

**CRYSTAL VALLEY METROPOLITAN DISTRICT NOS. 1 & 2  
TOWN OF CASTLE ROCK, COLORADO**

**2011 CONSOLIDATED ANNUAL REPORT**

Pursuant to the Amended and Consolidated Service Plan for Crystal Valley Metropolitan District No. 1 and Crystal Valley Metropolitan District No. 2 (collectively the "Districts") dated November 21, 2001, the Districts are required to submit an annual report to the Town of Castle Rock, Colorado (the "Town") which reflects activity and financial events of the Districts through the preceding December 31 (the "report year") and includes the following:

A. A narrative summary of the progress of the Districts in implementing their service plan for the report year;

B. Except when an exemption from audit has been granted for the report year under the Local Government Audit Law, the audited financial statements of the Districts for the report year including a statement of financial condition (i.e. balance sheet) as of December 31 of the report year and the statement of operations (i.e. revenues and expenditures) for the report year;

C. Unless disclosed within a separate schedule to the financial statements, a summary of the capital expenditures incurred by the Districts in development of public facilities in the report year, as well as any capital improvements or projects proposed to be undertaken in the five (5) years following the report year;

D. Unless disclosed within a separate schedule to the financial statements, a summary of the financial obligations of the Districts at the end of the report year, including the amount of outstanding indebtedness, the amount and terms of any new District indebtedness or long-term obligations issued in the report year, the amount of payment or retirement of existing indebtedness of the Districts in the report year, the total assessed valuation of all taxable properties within the Districts as of January 1 of the report year, and the current mill levy of the Districts pledged to debt retirement in the report year;

E. The Districts' budget for the calendar year in which the annual report is submitted;

F. A summary of residential and commercial development which has occurred within the Districts for the report year;

G. A summary of all fees, charges and assessments imposed by the Districts as of January 1 of the report year;

H. Certification of the Board that no action, event or condition enumerated in Section 11.02.060 of this Chapter has occurred in the report year; and

I. The name, business address and telephone number of each member of the Board and its chief administrative officer and general counsel, together with the date, place and time of the regular meetings of the Board.

For the year ending December 31, 2011, the Districts make the following report:

A. A narrative summary of the progress of the Districts in implementing their service plan for the report year.

The Districts continue to implement their development schedule as contemplated in the Service Plan.

B. Except when an exemption from audit has been granted for the report year under the Local Government Audit Law, the audited financial statements of the Districts for the report year including a statement of financial condition (i.e. balance sheet) as of December 31 of the report year and the statement of operations (i.e. revenues and expenditures) for the report year.

Copies of the audits filed by the Districts for the year ending December 31, 2011 are attached as **Exhibit A**.

C. Unless disclosed within a separate schedule to the financial statements, a summary of the capital expenditures incurred by the Districts in development of public facilities in the report year, as well as any capital improvements or projects proposed to be undertaken in the five (5) years following the report year.

As of December 31, 2011, the Districts had generally completed all of the improvements and infrastructure with the exception of two primary projects: the I-25 interchange and the north two lanes project. It is anticipated that construction of the I-25 interchange may begin in 2013 or 2014.

Copies of the Districts' budgets for the year ending December 31, 2011 are attached as **Exhibit B**.

D. Unless disclosed within a separate schedule to the financial statements, a summary of the financial obligations of the Districts at the end of the report year, including the amount of outstanding indebtedness, the amount and terms of any new District indebtedness or long-term obligations issued in the report year, the amount of payment or retirement of existing indebtedness or long-term obligations issued in the report year, the total assessed valuation of all taxable properties within the Districts as of January 1 of the report year, and the current mill levy of the Districts pledged to debt retirement in the report year.

For a summary of the financial obligations of the Districts see attached **Exhibit A**.

The 2011 assessed valuation of all taxable properties within Crystal Valley Metropolitan District No. 1, as certified by the Douglas County Assessor's Office, was \$29,820. The 2011 assessed valuation of all taxable properties within Crystal Valley Metropolitan District No. 2, as certified by the Douglas County Assessor's Office, was \$14,771,930.

E. The Districts' budgets for the calendar year in which the annual report is submitted.

Copies of the Districts' 2012 budgets are attached as **Exhibit C**.

F. A summary of residential and commercial development that has occurred within the Districts for the report year.

There were no residential properties and no commercial development in 2011. The District participated as a 25% funding partner in a landscaping agreement along Crystal Valley Ranch Parkway, which is nearing completion.

G. A summary of all fees, charges and assessments imposed by the Districts as of January 1 of the report year.

A copy of the Districts' current fee resolution is attached as **Exhibit D**. Information regarding specific fees is also included in the Audits attached as **Exhibit B**.

H. Certification of the Boards that no action, event, or condition of Section 11.02.060 (Material Modification of Service Plan) of this chapter has occurred in the report year.

With the exception of the Town findings set forth in the Quinquennial Review, attached as **Exhibit E**, the Boards of Directors of the Districts hereby certify that pursuant to the City Resolution No. 2008-51, no action, event or condition has taken place constituting a material modification of the Service Plan.

I. The names, business addresses and phone numbers of all members of the Boards and its chief administrative officer and general counsel, together with the date, place and time of the regular meetings of the board.

Board of Directors of Crystal Valley Metropolitan District No. 1:

Gregory W. Brown, President  
1175 Crystal Valley Parkway  
Castle Rock, CO 80104  
PH: (303) 814-6862

Jim Mill, Assistant Secretary  
1626 Thatch Circle  
Castle Rock, CO 80109  
PH: (720) 200-4577

Steve Rossoll, Director  
4966 Wood Brook Court  
Colorado Springs, CO 80917  
PH: (719) 491-6564

Paul "Joe" Knopinski, Assistant Secretary  
3279 E. Otero Circle  
Centennial, CO 80122  
PH: (303) 220-4826

Jerry Richmond, Secretary/Treasurer  
2608 Pemberly Avenue  
Highlands Ranch, CO 80126  
PH: (303) 267-6195

Board of Directors of Crystal Valley Metropolitan District No. 2:

Gregory W. Brown, President  
1175 Crystal Valley Parkway  
Castle Rock, CO 80104  
PH: (303) 814-6862

Michael Lyons, Director  
5245 Fawn Ridge Way  
Castle Rock, CO 80104  
PH: 303-726-2565

Jerry Richmond, Assistant Secretary  
2608 Pemberly Avenue  
Highlands Ranch, CO 80126  
PH: (303) 267-6195

Paul "Joe" Knopinski, Assistant Secretary  
3279 E. Otero Circle  
Centennial, CO 80122  
PH: (303) 220-4826

Deborah Weinstein, Secretary/Treasurer  
3008 Mountain Sky Drive  
Castle Rock, CO 80104  
PH: 303-901-5770

Regular Meetings:

Date: The first and third Wednesday of every month  
Place: 1175 Crystal Valley Parkway, Castle Rock, CO  
Time: 12:00 noon

General Counsel:

Kristen D. Bear, Esq.  
WHITE, BEAR & ANKELE  
Professional Corporation  
2154 East Commons Avenue, Suite 2000  
Centennial, CO 80122

**EXHIBIT A**

**Crystal Valley Metropolitan District Nos. 1 & 2  
Audits for the Year Ending December 31, 2011**

**Crystal Valley Metropolitan District No. 1**

Financial Statements

Year Ended December 31, 2011

with

Independent Auditors' Report

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# Hiratsuka & Associates, L.L.P.

Certified Public Accountants & Consultants

## INDEPENDENT AUDITORS' 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, Douglas County, Colorado, as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Crystal Valley Metropolitan District No. 1's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 the Crystal Valley Metropolitan District No. 1, Douglas County, Colorado, as of December 31, 2011, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has not presented Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basis financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basis financial statements is not affected by the missing information.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service and Capital Projects Funds were presented for the purpose of additional analysis and were not a required part of the financial statements. The Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service and Capital Projects Funds were 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 2, 2012  
Denver, Colorado

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# Crystal Valley Metropolitan District No. 1

