior to final adoption of the budgets and amended budgets by the governing body of the Districts.

BY ORDER OF THE BOARDS
OF DIRECTORS:
CRYSTAL VALLEY METROPOLITAN
DISTRICT NOS. 1 & 2

/s/ WHITE BEAR ANKELE
TANAKA & WALDRON
Attorneys at Law

Legal Notice No.: 931752
First Publication: October 12, 2017
Last Publication: October 12, 2017
Publisher: Douglas County News-Press

Thereupon, Director Richmond introduced and moved the adoption of the following Resolution:

RESOLUTION

A RESOLUTION SUMMARIZING EXPENDITURES AND REVENUES FOR EACH FUND AND ADOPTING A BUDGET AND APPROPRIATING SUMS OF MONEY TO EACH FUND IN THE AMOUNTS AND FOR THE PURPOSES SET FORTH HEREIN FOR THE DISTRICT FOR THE CALENDAR YEAR BEGINNING ON THE FIRST DAY OF JANUARY 2018 AND ENDING ON THE LAST DAY OF DECEMBER 2018.

WHEREAS, the Board has authorized its treasurer, accountant and/or legal counsel to prepare and submit a proposed budget to the Board in accordance with Colorado law; and

WHEREAS, the proposed budget has been submitted to the Board for its review and consideration; and

WHEREAS, upon due and proper notice, provided in accordance with Colorado law, said proposed budget was open for inspection by the public at a designated place, a public hearing was held on October 24, 2017, interested electors were given the opportunity to file or register any objections to said proposed budget and no written objections were filed prior to the public hearing; and

WHEREAS, the budget being adopted by the Board has been prepared based on the best information available to the Board regarding the effects of § 29-1-101, *et seq.*, C.R.S., as applicable, and Article X, § 20 of the Colorado Constitution.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD AS FOLLOWS:

Section 1. Summary of 2018 Revenues and 2018 Expenditures. The estimated revenues and expenditures for each fund for fiscal year 2018, as more specifically set forth in the budget attached hereto, are accepted and approved.

Section 2. Adoption of Budget. The budget as submitted, amended, attached hereto and incorporated herein is approved and adopted as the budget of the District for fiscal year 2018.

In the event of recertification of values by the County Assessor's Office after the date of adoption hereof, staff is hereby directed to modify and/or adjust the budget and certification to reflect the recertification without the need for additional Board authorization. Any such modification to the budget or certification as contemplated by this Section 2 shall be deemed ratified by the Board.

Section 3. Levy for General Operating Expenses. For the purpose of meeting all general operating expenses of the District during the 2018 budget year, there is hereby levied a tax of sixty and two hundred eighty-four thousandths (60.284) mills upon each dollar of the total valuation of assessment of all taxable property within the District.

Section 4. Levy for Debt Service Obligations. For the purposes of meeting all debt service obligations of the District during the 2018 budget year, there is hereby levied a tax of zero (0.000) mills upon each dollar of the total valuation of assessment of all taxable property within the District.

Section 5. Levy for Contractual Obligation Expenses. For the purposes of meeting all contractual obligations of the District during the 2018 budget year, there is hereby levied a tax of zero (0.000) mills upon each dollar of the total valuation of assessment of all taxable property within the District.

Section 6. Levy for Capital Project Expenses. For the purposes of meeting all capital project obligations of the District during the 2018 budget year, there is hereby levied a tax of zero (0.000) mills upon each dollar of the total valuation of assessment of all taxable property within the District.

Section 7. Certification to County Commissioners. The Board directs its legal counsel, manager, accountant or other designee to certify to the Board of County Commissioners of Douglas County, Colorado the mill levies for the District as set forth herein. Such certification shall be in compliance with the requirements of Colorado law.

Section 8. Appropriations. The amounts set forth as expenditures and balances remaining, as specifically allocated in the budget attached hereto and incorporated herein, are hereby appropriated for the purposes thereof and no other.

Section 9. Filing of Budget and Budget Message. The Board hereby directs its legal counsel, manager or other designee to file a certified copy of the adopted budget resolution, the budget and budget message with the Division of Local Government by January 30 of the ensuing year.

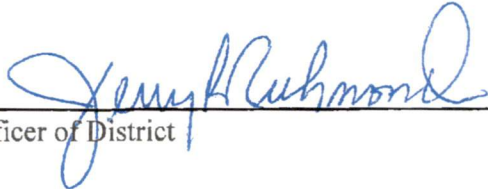
Section 10. Budget Certification. The budget shall be certified by a member of the District, or a person appointed by the District, and made a part of the public records of the District.

The foregoing Resolution was seconded by Director Knopinski.

[Remainder of page intentionally left blank.]

ADOPTED THIS 24TH DAY OF OCTOBER, 2017.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1




Officer of District

ATTEST:



APPROVED AS TO FORM:

WHITE BEAR ANKELE TANAKA & WALDRON
Attorneys at Law



General Counsel to the District

STATE OF COLORADO
COUNTY OF DOUGLAS
CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

I hereby certify that the foregoing resolution constitutes a true and correct copy of the record of proceedings of the Board adopted at a District meeting held on Tuesday, October 24, 2017, at 2160 Fox Haven Dr., Castle Rock, Colorado, as recorded in the official record of the proceedings of the District.

IN WITNESS WHEREOF, I have hereunto subscribed my name this 24th day of October, 2017.

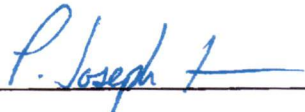


EXHIBIT A
BUDGET DOCUMENT
BUDGET MESSAGE

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1
2018
BUDGET MESSAGE

Attached please find a copy of the adopted 2018 budget for the Crystal Valley Metropolitan District No. 1.

The Crystal Valley Metropolitan District No. 1 has adopted two separate funds, a General Fund to provide for the payment of general operating expenditures; and a Capital Projects Fund to provide for the estimated infrastructure costs that are to be built for the benefit of the District.

The District's accountants have utilized the modified accrual basis of accounting and the budget has been adopted after proper postings, publications and public hearing.

The primary sources of revenue for the District in 2018 will be transfers from Crystal Valley Metropolitan District No. 2, system development fees and investor contributions. The District intends to impose a 60.284 mill levy on the property within the District for 2018, which will be dedicated to the General Fund.

Crystal Valley Metropolitan District No. 1
Adopted Budget
General Fund
For the Year ended December 31, 2018

	Actual 2016	Adopted Budget 2017	Actual 6/30/2017	Estimate 2017	Adopted Budget 2018
Beginning fund balance	12,113	254,439	17,436	17,436	258,316
Revenues:					
Property taxes	170	497	495	495	3,166
Specific ownership taxes	17	40	26	26	253
Transfer from District No. 2	73,000	245,107	65,000	304,094	550,069
Total revenues	73,187	245,644	65,521	304,615	553,488
Total funds available	85,300	500,083	82,957	322,051	811,804
Expenditures:					
Accounting / audit	27,312	35,000	14,703	29,406	35,000
Legal	37,060	35,000	13,024	31,048	35,000
Insurance	3,429	3,500	2,774	2,774	3,500
Miscellaneous	60	500	156	500	500
Treasurer fees	3	7	7	7	47
Contingency	-	423,856	-	-	735,537
Emergency reserve (3%)	-	2,220	-	-	2,220
Total expenditures	67,864	500,083	30,664	63,735	811,804
Ending fund balance	17,436	-	52,293	258,316	-
Assessed valuation		49,740			52,520
Mill Levy		10.000			60.284

Crystal Valley Metropolitan District No. 1
Adopted Budget
Capital Projects Fund
For the Year ended December 31, 2018