## BALANCE SHEET/STATEMENT OF NET ASSETS GOVERNMENTAL FUNDS

December 31, 2011

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>ASSETS</b>						
Cash and investments	\$ 299	\$ 614,902	\$ 5,204	\$ 620,405	\$ -	\$ 620,405
Cash in escrow - contruction	-	-	1,484,916	1,484,916	-	1,484,916
Cash with trustee	-	558,140	627,845	1,185,985	-	1,185,985
Accounts receivable						
Property taxes receivable - current	2	6	-	8	-	8
Property taxes receivable - deferred	298	1,524	-	1,822	-	1,822
Deveoper	-	-	276,590	276,590	-	276,590
Interest receivable	-	8	9	17	-	17
Fire Fees	-	5,400	-	5,400	-	5,400
Prepaid expenses	2,568	-	-	2,568	-	2,568
Internal balances	27,193	-	(27,193)	-	-	-
Bond costs of issuance - net of amortization	-	-	-	-	279,701	279,701
Capital assets not being depreciated	-	-	-	-	3,091,200	3,091,200
Total Assets	<u>\$ 30,360</u>	<u>\$ 1,179,980</u>	<u>\$ 2,367,371</u>	<u>\$ 3,577,711</u>	<u>3,370,901</u>	<u>6,948,612</u>
<b>LIABILITIES</b>						
Accounts payable	\$ 20,949	\$ 5,256	\$ 298,366	\$ 324,571	-	324,571
Deferred property taxes	298	1,524	-	1,822	-	1,822
Deferred revenue - prepaid development fees	-	-	-	-	138,756	138,756
Accrued interest	-	1,824	-	1,824	19,032,661	19,034,485
Long-term liabilities:						
Due within one year	-	-	-	-	350,000	350,000
Due in more than one year	-	-	-	-	41,304,987	41,304,987
Total Liabilities	<u>21,247</u>	<u>8,604</u>	<u>298,366</u>	<u>328,217</u>	<u>60,826,404</u>	<u>61,154,621</u>
<b>FUND BALANCE/NET ASSETS</b>						
Nonspendable:						
Prepays	2,568	-	-	2,568	(2,568)	-
Restricted:						
Emergencies	5,092	-	-	5,092	(5,092)	-
Debt service	-	1,171,376	-	1,171,376	(1,171,376)	-
Capital projects	-	-	2,069,005	2,069,005	(2,069,005)	-
Unassigned	1,453	-	-	1,453	(1,453)	-
Total Fund Balances	<u>9,113</u>	<u>1,171,376</u>	<u>2,069,005</u>	<u>3,249,494</u>	<u>(3,249,494)</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 30,360</u>	<u>\$ 1,179,980</u>	<u>\$ 2,367,371</u>	<u>\$ 3,577,711</u>		
Invested in capital assets, net of related debt					(38,563,787)	(38,563,787)
Restricted for:						
Emergencies					5,092	5,092
Debt service					1,171,376	1,171,376
Capital projects					2,069,005	2,069,005
Unrestricted					(18,887,695)	(18,887,695)
Total Net Assets (Deficit)					<u>\$(54,206,009)</u>	<u>\$(54,206,009)</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, 2011

	General	Debt Service	Capital Project	Total	Adjustments	Statement of Activities
<b>EXPENDITURES</b>						
Accounting and audit	\$ 52,502	\$ -	\$ -	\$ 52,502	\$ -	\$ 52,502
Insurance	2,028	-	-	2,028	-	2,028
Legal	62,320	-	-	62,320	-	62,320
Management fees	20,000	-	-	20,000	-	20,000
Miscellaneous expenses	-	-	20,276	20,276	-	20,276
Professional fees	27,904	11,092	-	38,996	-	38,996
Landscape maintenance	4,976	-	-	4,976	-	4,976
Treasurer's fees	5	19	-	24	-	24
Debt service:						
Bond interest expense	-	36,133	-	36,133	-	36,133
Remarketing costs	-	26,138	-	26,138	-	26,138
Trustee fees	-	8,500	-	8,500	-	8,500
Paying agent fees	-	3,000	-	3,000	-	3,000
Letter of credit fees	-	521,849	-	521,849	-	521,849
Amortize bond cost of issuance	-	-	-	-	12,161	12,161
Developer reimbursement:						
Principal	24,139	156,403	-	180,542	(180,542)	-
Interest	45,861	143,597	-	189,458	2,734,642	2,924,100
Capital projects:						
Capital outlay	-	-	148,428	148,428	(148,428)	-
Conveyance to other governments	-	-	-	-	43,975	43,975
Total Expenditures	<u>239,735</u>	<u>906,731</u>	<u>168,704</u>	<u>1,315,170</u>	<u>2,461,808</u>	<u>3,776,978</u>
<b>GENERAL REVENUES</b>						
Property taxes	281	1,290	-	1,571	-	1,571
Specific ownership taxes	19	85	-	104	-	104
Reimbursements from District #2	219,804	851,621	-	1,071,425	-	1,071,425
Fire fees	-	11,700	-	11,700	-	11,700
Miscellaneous income	-	-	376	376	-	376
Interest income	-	1,473	4,266	5,739	-	5,739
Total General Revenues	<u>220,104</u>	<u>866,169</u>	<u>4,642</u>	<u>1,090,915</u>	<u>-</u>	<u>1,090,915</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(19,631)	(40,562)	(164,062)	(224,255)	(2,461,808)	(2,686,063)
<b>OTHER FINANCING SOURCES (USES)</b>						
Developer advance	-	-	-	-	45,977	45,977
Bond issuance costs	-	(11,147)	-	(11,147)	11,147	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(11,147)</u>	<u>-</u>	<u>(11,147)</u>	<u>57,124</u>	<u>45,977</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES</b>	(19,631)	(51,709)	(164,062)	(235,402)	235,402	-
<b>CHANGE IN NET ASSETS</b>	-	-	-	-	(2,640,086)	(2,640,086)
<b>FUND BALANCE/NET ASSETS:</b>						
BEGINNING OF YEAR (DEFICIT) - RESTATEI	<u>28,744</u>	<u>1,223,085</u>	<u>2,233,067</u>	<u>3,484,896</u>	<u>(55,050,819)</u>	<u>(51,565,923)</u>
END OF YEAR (DEFICIT)	<u>\$ 9,113</u>	<u>\$ 1,171,376</u>	<u>\$ 2,069,005</u>	<u>\$ 3,249,494</u>	<u>\$ (57,455,503)</u>	<u>\$ (54,206,009)</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 BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2011

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 281	\$ 281	\$ -
Specific ownership taxes	22	19	(3)
Reimbursements from other governments	<u>196,904</u>	<u>219,804</u>	<u>22,900</u>
Total Revenues	<u>197,207</u>	<u>220,104</u>	<u>22,897</u>
EXPENDITURES			
Accounting and audit	50,000	52,502	(2,502)
Insurance	3,000	2,028	972
Legal	50,000	62,320	(12,320)
Management fees	6,000	20,000	(14,000)
Miscellaneous expenses	10,000	-	10,000
Professional fees	-	27,904	(27,904)
Landscape maintenance - utilities	15,000	4,976	10,024
Developer reimbursement - principal	50,000	45,861	4,139
Developer reimbursement - interest	50,000	24,139	25,861
Treasurers fees	4	5	(1)
Contingency	7,731	-	7,731
Emergency reserve	<u>4,020</u>	<u>-</u>	<u>4,020</u>
Total Expenditures	<u>245,755</u>	<u>239,735</u>	<u>6,020</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(48,548)	(19,631)	28,917
FUND BALANCE - BEGINNING OF YEAR	<u>\$ 48,548</u>	<u>\$ 28,744</u>	<u>\$ (19,804)</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ 9,113</u>	<u>\$ 9,113</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, 2011

### 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 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. 1 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 District No. 1 and 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.

Crystal Valley Metropolitan District No. 1 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 10.)

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

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 has no component units as defined by the Governmental Accounting Standards Board ("GASB"), Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

## Crystal Valley Metropolitan District No. 1

Notes to Financial Statements  
December 31, 2011

### Note 1: **Summary of Significant Accounting Policies (continued)**

The District is not financially accountable for any other organization.

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 statement of net assets and the statement of governmental fund revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District. 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 net assets reports all financial and capital resources of the District. The difference between the assets and liabilities of the District is reported as net assets.

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. 1

Notes to Financial Statements  
December 31, 2011

### Note 1: Summary of Significant Accounting Policies (continued)

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.

*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.

## **Crystal Valley Metropolitan District No. 1**

Notes to Financial Statements  
December 31, 2011

### **Note 1: Summary of Significant Accounting Policies (continued)**

#### **Assets, Liabilities and Net Assets**

##### **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, 2011, 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.

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.

##### **Internal Balances**

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

##### **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.

##### **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.

##### **Bond Issue Costs and Original Issue Discount**

Bond issue costs and original issue discount from the Series 2004 Bonds are being amortized over the respective terms of the bonds using the interest method. Accumulated amortization of bond issue costs and original issue discount amounted to \$89,860 at December 31, 2011.



## Crystal Valley Metropolitan District No. 1

Notes to Financial Statements  
December 31, 2011

### Note 1: Summary of Significant Accounting Policies (continued)

#### Development Fees

On December 15, 2005, the District entered into a Prepaid Development Fees Agreement with the Developer. Development fees are imposed on all dwelling units to be constructed within the District at the rate of \$1,050 per dwelling unit, automatically increasing five percent (5%) on January 1<sup>st</sup> of each year beginning 2002. Development fees are due no later than the date the building permit is issued. The Prepaid Developer Fee Agreement is intended to provide funds for the construction of public infrastructure within the District. In 2009, the District amended the agreement increasing the fee to \$2,000, automatically increasing five percent (5%) on January 1<sup>st</sup> each year commencing 2011.