	Actual 2016	Adopted Budget 2017	Actual 6/30/2017	Estimate 2017	Adopted Budget 2018
Beginning fund balance	4,064,941	4,239,441	4,368,396	4,368,396	-
Revenues:					
Interest income	2,226	1,000	548	1,500	1,000
System development fees (76 units @ 2205/SFE)	286,650	167,580	240,645	250,000	167,580
Investor contribution	5,627,798	4,000,000	3,291,791	3,788,125	8,239,441
Total revenues	5,916,674	4,168,580	3,532,984	4,039,625	8,408,021
Total funds available	9,981,615	8,408,021	7,901,380	8,408,021	8,408,021
Expenditures:					
Capital expenditures	5,613,219	8,406,021	3,243,124	8,406,021	8,406,021
Miscellaneous	-	2,000	-	2,000	2,000
Total expenditures	5,613,219	8,408,021	3,243,124	8,408,021	8,408,021
Ending fund balance	4,368,396	-	4,658,256	-	-

Crystal Valley Metropolitan District No. 1
Adopted Budget
Debt Service Fund
For the Year ended December 31, 2018

	Actual 2016	Adopted Budget 2017	Actual 6/30/2017	Estimate 2017	Adopted Budget 2018
Beginning fund balance	103,929	89,461	101,029	101,029	116,110
Revenues:					
Property taxes	783	2,285	2,272	1,015	-
Specific ownership taxes	72	183	121	81	-
Fire station fees (60 * \$300/ISFE)	-	-	16,800	16,800	-
Transfer from Dist. No 2	225,000	317,483	-	5,687,921	-
Interest income	242	-	1	200	-
Total revenues	226,097	319,951	19,194	5,706,017	-
Total funds available	330,026	409,412	120,223	5,807,046	116,110
Expenditures:					
Series 2004B - Interest expense	225,985	317,483	-	-	-
Payoff Series 2004B Bonds	-	-	-	5,687,921	-
Treasurer fees	12	34	34	15	-
Transfer to Dist 2	-	-	-	-	-
Trustee / paying agent fees	3,000	6,000	3,000	3,000	-
Total expenditures	228,997	323,517	3,034	5,690,936	-
Ending fund balance	101,029	85,895	117,189	116,110	116,110
Assessed valuation		49,740			52,520
Mill Levy		45.940			-
Total Mill Levy		55.940			60.284

Crystal Valley Metropolitan District No. 2
2018 Budget

RESOLUTION
ADOPTING BUDGET, IMPOSING MILL LEVY AND APPROPRIATING FUNDS
(2018)

The Board of Directors of Crystal Valley Metropolitan District No. 2 (the “Board”), City of Aurora, Colorado (the “District”) held a special meeting at 2160 Fox Haven Dr., Castle Rock, Colorado, on Tuesday, October 24, 2017, at the hour of 10:00 A.M.

Prior to the meeting, each of the directors was notified of the date, time and place of the budget meeting and the purpose for which it was called and a notice of the meeting was posted or published in accordance with §29-1-106, C.R.S.

[Remainder of Page Intentionally Left Blank.]

NOTICE AS TO PROPOSED 2018 BUDGET

AFFIDAVIT OF PUBLICATION

State of Colorado)ss
County of Douglas

This Affidavit of Publication for the Douglas County News Press, a weekly newspaper, printed and published for the County of Douglas, State of Colorado, hereby certifies that the attached legal notice was published in said newspaper once in each week, for 1 successive week(s), the last of which publication was made the 12th day of October A.D., 2017, and that copies of each number of said paper in which said Public Notice was published were delivered by carriers or transmitted by mail to each of the subscribers of said paper, according to their accustomed mode of business in this office.



for the Douglas County News Press
State of Colorado)
County of Douglas)ss

The above Affidavit and Certificate of Publication was subscribed and sworn to before me by the above named Gerard Healey, publisher of said newspaper, who is personally known to me to be the identical person in the above certificate on 12th day of October A.D., 2017. Gerard Healey has verified to me that he has adopted an electronic signature to function as his signature on this document.