#### 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.

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 2011.

#### Property Taxes

Property taxes are levied by the District No. 1'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. District No. 1 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 District No. 1.

## Crystal Valley Metropolitan District No. 1

### Notes to Financial Statements December 31, 2011

#### Note 1: **Summary of Significant Accounting Policies (continued)**

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred revenue 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. The property tax receivable as of December 31, 2011, is \$1,822 for District No.1 and \$826,342 for District No. 2.

#### **Fund Equity**

Beginning with fiscal year ending December 31, 2011, the District implemented GASB Statement 54 - *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. In the fund financial statements, the District considers all restricted and unrestricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. The District considers all committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for the purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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 \$5,092 of the General Fund balance has been restricted in compliance with this requirement.

The nonspendable fund balance in the General Fund in the amount of \$2,568 represents prepaid expenditures.

The restricted fund balance in the Debt Service Fund in the amount of \$1,171,376 is restricted for the payment of the debt service costs.

The restricted fund balance in the Capital Projects Fund in the amount of \$2,069,005 is restricted for the payment of the costs for capital improvements within the District.

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.

## Crystal Valley Metropolitan District No. 1

### Notes to Financial Statements December 31, 2011

#### Note 2: Cash and Investments

As of December 31, 2011, cash and investments are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 620,405
Cash in escrow - construction	1,484,916
Cash with trustee	<u>1,185,985</u>
Total	<u>\$ 3,291,306</u>

Cash and investments as of December 31, 2011, consist of the following:

Deposits with financial institutions	\$ 620,405
Deposits in escrow with Land Title	1,484,916
Investments - Wells Fargo Bank	<u>1,185,985</u>
	<u>\$ 3,291,306</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, 2011

### Note 2: Cash and Investments (continued)

#### 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.

As of December 31, 2011, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
Wells Fargo - Advantage Government Money Market Service	Weighted Average - 60 Days	\$ 1,185,985
	Total Investments	<u>\$ 1,185,985</u>

##### Wells Fargo Advantage Government Money Market Service

During 2011, the debt service money and a portion of the bond proceeds to be used for construction that was included in the trust accounts at Wells Fargo was invested in the Advantage Government Money Market Service fund. This fund is a money market that is managed by Wells Fargo and each share is equal in value to \$1.00. The fund is rated AAAM by Standard & Poors and Aaa-mf by Moodys. The fund invests exclusively in Federal Agencies, Government-backed issues and Repurchase agreements. The average maturity of the underlying securities is 60 days or less. As of December 31, 2011, the District had \$1,185,985 invested in the Advantage Government Money Market Service fund held by Wells Fargo Bank.

## Crystal Valley Metropolitan District No. 1

### Notes to Financial Statements December 31, 2011

#### Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2011, follows:

	<b>Balance</b>		<b>Balance</b>	
	<b><u>January 1, 2011</u></b>	<b><u>Additions</u></b>	<b><u>Conveyances</u></b>	<b><u>December 31, 2011</u></b>
Construction in progress	\$ 2,986,747	\$ 148,428	\$ 43,975	\$ 3,091,200

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. In 2011, the District conveyed \$43,975 of completed, accepted assets to the Town. Construction in progress is not subject to depreciation, therefore there were no depreciation expenses in 2011.

#### Management fees

In 2004, the District entered into a Management Agreement with the Developer where the District agreed to pay the developer a construction management fees equal to 5% of the construction invoices. In 2011, the District incurred \$0 in construction management fees.

#### Note 4: Long Term Debt

A description of the long-term obligations as of December 31, 2011, is as follows:

\$3,940,437 Revenue and Limited Obligation Series A Promissory Notes - \$992,596 to Craig C. Avery; \$992,596 to James Ostenson; \$992,596 to Richard A. Putman; and \$962,649 to Wayne E. Brown family LLC, (collectively "Owners"). On March 1, 2002, the District entered into an agreement with the Owners to issue promissory notes for advances made by the owners. The funds loaned are designated solely for the payment toward capital costs related to water improvements. The promissory notes are dated March 1, 2002, and mature December 31, 2020, at an interest rate of 9.375% compounded semi-annually. Interest is due upon maturity. The promissory notes may be paid whole at any time without redemption premium or other penalty. These promissory notes are subordinate in terms of payment and security to other indebtedness issued on a senior lien basis. These notes were originally executed and delivered pursuant to a resolution and Loan agreement dated June 19, 2001, for the total amount of \$3,700,000. These notes included the original principal plus interest accrued and unpaid at March 1, 2002.

## Crystal Valley Metropolitan District No. 1

Notes to Financial Statements  
December 31, 2011

### Note 4: Long Term Debt (continued)

\$5,035,157 Revenue and Limited Tax Obligation Water Promissory Notes - \$1,268,608 to Richard A. Putnam; \$1,276,246 (restated – see note 12) to Wayne E. Brown Family, LLC.; and \$2,537,216 to Maple Grove Land Limited Partnership (collectively “Owners”). On March 1, 2002, the District entered into an agreement with the Owners to purchase water rights. In exchange for the water rights, the District issued promissory notes to the Owners in proportion to the Owners percentage of ownership of the water rights. Upon receipt of the water rights, the District conveyed the water rights to the Town. The promissory notes are dated March 1, 2002 and mature December 31, 2025, at an interest rate of 9.375% per annum compounded semi-annually. Interest is due upon maturity. The promissory notes may be prepaid in whole at any time without redemption premium or other penalty. These promissory notes are subordinate in terms of payments and security to other indebtedness issued on a senior lien basis. These notes were originally executed and delivered pursuant to a Resolution and Loan agreement dated December 11, 2001 for the total amount of \$4,936,000. These reissued notes included the original principal plus interest accrued and unpaid at March 1, 2002.

Loan C Agreement. On January 1, 2005, the District entered into a Loan C Agreement with Crystal Valley Ranch Development, Co., LLC., (“Developer”) to issue promissory notes, Series 2005A, 2005B, 2005C and 2005D, to reimburse the Developer for costs incurred and paid by the Developer for capital and operating and maintenance costs. The aggregate principal amount of the promissory notes is not to exceed \$15,000,000. The promissory notes are dated January 1, 2005. The Series 2005B note matures December 1, 2015. The Series 2005A Capital expenses note and the Series 2005C operations and maintenance note initially matured on December 31, 2005. In April 2006, the Board passed a resolution extending the maturity dates to December 31, 2015 for the Series 2005A, 2005C and 2005D Notes. The Board reduced the aggregate principal amount of the promissory notes to \$6,715,804. The Series 2005A Capital Expenses Note and the Series 2005C Operations and Maintenance Note accrue interest at an interest rate of 5% per annum, simple interest. The Series 2005B Capital Improvements Note and the Series 2005D Operations and Maintenance Note accrue interest at a rate of 8% per annum simple interest. In 2011, \$156,403 of principal and \$143,597 in accrued interest was repaid on Loan C, Note A and \$24,138 in principal and \$45,861 in accrued interest was repaid on Loan C, Note D.

Funding and Reimbursement Agreement. On March 14, 2002, the District entered into a Funding and Reimbursement Agreement with Richard A. Putnam, Wayne E. Brown Family, LLC., and Maple Grove Land Limited Partnership (Collectively “Owners”) to issue promissory notes to reimburse the Owners for costs incurred and paid by the Owners for District operations and maintenance costs. The aggregate principal amount is not to exceed \$200,000. The promissory notes matured December 31, 2010, at an interest rate of 8% per annum, simple interest. Interest is due upon maturity without premium or penalty. This agreement is intended to provide substantial benefits to District No. 2; and District No. 2 agrees that it shall be responsible for its share of the amounts due under this agreement. In 2011, the District repaid the notes in full totaling \$42,728 in principal and \$13,176 in accrued interest.

## Crystal Valley Metropolitan District No. 1

### Notes to Financial Statements December 31, 2011

#### Note 4: Long Term Debt (continued)

Variable Rate Demand Revenue Bonds, Series 2002. On May 16, 2002, the District issued \$7,405,000 of Variable Rate Demand Revenue bonds, Series 2002, maturing on May 1, 2032, to finance the acquisition, construction and equipping of certain facilities for Districts No. 1 and No. 2. On November 1, 2004, the District re-issued and sold the Bonds to Crystal Valley Ranch Development Co., LLC. ("Developer").

Revenue Subordinate Bonds, Series 2002. On November 1, 2004, the District re-issued the Series 2002 Bonds as Revenue Subordinate Bonds maturing on May 1, 2032. The Series 2002 Revenue Subordinate Bonds bear interest at 8.94% per annum which is payable on the first business day following each calendar quarter, commencing the first business day of February 2005. The Bonds are interest only from November 1, 2004 through May 1, 2009. Principal will be payable annually on each May 1, commencing May 1, 2010. As outlined in the bonds indenture, in the event that the District does not repay debt service payments on the due dates, no event of default shall have occurred. The interest will continue to accrue until payment is made.

Variable Rate Demand Revenue Bonds, Series 2004. On October 1, 2004, the District issued \$20,740,000 of Variable Rate Demand Revenue Bonds, Series 2004, maturing on October 1, 2034, to finance the acquisition, construction and equipping of certain facilities for Districts No. 1 and No. 2. The Series 2004 Bonds bear interest at one or more variable rates unless converted to a fixed interest rate, provided, however, that in no event will the interest rate on the Series 2004 Bonds exceed 10%. The Series 2004 Bonds bear interest at a weekly rate and will be payable on the first business day of each calendar month, commencing the first business day of November 2004. The interest rate will be established by the remarketing agent on the first day of the weekly rate period which is the minimum rate of interest necessary, in the best professional judgment of the remarketing agent taking into account prevailing marketing conditions. The Series 2004 Bonds are secured by a letter of credit dated October 7, 2004 due October 1, 2009 in the amount of \$20,995,669 which is secured by a cash collateral account held by the developers. The Series 2004 Bonds are further secured by Pledged Revenue consisting of water impact fees, fire station fees and property tax mill levies designated for debt service. The taxes are collected by District No. 2. In 2011, the District received \$11,700 in fire station fees and \$851,624 in property tax mill levy for debt service payment as outlined in the District Facilities Construction and Service Agreement. In 2011, the District extended the Letter of Credit to October 1, 2012. The Letter of Credit fees remained 2.50%. In 2012, these bonds were remarketed (see note 13).

# Crystal Valley Metropolitan District No. 1

## Notes to Financial Statements December 31, 2011

### Note 4: Long Term Debt (continued)

The following represents changes in long-term debt for the period ending December 31, 2011:

	<u>Restated Balance December 31, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2011</u>
Obligation Series A Promissory Note - Mature 12/31/20				
Craig C. Avery				
Principal	992,596	-	-	992,596
Accrued Interest	1,239,146	214,129	-	1,453,275
Obligation Series A Promissory Note - Mature 12/31/20				
James Ostenson				
Principal	992,596	-	-	992,596
Accrued Interest	1,239,146	214,129	-	1,453,275
Obligation Series A Promissory Note - Mature 12/31/20				
Richard A. Putnam				
Principal	992,596	-	-	992,596
Accrued Interest	1,239,146	214,129	-	1,453,275
Obligation Series A Promissory Note - Mature 12/31/20				
Wayne E. Brown Family				
Principal	962,649	-	-	962,649
Accrued Interest	1,201,760	207,669	-	1,409,429
Obligation Water Promissory Note - Mature 12/31/25				
Wayne E. Brown				
Principal	1,276,246	-	-	1,276,246
Accrued Interest	1,593,281	275,322	-	1,868,603



# Crystal Valley Metropolitan District No. 1

## Notes to Financial Statements December 31, 2011

### **Note 4: Long Term Debt (continued)**

Obligation Water Promissory Note - Mature 12/31/25

Maple Grove

Principal	2,537,216	-	-	2,537,216
Accrued Interest	3,167,491	547,350	-	3,714,841

Obligation Water Promissory Note - Mature 12/31/25

Richard A. Putnam

Principal	1,268,608	-	-	1,268,608
Accrued Interest	1,583,746	273,678	-	1,857,424

Obligation Loan Agreement C - Capital Series 2005A - Mature 12/31/15

Crystal Valley Ranch Development Co., LLC

Principal	1,820,990	-	156,403	1,664,587
Accrued Interest	61,185	87,886	143,597	5,474

Obligation Loan Agreement C - Capital Series 2005B - Mature 12/31/15

Crystal Valley Ranch Development Co., LLC

Principal	2,709,214	-	-	2,709,214
Accrued Interest	852,410	217,328	-	1,069,738

Obligation Loan Agreement C - Operating Series 2005D - Mature 12/31/15

Crystal Valley Ranch Development Co., LLC

Principal	137,818	-	24,139	113,679
Accrued Interest	38,330	10,473	45,861	2,942

Series 2002 Bonds - Revenue Subordinate Bonds - Mature 05/01/32

Principal - Mature May 1, 2032	7,405,000	-	-	7,405,000
Accrued Interest	4,082,377	662,008	-	4,744,385

Series 2004 Bonds - Variable Rate Demand Obligation - Mature 10/01/34

Principal - Mature October 1, 2034	20,740,000	-	-	20,740,000
Accrued Interest	-	-	-	-

**Total Long-Term Debt**

<b>\$</b>	<b>58,133,547</b>	<b>\$ 2,924,101</b>	<b>\$ 370,000</b>	<b>\$ 60,687,648</b>
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## Crystal Valley Metropolitan District No. 1

### Notes to Financial Statements December 31, 2011

#### Note 4: Long Term Debt (continued)

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

	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2012	\$ 6,080,956	\$ 350,000	\$ 6,430,956
2013	1,454,059	140,000	1,594,059
2014	1,441,096	150,000	1,591,096
2015	3,741,414	4,652,480	8,393,894
2016	1,411,594	180,000	1,591,594
2017 - 2021	24,812,040	5,110,437	29,922,477
2022 - 2026	45,853,386	6,877,070	52,730,456
2027 - 2031	5,120,225	2,750,000	7,870,225
2032 - 2034	<u>2,520,314</u>	<u>21,445,000</u>	<u>23,965,314</u>
	<u>\$ 92,435,084</u>	<u>\$ 41,654,987</u>	<u>\$ 134,090,071</u>

The interest for the Series 2004 Bonds is calculated weekly and paid monthly. The above schedule reflects an estimate of 4% interest paid annually.

#### Note 5: Debt Authorization

As of December 31, 2011, the District had remaining voted debt authorization of approximately \$1,043,989. 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 can not issue debt in excess of \$45,000,000.

#### Note 6: Related Party

All of the Board of Directors are employees, owners or are otherwise associated with the Developer and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board.

During 2011, the following companies, which are owned by a member of the Board of Directors, provided services to the District: 1) BCI Management, Inc. provided \$19,000 in management services; 2) One Site Safety, LLC provided \$21,866 of construction services; and 3) Legacy Engineering provided \$53,066 in engineering services.

## Crystal Valley Metropolitan District No. 1

Notes to Financial Statements  
December 31, 2011

### **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 of 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.

### **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 Colorado Special Districts Property and Liability Pool (the "Pool") 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, 2011

### **Note 9: Commitments and contingencies**

In 2005, the District entered into a Development and Cost Reimbursement Agreement with Crystal Crossing Metropolitan District and Lanterns Metropolitan District 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. Lanterns currently owes the District \$1,345,687 however, does not have the capacity to repay the District.

As part of this project, the District entered into an Intergovernmental Agreement with Douglas County whereby Douglas County would manage the construction project. Construction costs related to this project were conveyed immediately to the County.

The District also entered into an Escrow Agreement whereby the District was required to escrow \$8,771,559 of the total estimated construction costs of \$10,156,032 which consists of the District's, Lanterns' and Crystal Crossing's shares of the construction costs. As of December 31, 2011, \$34,998 remains in escrow, which was included in the cash in escrow – construction account. These moneys will remain in escrow to cover any future costs associated with the bridge.

The District had outstanding construction contracts at December 31, 2011. As of December 31, 2011, remaining commitments totaling \$1,484,916 were outstanding.

### **Note 10: Agreements**

On June 4, 2001, 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.

## Crystal Valley Metropolitan District No. 1

### Notes to Financial Statements

December 31, 2011

**Note 11: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements**

The Government Funds Balance Sheet/Statement of Net Assets 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;
- 2) long-term liabilities such as bonds payable, accrued bond interest payable are not due and payable in the current period and, therefore, are not in the funds.
- 3) bond issuance costs are reported as deferred charges and amortized over the term of the related debt in the government-wide financial statements.

The Statement of Governmental Fund 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.
- 2) governmental funds report bond issuance costs as an expenditure, however, in the statement of activities, the bond issuance costs are amortized over the term of the related debt.
- 3) 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.
- 4) governmental funds report developer advances as revenue.