NOTICE OF PUBLIC HEARING ON THE PROPOSED 2018 BUDGETS AND NOTICE OF PUBLIC HEARING ON THE AMENDED 2017 BUDGETS

NOTICE IS HEREBY GIVEN that proposed 2018 budgets have been submitted to the Boards of Directors (each a "Board," collectively the "Boards") of the CRYSTAL VALLEY METROPOLITAN DISTRICT NOS. 1 & 2 (each a "District," collectively the "Districts"). A copy of the proposed budgets are on file in the office of Simmons & Wheeler, P.C., 304 Inverness Way South, Suite 490, Englewood, Colorado, where the same are open for public inspection.

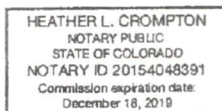
NOTICE IS FURTHER GIVEN that amendment to the 2017 budgets have been submitted to the Districts. Copies of the proposed amended budgets are on file in the office of Simmons & Wheeler, P.C., 304 Inverness Way South, Suite 490, Englewood, Colorado, where the same are open for public inspection.

Such proposed budgets and amended budgets will be considered at a public hearing during a joint meeting of the Districts to be held at 2160 Fox Haven Dr., Castle Rock, Colorado, on Tuesday, October 24, 2017 at 10:00 A.M. Any interested elector of the Districts may file any objections to the proposed budgets or amended budgets at any time prior to final adoption of the budgets and amended budgets by the governing body of the Districts.

BY ORDER OF THE BOARDS
OF DIRECTORS:
CRYSTAL VALLEY METROPOLITAN
DISTRICT NOS. 1 & 2

/s/ WHITE BEAR ANKELE
TANAKA & WALDRON
Attorneys at Law

Legal Notice No.: 931752
First Publication: October 12, 2017
Last Publication: October 12, 2017
Publisher: Douglas County News-Press



My Commission Expires 12/18/19

Notary Public

Thereupon, Director Johnson introduced and moved the adoption of the following Resolution:

RESOLUTION

A RESOLUTION SUMMARIZING EXPENDITURES AND REVENUES FOR EACH FUND AND ADOPTING A BUDGET AND APPROPRIATING SUMS OF MONEY TO EACH FUND IN THE AMOUNTS AND FOR THE PURPOSES SET FORTH HEREIN FOR THE DISTRICT FOR THE CALENDAR YEAR BEGINNING ON THE FIRST DAY OF JANUARY 2018 AND ENDING ON THE LAST DAY OF DECEMBER 2018.

WHEREAS, the Board has authorized its treasurer, accountant and/or legal counsel to prepare and submit a proposed budget to the Board in accordance with Colorado law; and

WHEREAS, the proposed budget has been submitted to the Board for its review and consideration; and

WHEREAS, upon due and proper notice, provided in accordance with Colorado law, said proposed budget was open for inspection by the public at a designated place, a public hearing was held on October 24, 2017, interested electors were given the opportunity to file or register any objections to said proposed budget and no written objections were filed prior to the public hearing; and

WHEREAS, the budget being adopted by the Board has been prepared based on the best information available to the Board regarding the effects of § 29-1-101, *et seq.*, C.R.S., as applicable, and Article X, § 20 of the Colorado Constitution.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD AS FOLLOWS:

Section 1. Summary of 2018 Revenues and 2018 Expenditures. The estimated revenues and expenditures for each fund for fiscal year 2018, as more specifically set forth in the budget attached hereto, are accepted and approved.

Section 2. Adoption of Budget. The budget as submitted, amended, attached hereto and incorporated herein is approved and adopted as the budget of the District for fiscal year 2018.

In the event of recertification of values by the County Assessor's Office after the date of adoption hereof, staff is hereby directed to modify and/or adjust the budget and certification to reflect the recertification without the need for additional Board authorization. Any such modification to the budget or certification as contemplated by this Section 2 shall be deemed ratified by the Board.