## Crystal Valley Metropolitan District No. 1

Notes to Financial Statements  
December 31, 2011

### Note 12: Prior Period Adjustment

During 2011, it was discovered in a review of the long-term debt obligations the amount of the Revenue and Limited Tax Obligation Water Promissory Note for Wayne E. Brown Family, LLC (see Note 4) was recorded with a different amount than reflected in the District's records. As a result, the amount of the principal increased by \$49,913 and the accrued interest increased by \$57,318. These funds were used to finance the cost of water rights obtained by the developers on behalf of the District and immediately conveyed to the Town of Castle Rock. Therefore, as the District never took title to these assets, the amount is not reflected in the total amount of capital assets. See below for a total effect on the beginning net assets on the Statement of Activities:

Ending balance 2010	\$	(51,462,692)
Change due to recording error		<u>(103,231)</u>
Restated beginning balance 2011	\$	<u><u>(51,565,923)</u></u>

### Note 13: Subsequent Events

On February 24, 2012, the District remarketed the Series 2004 Bonds (see Note 4). \$10,490,000 of the remarketed bonds will be Series 2004A Bonds and shall bear interest at 3.36% and shall mature on December 1, 2018. Interest payments are paid June 1<sup>st</sup> and December 1<sup>st</sup> commencing no later than June 1, 2012. \$9,681,000 of the Series 2004 Bonds were 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.

## **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, 2011

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Property taxes	\$ 1,304	\$ 1,290	\$ (14)
Specific ownership taxes	104	85	(19)
Fire station fee	-	11,700	11,700
Reimbursements from other governments	952,252	851,621	(100,631)
Interest income	-	1,473	1,473
Total Revenues	<u>953,660</u>	<u>866,169</u>	<u>(87,491)</u>
<b>EXPENDITURES</b>			
Treasurer's fees	20	19	1
Bond interest	829,600	36,133	793,467
Letter of credit fees	530,000	521,849	8,151
Pay agent fees	3,000	3,000	-
Remarketing costs	30,000	26,138	3,862
Trustee fees	7,000	8,500	(1,500)
Professional fees	50,000	11,092	38,908
Developer reimbursement - principal	-	143,597	(143,597)
Developer reimbursement - interest	-	156,403	(156,403)
Miscellaneous	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Total Expenditures	<u>1,454,620</u>	<u>906,731</u>	<u>547,889</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(500,960)	(40,562)	460,398
<b>OTHER FINANCING SOURCES (USES)</b>			
Bond issuance costs	-	(11,147)	(11,147)
Total Other Financing Sources (Uses)	-	(11,147)	(11,147)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(500,960)	(51,709)	449,251
FUND BALANCE - BEGINNING OF YEAR	<u>683,243</u>	<u>1,223,085</u>	<u>539,842</u>
FUND BALANCE - END OF YEAR	<u>\$ 182,283</u>	<u>\$ 1,171,376</u>	<u>\$ 989,093</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, 2011

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Miscellaneous income	\$ -	\$ 376	\$ 376
Interest income	5,000	4,266	(734)
Total Revenues	5,000	4,642	(358)
EXPENDITURES			
Miscellaneous	2,000	20,276	(18,276)
Capital outlay	2,234,431	148,428	2,086,003
Total Expenditures	2,236,431	168,704	2,067,727
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,231,431)	(164,062)	(2,068,085)
FUND BALANCE - BEGINNING OF YEAR	2,231,431	2,233,067	1,636
FUND BALANCE - END OF YEAR	\$ -	\$ 2,069,005	\$ (2,066,449)

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

**CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2**

Financial Statements

Year Ended December 31, 2011

with

Independent Auditors' Report

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# Hiratsuka & Associates, L.L.P.

Certified Public Accountants & Consultants

## INDEPENDENT AUDITORS' 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, Douglas County, Colorado, as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Crystal Valley Metropolitan District No. 2's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 the Crystal Valley Metropolitan District No. 2, Douglas County, Colorado, as of December 31, 2011, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has not presented Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basis financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basis financial statements is not affected by the missing 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 was presented for the purpose of additional analysis and was not a required part of the financial statements. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service Fund was the responsibility of management and was 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 2, 2012  
Denver, Colorado

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# CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

## BALANCE SHEET/STATEMENT OF NET ASSETS GOVERNMENTAL FUNDS December 31, 2011

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	Statement of <u>Net Assets</u>
<b>ASSETS</b>					
Cash and investments	\$ 9,188	\$ 156,024	\$ 165,212	\$ -	\$ 165,212
Property taxes receivable - current	966	4,431	5,397	-	5,397
Property taxes receivable - deferred	147,719	678,623	826,342	-	826,342
Prepaid expenses	<u>2,247</u>	<u>-</u>	<u>2,247</u>	<u>-</u>	<u>2,247</u>
Total Assets	<u>\$ 160,120</u>	<u>\$ 839,078</u>	<u>\$ 999,198</u>	<u>-</u>	<u>999,198</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 2,247	\$ -	\$ 2,247	-	2,247
Deferred property taxes	<u>147,719</u>	<u>678,623</u>	<u>826,342</u>	<u>-</u>	<u>826,342</u>
Total Liabilities	<u>149,966</u>	<u>678,623</u>	<u>828,589</u>	<u>-</u>	<u>828,589</u>
<b>FUND BALANCE/NET ASSETS</b>					
Nonspendable:					
Prepays	2,247	-	2,247	(2,247)	-
Restricted:					
Emergencies	174	-	174	(174)	-
Debt service	-	160,455	160,455	(160,455)	-
Unassigned	<u>7,733</u>	<u>-</u>	<u>7,733</u>	<u>(7,733)</u>	<u>-</u>
Total Fund Balances	<u>10,154</u>	<u>160,455</u>	<u>170,609</u>	<u>(170,609)</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 160,120</u>	<u>\$ 839,078</u>	<u>\$ 999,198</u>		
<b>Restricted for:</b>					
Emergencies				174	174
Debt service				160,455	160,455
Unrestricted				<u>9,980</u>	<u>9,980</u>
Total Net Assets (Deficit)				<u>\$ 170,609</u>	<u>\$ 170,609</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/STATEMENT OF ACTIVITIES GOVERNMENTAL FUNDS

For the Year Ended December 31, 2011

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
EXPENDITURES			
Audit	\$ 4,000	\$ -	\$ 4,000
Insurance	1,725	-	1,725
Miscellaneous expenses	90	-	90
Payment to District No. 1	219,804	851,621	1,071,425
Treasurer's fees	<u>2,747</u>	<u>12,621</u>	<u>15,368</u>
Total Expenditures	<u>228,366</u>	<u>864,242</u>	<u>1,092,608</u>
GENERAL REVENUES			
Property taxes	182,841	839,971	1,022,812
Specific ownership taxes	12,050	55,355	67,405
Rental tax	15	69	84
Interest income	<u>381</u>	<u>1,750</u>	<u>2,131</u>
Total General Revenues	<u>195,287</u>	<u>897,145</u>	<u>1,092,432</u>
NET CHANGE IN FUND BALANCES/NET ASSETS	(33,079)	32,903	(176)
FUND BALANCE/NET ASSETS - BEGINNING OF YEAR	<u>43,233</u>	<u>127,552</u>	<u>170,785</u>
FUND BALANCE/NET ASSETS - END OF YEAR	<u>\$ 10,154</u>	<u>\$ 160,455</u>	<u>\$ 170,609</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, 2011

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 182,411	\$ 182,411	\$ 182,841	\$ 430
Specific ownership taxes	14,593	14,593	12,050	(2,543)
Rental tax	1	1	15	14
Interest income	<u>10</u>	<u>10</u>	<u>381</u>	<u>371</u>
Total Revenues	<u>197,015</u>	<u>197,015</u>	<u>195,287</u>	<u>(1,728)</u>
EXPENDITURES				
Audit	4,250	4,000	4,000	-
Insurance	2,500	1,725	1,725	-
Miscellaneous expenses	100	90	90	-
Payment to District No. 1	196,904	219,804	219,804	-
Treasurers fees	2,736	2,747	2,747	-
Emergency reserve	<u>206</u>	<u>206</u>	<u>-</u>	<u>206</u>
Total Expenditures	<u>206,696</u>	<u>228,572</u>	<u>228,366</u>	<u>206</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(9,681)	(31,557)	(33,079)	(1,522)
FUND BALANCE - BEGINNING OF YEAR	<u>\$ 9,681</u>	<u>\$ 31,557</u>	<u>\$ 43,233</u>	<u>\$ 11,676</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,154</u>	<u>\$ 10,154</u>

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, 2011

### 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 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, 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. The District may however, upon mutual agreement with the Town, retain ownership in the facilities and/or retain responsibility for operations and maintenance.

Crystal Valley Metropolitan District No. 2 is intended to serve as the "Taxing District" while Crystal Valley Metropolitan District No. 1 is intended to serve as the "Operating District". District No. 2 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.

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



## CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2011

**Note 1: Summary of Significant Accounting Policies (continued)**

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 has no component units as defined by the Governmental Accounting Standards Board ("GASB"), Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The District is not financially accountable for any other organization.

The District is governed by an elected Board of Directors. 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.

The government-wide financial statements (i.e. the statement of net assets and the statement of governmental fund revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District. 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 net assets reports all financial and capital resources of the District. The difference between the assets and liabilities of the District is reported as net assets.

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*.

## CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2011

### Note 1: Summary of Significant Accounting Policies (continued)

#### 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. 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 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.

Subsequent to year end, the District amended its total appropriations in the General Fund from \$206,696 to \$228,572 primarily due to unbudgeted expenses.

## CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2011

### Note 1: Summary of Significant Accounting Policies (continued)

#### Assets, Liabilities and Net Assets:

##### 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, 2011, 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.

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.

## CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2011

### Note 1: Summary of Significant Accounting Policies (continued)

#### 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 revenue 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.

#### Fund Equity

Beginning with fiscal year ending December 31, 2011, the District implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. In the fund financial statements, the District considers all restricted and unrestricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. The District considers all committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for the purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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 \$174 of the General Fund balance has been restricted in compliance with this requirement.

The nonspendable fund balance in the General Fund in the amount of \$2,247 represents prepaid expenditures.

The unrestricted fund balance in the General Fund in the amount of \$7,733 represents the residual portion of the fund balance that does not meet any of the above criteria.

## CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2011

#### Note 1: Summary of Significant Accounting Policies (continued)

The restricted fund balance in the Debt Service Fund in the amount of \$160,455 is restricted for the transfer to District No. 1 as outlined in District Facilities Construction and Service Agreement with District N. 1 on June 4, 2002 (see Note 5).

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.

#### Note 2: Cash and Investments

As of December 31, 2011, cash and investments are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ <u>165,212</u>
Total	\$ <u>165,212</u>

Cash and investments as of December 31, 2011, consist of the following:

Deposits with financial institutions	\$ 24,004
Investments – COLOTRUST	<u>141,208</u>
	\$ <u>165,212</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% the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2011, the District's cash deposits had a bank and carrying balance of \$24,004.

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

## CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2011

### Note 2: Cash and Investments (continued)

#### 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.

##### COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust (“COLOTRUST”) is rated AAAM by Standard & Poor’s. COLOTRUST is an investment trust/joint ventures established for local government entities in Colorado to pool surplus funds. 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, 2011, the District had \$141,208 invested in COLOTRUST.

##### 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.

As of December 31, 2011, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
COLOTRUST	Weighted average Under 60 days	\$ <u>141,208</u>
Total investments		\$ <u>141,208</u>

## CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2011

**Note 3: Debt Authorization**

In 2000, a majority of the qualified electors of the District who voted in the election authorized the issuance of indebtedness of \$45,000,000. As of December 31, 2011, the amount of debt authorized by the District's electorate but unissued was \$45,000,000. The District has not budgeted to issue any new debt during 2012. Per the District's Service Plan, the District can not issue debt in excess of \$45,000,000.

**Note 4: Related Party**

All of the Board of Directors are employees, owners or are otherwise associated with the Developer and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board.

**Note 5: Intergovernmental Agreement**

In order to implement the Service Plan, the District entered into a District Facilities Construction and Service Agreement with District No. 1 on June 4, 2002. The agreement shall remain in full force and effect until each of the terms and conditions has been performed in their entirety or until the agreement is terminated by mutual agreement by both Districts.

District No. 2 will, to the extent that it's to benefit, pay capital costs and service costs of operation and maintenance of such facilities. District No. 1 is to own, operate, maintain, and construct the facilities benefitting the two Districts until the conveyance to the Town of Castle Rock, Colorado.

It is the intent of the Districts that the operation, maintenance, and administration costs incurred by District No. 1 be paid by District No. 2 through property taxes.

## CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2011

### **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 of 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.

### **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 (the "Pool") 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.



## **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, 2011

	Original and <u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 837,997	\$ 839,971	\$ 1,974
Specific ownership taxes	67,040	55,355	(11,685)
Rental tax	-	69	69
Interest income	<u>500</u>	<u>1,750</u>	<u>1,250</u>
Total Revenues	<u>905,537</u>	<u>897,145</u>	<u>(8,392)</u>
EXPENDITURES			
Miscellaneous	5,500	-	5,500
Payment to District No. 1	952,252	851,621	100,631
Treasurers' fees	<u>12,570</u>	<u>12,621</u>	<u>(51)</u>
Total Expenditures	<u>970,322</u>	<u>864,242</u>	<u>106,080</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(64,785)	32,903	97,688
FUND BALANCE - BEGINNING OF YEAR	<u>64,785</u>	<u>127,552</u>	<u>62,767</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ 160,455</u>	<u>\$ 160,455</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, 2011

<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>Levied</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%
Estimated for year ending						
December 31, 2012	\$ 14,771,930	10.000	45.940	\$ 826,342		

#### 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.

**EXHIBIT B**

**Crystal Valley Metropolitan District Nos. 1 and 2  
2011 Budgets**

**CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1**  
**2011**  
**BUDGET MESSAGE**

Attached please find a copy of the adopted 2011 budget for the Crystal Valley Metropolitan District No. 1.

The Crystal Valley Metropolitan District No. 1 has adopted three separate funds, a General Fund to provide for general operating expenses and to reimburse developer advances; a Debt Service Fund to provide for payments on outstanding general obligation debt; and a Capital Projects Fund to provide for the estimated infrastructure costs that are to be built by 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 revenues for the District in 2011 will be transfers from Crystal Valley Metropolitan District No. 2 and property taxes. In 2011, the District intends to impose a mill levy on all property within the District totaling 55.940 mills, of which 10.000 mills will be dedicated to the General Fund and the balance of 45.940 mills will be allocated to the Debt Service Fund.

**Crystal Valley Metropolitan District No. 1**  
**Adopted Budget**  
**General Fund**  
**For the Year ended December 31, 2011**

	Actual 2009	Adopted Budget 2010	Actual 8/31/2010	Estimate 2010	Adopted Budget 2011
Beginning fund balance	\$ 33,447	\$ 33,728	\$ 33,728	\$ 33,728	\$ 48,548
Revenues:					
Property taxes	132	267	267	267	281
Specific ownership taxes	10	21	12	21	22
Developer advances	26,514	-	2,198	2,198	-
Transfer from District No. 2	7,958	190,437	44,417	190,437	196,904
Interest income	8	3	-	-	-
Total revenues	34,622	190,728	46,894	192,923	197,207
Total funds available	68,069	224,456	80,622	226,651	245,755
Expenditures:					
Accounting / audit	13,332	54,000	19,358	50,000	50,000
Legal	13,081	96,000	17,752	50,000	50,000
Management fees	6,000	6,000	4,500	6,000	6,000
Insurance	1,926	2,500	2,199	2,199	3,000
Miscellaneous	-	2,000	7,960	9,000	10,000
Landscape maintenance	-	-	1,656	5,000	15,000
Treasurer fees	2	4	4	-	4
Reimbursement to developer	-	-	-	55,904	100,000
Contingency	-	53,915	-	-	7,731
Emergency reserve (3%)	-	4,815	-	-	4,020
Total expenditures	34,341	219,234	53,429	178,103	245,755
Ending fund balance	\$ 33,728	\$ 5,222	\$ 27,193	\$ 48,548	\$ (0)
Assessed valuation		\$ 26,690			\$ 28,070
Mill Levy		10.000			10.000

**Crystal Valley Metropolitan District No. 1**  
**Adopted Budget**  
**Capital Projects Fund**  
**For the Year ended December 31, 2011**

	Actual 2009	Adopted Budget 2010	Actual 8/31/2010	Estimate 2010	Adopted Budget 2011
Beginning fund balance	\$ 3,285,011	\$ 3,761,570	\$ 3,761,570	\$ 3,761,570	\$ 2,231,431
Revenues:					
Developer advances	122,425	90,000	-	-	-
Interest income	7,553	5,000	2,641	3,962	5,000
Reimbursement from other governments	10,000	-	-	-	-
Reimbursement from UP railroad	1,462,791	1,462,791	-	-	-
Other income	-	-	-	-	-
Total revenues	1,602,769	1,557,791	2,641	3,962	5,000
Total funds available	4,887,780	5,319,361	3,764,211	3,765,532	2,236,431
Expenditures:					
Accounting	30,328	12,000	-	-	-
Legal	54,020	24,000	2,932	4,500	-
Capital expenditures	1,040,986	3,095,300	44,236	66,354	2,234,431
Miscellaneous	876	2,000	258	1,000	2,000
Repay developer advances - short term note	-	-	417,869	417,869	-
Repay developer advances	-	-	868,348	868,348	-
Reimbursement to other governments	-	351,070	176,030	176,030	-
Total expenditures	1,126,210	3,484,370	1,509,673	1,534,101	2,236,431
Ending fund balance	\$ 3,761,570	\$ 1,834,991	\$ 2,254,538	\$ 2,231,431	\$ -