Section 3. Levy for General Operating Expenses. For the purpose of meeting all general operating expenses of the District during the 2018 budget year, there is hereby levied a tax of ten and seven hundred seventy-six thousandths (10.776) mills upon each dollar of the total valuation of assessment of all taxable property within the District.

Section 4. Levy for Debt Service Obligations. For the purposes of meeting all debt service obligations of the District during the 2018 budget year, there is hereby levied a tax of forty-nine and five hundred and eight thousandths (49.508) mills upon each dollar of the total valuation of assessment of all taxable property within the District.

Section 5. Levy for Contractual Obligation Expenses. For the purposes of meeting all contractual obligations of the District during the 2018 budget year, there is hereby levied a tax of zero (0.000) mills upon each dollar of the total valuation of assessment of all taxable property within the District.

Section 6. Levy for Capital Project Expenses. For the purposes of meeting all capital project obligations of the District during the 2018 budget year, there is hereby levied a tax of zero (0.000) mills upon each dollar of the total valuation of assessment of all taxable property within the District.

Section 7. Certification to County Commissioners. The Board directs its legal counsel, manager, accountant or other designee to certify to the Board of County Commissioners of Douglas County, Colorado the mill levies for the District as set forth herein. Such certification shall be in compliance with the requirements of Colorado law.

Section 8. Appropriations. The amounts set forth as expenditures and balances remaining, as specifically allocated in the budget attached hereto and incorporated herein, are hereby appropriated for the purposes thereof and no other.

Section 9. Filing of Budget and Budget Message. The Board hereby directs its legal counsel, manager or other designee to file a certified copy of the adopted budget resolution, the budget and budget message with the Division of Local Government by January 30 of the ensuing year.


Section 10. Budget Certification. The budget shall be certified by a member of the District, or a person appointed by the District, and made a part of the public records of the District.

The foregoing Resolution was seconded by Director Knopinski.

[Remainder of page intentionally left blank.]

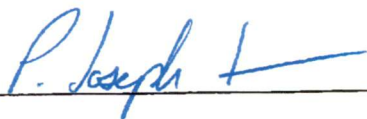
ADOPTED THIS 24TH DAY OF OCTOBER, 2017.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2




Officer of District

ATTEST:



APPROVED AS TO FORM:

WHITE BEAR ANKELE TANAKA & WALDRON
Attorneys at Law



General Counsel to the District

STATE OF COLORADO
COUNTY OF DOUGLAS
CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

I hereby certify that the foregoing resolution constitutes a true and correct copy of the record of proceedings of the Board adopted at a District meeting held on Tuesday, October 24, 2017, at 2160 Fox Haven Dr., Castle Rock, Colorado, as recorded in the official record of the proceedings of the District.

IN WITNESS WHEREOF, I have hereunto subscribed my name this 24th day of October, 2017.

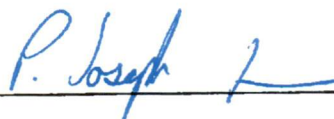


EXHIBIT A
BUDGET DOCUMENT
BUDGET MESSAGE

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2
2018
BUDGET MESSAGE

Attached please find a copy of the adopted 2018 budget for the Crystal Valley Metropolitan District No. 2.

The Crystal Valley Metropolitan District No. 2 has adopted two separate funds, a General Fund to provide for the payment of general operating expenditures and transfers to Crystal Valley Metropolitan District No. 1 for the payment of general operating expenditures; and a Debt Service Fund to provide for payments on the general obligation loans.

The District's accountants have utilized the modified accrual basis of accounting and the budget has been adopted after proper postings, publications and public hearing.

The primary source of revenue for the District in 2018 will be property taxes. The District intends to impose a 60.284 mill levy on the property within the District for 2018, of which 10.776 mills will be dedicated to the General Fund and the balance of 49.508 mills will be allocated to the Debt Service Fund.