**Crystal Valley Metropolitan District No. 1**  
**Adopted Budget**  
**Debt Service Fund**  
**For the Year ended December 31, 2011**

	Actual 2009	Adopted Budget 2010	Actual 8/31/2010	Estimate 2010	Adopted Budget 2011
Beginning fund balance	\$ 1,822,471	\$ 1,795,537	\$ 1,795,536	\$ 1,223,267	\$ 683,243
Revenues:					
Property taxes	923	934	934	934	1,304
Specific ownership taxes	71	75	43	75	104
Fire station fees @ 300.00/each	-	15,000	1,500	1,500	-
Transfer from Dist. No 2	720,711	875,706	628,723	875,706	952,252
Interest income	8,820	8,000	2,550	3,000	-
Total revenues	730,525	899,715	633,750	881,215	953,660
Total funds available	2,552,996	2,695,252	2,429,286	2,104,482	1,636,903
Expenditures:					
Interest expense Series 2004 Bonds (2%)	71,601	1,125,800	29,161	43,742	829,600
LOC Fee Series 2004 Bonds (2.50%)	409,407	520,000	390,338	521,876	530,000
Annual Remarketing fee	12,998	25,000	25,996	37,998	30,000
Miscellaneous	78	10,000	2,400	5,000	5,000
Professional fees	53,363	-	-	50,000	50,000
Developer reimbursement	199,998	-	752,610	752,610	-
Transfer to other funds	-	-	-	-	-
Treasurer fees	14	14	14	14	20
Trustee / paying agent fees	10,000	10,000	5,500	10,000	10,000
Contingency	-	-	-	-	-
Total expenditures	757,459	1,690,814	1,206,019	1,421,240	1,454,620
Ending fund balance	\$ 1,795,537	\$ 1,004,438	\$ 1,223,267	\$ 683,243	\$ 182,283
Assessed valuation		\$ 26,690			\$ 28,390
Mill Levy		35.000			45.940
Total Mill Levy		45.000			55.940



**CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2**  
**2011**  
**BUDGET MESSAGE**

Attached please find a copy of the adopted 2011 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 general operating expenses and transfers to Crystal Valley Metropolitan District No. 1; and a Debt Service Fund to provide for transfers to Crystal Valley Metropolitan District No. 1 for payments on outstanding general obligation debt.

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 revenues for the District in 2011 will be property taxes. In 2011, the District intends to impose a mill levy on all property within the District totaling 55.940 mills, of which 10.000 mills will be dedicated to the General Fund and the balance of 45.940 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, 2011**

	Adopted Budget 2009	Actual 2009	Adopted Budget 2010	Actual 8/31/2010	Estimate 2010	Adopted Budget 2011
Beginning fund balance	\$ 8,419	\$ 12,304	\$ 14,410	\$ 14,410	\$ 14,410	\$ 9,681
Revenues:						
Property taxes	18,966	14,990	179,905	177,674	179,905	182,411
Specific ownership taxes	1,517	1,418	14,392	8,308	14,392	14,593
Rental tax	-	3	1	10	10	1
Interest income	-	114	10	237	300	10
Total revenues	20,483	16,525	194,308	186,229	194,607	197,015
Total funds available	28,902	28,829	208,718	200,639	209,017	206,696
Expenditures:						
Accounting / audit	6,000	4,250	6,000	4,000	4,000	4,250
Insurance	2,000	1,876	2,000	2,182	2,182	2,500
Miscellaneous	500	109	27	40	50	100
Payment to District 1	19,863	7,958	190,437	44,417	190,437	196,904
Treasurer fees	284	226	2,699	2,667	2,667	2,736
Contingency	-	-	-	-	-	-
Emergency reserve (3%)	255	-	241	-	-	206
Total expenditures	28,902	14,419	201,404	53,306	199,336	206,696
Ending fund balance	\$ -	\$ 14,410	\$ 7,314	\$ 147,333	\$ 9,681	\$ 0
Assessed valuation	\$ 18,965,710		\$ 17,990,510			\$ 18,241,110
New growth assessed valuation	\$ -		\$ -			\$ -
Mill Levy	1.000		10.000			10.000

**Crystal Valley Metropolitan District No. 2**  
**Adopted Budget**  
**Debt Service Fund**  
**For the Year ended December 31, 2011**

	Adopted Budget 2009	Actual 2009	Adopted Budget 2010	Actual 8/31/2010	Estimate 2010	Adopted Budget 2011
Beginning fund balance	\$ 48,973	\$ 58,215	\$ 86,260	\$ 86,260	\$ 58,215	\$ 64,785
Revenues:						
Property taxes	871,285	688,665	826,484	634,731	826,484	837,997
Specific ownership taxes	60,990	65,125	66,119	44,134	66,119	67,040
Rental tax	-	118	-	63	70	-
Interest income	2,000	5,241	500	2,668	3,000	500
Total revenues	934,275	759,149	893,103	681,596	895,673	905,537
Total funds available	983,248	817,364	979,363	767,856	953,888	970,322
Expenditures:						
Miscellaneous	1,000	-	5,000	-	1,000	5,500
Treasurer's fees	25,000	10,393	12,397	9,549	12,397	12,570
Transfer to District 1	957,248	720,711	875,706	316,000	875,706	952,252
Total expenditures	983,248	731,104	893,103	325,549	889,103	970,322
Ending fund balance	\$ -	\$ 86,260	\$ 86,260	\$ 442,307	\$ 64,785	\$ -
Assessed valuation	\$ 18,965,710	\$ -	\$ 17,990,510	\$ -	\$ -	\$ 18,241,110
New growth assessed valuation	\$ -		\$ -			\$ -
Mill Levy	45.940		45.940			45.940
Total Mill Levy	46.940		55.940			55.940

## **RESOLUTION TO AMEND 2011 BUDGET**

COMES NOW Greg Brown, President of **CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2** (the "District") and certifies that at a regular meeting of the Board of Directors of the District held on February 17, 2012 at 12:00 P.M. at 1175 Crystal Valley Parkway, Castle Rock, Colorado, the following Resolution was adopted by affirmative vote of a majority of the Board of Directors, to-wit:

"WHEREAS, the Board of Directors of Crystal Valley Metropolitan District No. 2 appropriated funds for the fiscal year 2011 as follows:

General Fund	\$206,696
--------------	-----------

and;

"WHEREAS, the necessity has arisen for additional expenditures and transfers by the District due to additional costs which could not have been reasonably anticipated at the time of adoption of the budget, requiring the expenditure of funds in excess of those appropriated for the fiscal year 2011; and

"WHEREAS, funds are available for such expenditure and transfer from surplus revenue funds of the District;

"NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of Crystal Valley Metropolitan District No. 2 shall and hereby does amend the budget for the fiscal year 2011 as follows:

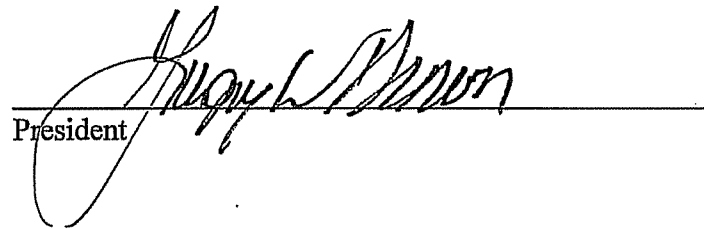
General Fund	\$228,572
--------------	-----------

"BE IT FURTHER RESOLVED, that such sums are hereby appropriated from the revenues of the District to the funds named above, for the purpose stated, and that any ending fund balances shall be reserved for purposes of Amendment 1 to the Colorado Constitution, approved November 3, 1992."

Adopted this 17<sup>th</sup> day of February, 2012.

**CRYSTAL VALLEY METROPOLITAN  
DISTRICT NO. 2**

President

A handwritten signature in black ink, appearing to read "Randy L. Brown", is written over a horizontal line.

ATTEST:

Secretary

A handwritten signature in black ink, appearing to read "C. A. [unclear]", is written over a horizontal line.

**EXHIBIT C**

**Crystal Valley Metropolitan Districts Nos. 1 and 2  
2012 Budgets**

**CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1**  
**2012**  
**BUDGET MESSAGE**

Attached please find a copy of the adopted 2012 budget for the Crystal Valley Metropolitan District No. 1.

The Crystal Valley Metropolitan District No. 1 has adopted three separate funds, a General Fund to provide for general operating expenses and to reimburse developer advances; a Debt Service Fund to provide for payments on outstanding general obligation debt; and a Capital Projects Fund to provide for the estimated infrastructure costs that are to be built by 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 revenues for the District in 2012 will be transfers from Crystal Valley Metropolitan District No. 2 and property taxes. In 2012, the District intends to impose a mill levy on all property within the District totaling 55.940 mills, of which 10.000 mills will be dedicated to the General Fund and the balance of 45.940 mills will be allocated to the Debt Service Fund.