Crystal Valley Metropolitan District No. 2
Adopted Budget
General Fund
For the Year ended December 31, 2018

	Actual <u>2016</u>	Adopted Budget <u>2017</u>	Actual <u>6/30/2017</u>	Estimate <u>2017</u>	Adopted Budget <u>2018</u>
Beginning fund balance	<u>86,034</u>	<u>-</u>	<u>236,492</u>	<u>236,492</u>	<u>181,101</u>
Revenues:					
Property taxes	215,453	244,895	243,246	244,895	364,094
Property taxes - abatements	-	-	(75)	(75)	-
Specific ownership taxes	19,821	19,592	12,905	19,592	29,129
Interest income	<u>845</u>	<u>243</u>	<u>615</u>	<u>250</u>	<u>360</u>
Total revenues	<u>236,119</u>	<u>264,730</u>	<u>256,691</u>	<u>264,662</u>	<u>393,583</u>
Total funds available	<u>322,153</u>	<u>264,730</u>	<u>493,183</u>	<u>501,154</u>	<u>574,684</u>
Expenditures:					
Audit	4,100	4,500	-	4,100	5,000
Directors fees	2,000	6,000	800	4,000	8,000
Insurance	3,127	3,500	3,371	3,127	4,000
Miscellaneous	48	1,000	78	1,000	1,002
Payroll taxes	153	500	92	500	612
Payment to District 1	73,000	245,107	65,000	304,094	550,069
Treasurer fees	3,233	3,673	3,650	3,232	5,461
Emergency reserve (3%)	<u>-</u>	<u>450</u>	<u>-</u>	<u>-</u>	<u>540</u>
Total expenditures	<u>85,661</u>	<u>264,730</u>	<u>72,991</u>	<u>320,053</u>	<u>574,684</u>
Ending fund balance	<u>236,492</u>	<u>-</u>	<u>420,192</u>	<u>181,101</u>	<u>-</u>
Assessed valuation		<u>24,489,510</u>			<u>33,787,540</u>
Mill Levy		<u>10.000</u>			<u>10.776</u>

Crystal Valley Metropolitan District No. 2
Adopted Budget
Debt Service Fund
For the Year ended December 31, 2018

	Actual 2016	Adopted Budget 2017	Actual 6/30/2017	Estimate 2017	Adopted Budget 2018
Beginning fund balance	646,857	584,740	671,909	671,909	1,120,995
Revenues:					
Property taxes	989,790	1,125,048	1,117,471	1,125,048	1,672,754
Property taxes - abatements			(347)	(347)	-
Specific ownership taxes	91,059	78,753	59,287	78,753	117,093
Loan 2017 Proceeds	-	-	-	6,135,000	-
Interest income	4,054	500	3,139	500	1,036
Total revenues	1,084,903	1,204,301	1,179,550	7,338,954	1,790,883
Total funds available	1,731,760	1,789,041	1,851,459	8,010,863	2,911,878
Expenditures:					
Miscellaneous	61	5,500	-	100	5,508
Paying Agent / Trustee fees	1,500	6,000	1,500	6,000	6,000
Treasurer's fees	14,854	16,876	16,767	14,846	25,091
Cost of Issuance	-	-	-	265,200	-
Series 2017 - Principal pymt	-	-	-	-	90,000
Series 2017 - Interest expense	-	-	-	18,957	199,572
Series 2015 - Principal pymt	240,000	300,000	-	300,000	375,000
Series 2015 - Interest expense	578,436	596,844	301,738	596,844	586,224
Transfer to District 1	225,000	317,483	-	5,687,921	-
Total expenditures	1,059,851	1,242,703	320,005	6,889,868	1,287,395
Ending fund balance	671,909	546,338	1,531,454	1,120,995	1,624,483
Required reserve		546,338			723,497
Ending fund balance		-			900,986
Assessed valuation		24,489,510			33,787,540
Mill Levy		45.940			49.508
Total Mill Levy		55.940			60.284