**Crystal Valley Metropolitan District No. 1**  
**Adopted Budget**  
**General Fund**  
**For the Year ended December 31, 2012**

	Adopted Budget <u>2010</u>	Actual <u>2010</u>	Adopted Budget <u>2011</u>	Actual <u>7/31/2011</u>	Estimate <u>2011</u>	Adopted Budget <u>2012</u>
Beginning fund balance	\$ 33,728	\$ 33,728	\$ 48,548	\$ 28,744	\$ 28,744	\$ 37,851
Revenues:						
Property taxes	267	267	281	349	349	298
Specific ownership taxes	21	18	22	13	13	24
Developer advances	-	2,198	-	-	-	-
Transfer from District No. 2	190,437	154,142	196,904	98,891	196,904	182,547
Interest income	3	-	-	-	-	-
Total revenues	<u>190,728</u>	<u>156,625</u>	<u>197,207</u>	<u>99,253</u>	<u>197,266</u>	<u>182,869</u>
Total funds available	<u>224,456</u>	<u>190,353</u>	<u>245,755</u>	<u>127,997</u>	<u>226,010</u>	<u>220,720</u>
Expenditures:						
Accounting / audit	54,000	39,272	50,000	20,638	35,379	50,000
Legal	96,000	37,778	50,000	26,641	45,670	50,000
Management fees	6,000	6,000	6,000	10,000	18,000	30,000
Insurance	2,500	2,199	3,000	2,028	3,477	2,700
Miscellaneous	2,000	25	10,000	-	100	1,000
Landscape maintenance	-	9,567	15,000	4,976	4,976	15,000
Professional fees	-	10,860	-	6,153	10,548	20,000
Treasurer fees	4	4	4	5	9	4
Reimbursement to developer	-	55,904	100,000	30,000	70,000	30,000
Contingency	53,915	-	7,731	-	-	16,955
Emergency reserve (3%)	4,815	-	4,020	-	-	5,061
Total expenditures	<u>219,234</u>	<u>161,609</u>	<u>245,755</u>	<u>100,441</u>	<u>188,159</u>	<u>220,720</u>
Ending fund balance	\$ <u>5,222</u>	\$ <u>28,744</u>	\$ <u>-</u>	\$ <u>27,556</u>	\$ <u>37,851</u>	\$ <u>0</u>
Assessed valuation	\$ <u>26,690</u>		\$ <u>28,070</u>			\$ <u>29,820</u>
Mill Levy	<u>10.000</u>		<u>10.000</u>			<u>10.000</u>



**Crystal Valley Metropolitan District No. 1**  
**Adopted Budget**  
**Capital Projects Fund**  
**For the Year ended December 31, 2012**

	Adopted Budget <u>2010</u>	Actual <u>2010</u>	Adopted Budget <u>2011</u>	Actual <u>7/31/2011</u>	Estimate <u>2011</u>	Adopted Budget <u>2012</u>
Beginning fund balance	\$ 3,761,570	\$ 3,761,570	\$ 2,231,431	\$ 2,233,066	\$ 2,233,066	\$ 2,135,373
Revenues:						
Developer advances	90,000	1,102	-	-	-	-
Interest income	5,000	4,637	5,000	2,730	4,095	3,000
Reimbursement from other governments	-	-	-	-	-	-
Reimbursement from UP railroad	1,462,791	-	-	-	-	-
Other income	-	-	-	376	-	-
Total revenues	<u>1,557,791</u>	<u>5,739</u>	<u>5,000</u>	<u>3,106</u>	<u>4,095</u>	<u>3,000</u>
Total funds available	<u>5,319,361</u>	<u>3,767,309</u>	<u>2,236,431</u>	<u>2,236,172</u>	<u>2,237,161</u>	<u>2,138,373</u>
Expenditures:						
Accounting	12,000	-	-	-	-	-
Legal	24,000	2,932	-	-	-	-
Capital expenditures	3,095,300	68,724	2,234,431	52,506	90,010	2,234,431
Miscellaneous	2,000	339	2,000	20,191	11,778	2,000
Repay developer advances - short term note	-	417,869	-	-	-	-
Repay developer advances	-	868,349	-	-	-	-
Reimbursement to other governments	351,070	176,030	-	-	-	-
Total expenditures	<u>3,484,370</u>	<u>1,534,243</u>	<u>2,236,431</u>	<u>72,697</u>	<u>101,788</u>	<u>2,236,431</u>
Ending fund balance	<u>\$ 1,834,991</u>	<u>\$ 2,233,066</u>	<u>\$ -</u>	<u>\$ 2,163,475</u>	<u>\$ 2,135,373</u>	<u>\$ -</u>

**Crystal Valley Metropolitan District No. 1**  
**Adopted Budget**  
**Debt Service Fund**  
**For the Year ended December 31, 2012**

	Adopted Budget <u>2010</u>	Actual <u>2010</u>	Adopted Budget <u>2011</u>	Actual <u>7/31/2011</u>	Estimate <u>2011</u>	Adopted Budget <u>2012</u>
Beginning fund balance	\$ 1,795,537	\$ 1,795,536	\$ 683,243	\$ 1,223,085	\$ 1,223,085	\$ 1,126,264
Revenues:						
Property taxes	934	934	1,304	1,221	1,304	1,524
Specific ownership taxes	75	64	104	47	104	122
Fire station fees @ 300.00/each	15,000	6,300	-	2,400	2,400	-
Transfer from Dist. No 2	875,706	827,989	952,252	681,621	875,706	793,960
Interest income	8,000	3,320	-	958	1,000	-
Total revenues	899,715	838,607	953,660	686,247	880,514	795,606
Total funds available	2,695,252	2,634,143	1,636,903	1,909,332	2,103,599	1,921,870
Expenditures:						
Interest expense Series 2004 Bonds (2%)	1,125,800	52,396	829,600	23,877	100,000	829,600
LOC Fee Series 2004 Bonds (2.50%)	520,000	521,876	530,000	390,316	669,113	530,000
Annual Remarketing fee	25,000	41,054	30,000	17,331	29,710	30,000
Miscellaneous	10,000	-	5,000	-	-	5,000
Professional fees	-	33,108	50,000	10,790	18,497	50,000
Developer reimbursement	-	753,150	-	150,000	150,000	-
Transfer to other funds	-	-	-	-	-	-
Treasurer fees	14	14	20	18	14	23
Trustee / paying agent fees	10,000	10,000	10,000	5,250	10,000	10,000
Contingency	-	-	-	-	-	-
Total expenditures	1,690,814	1,411,598	1,454,620	597,582	977,335	1,454,623
Ending fund balance	\$ 1,004,438	\$ 1,222,545	\$ 182,283	\$ 1,311,750	\$ 1,126,264	\$ 467,247
Assessed valuation	\$ 26,690		\$ 28,390			\$ 33,180
Mill Levy	35.000		45.940			45.940
Total Mill Levy	45.000		55.940			55.940

**CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2**  
**2012**  
**BUDGET MESSAGE**

Attached please find a copy of the adopted 2012 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 general operating expenses and transfers to Crystal Valley Metropolitan District No. 1; and a Debt Service Fund to provide for transfers to Crystal Valley Metropolitan District No. 1 for payments on outstanding general obligation debt.

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 revenues for the District in 2012 will be property taxes. In 2012, the District intends to impose a mill levy on all property within the District totaling 55.940 mills, of which 10.000 mills will be dedicated to the General Fund and the balance of 45.940 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, 2012**

	Adopted Budget 2010	Actual 2010	Adopted Budget 2011	Actual 7/31/2011	Estimate 2011	Adopted Budget 2012
Beginning fund balance	\$ 14,410	\$ 14,410	\$ 9,681	\$ 43,233	\$ 43,233	\$ 32,271
Revenues:						
Property taxes	179,905	179,259	182,411	179,493	179,905	147,719
Specific ownership taxes	14,392	12,271	14,593	7,017	14,392	11,818
Rental tax	1	16	1	6	6	1
Interest income	10	367	10	144	200	10
Total revenues	194,308	191,913	197,015	186,660	194,503	159,548
Total funds available	208,718	206,323	206,696	229,893	237,736	191,819
Expenditures:						
Accounting / audit	6,000	4,000	4,250	4,000	4,000	4,250
Insurance	2,000	2,182	2,500	1,725	1,725	2,500
Miscellaneous	27	74	100	47	100	100
Payment to District 1	190,437	154,142	196,904	98,891	196,904	182,547
Treasurer fees	2,699	2,692	2,736	2,694	2,736	2,216
Contingency	-	-	-	-	-	-
Emergency reserve (3%)	241	-	206	-	-	206
Total expenditures	201,404	163,090	206,696	107,357	205,465	191,819
Ending fund balance	\$ 7,314	\$ 43,233	\$ -	\$ 122,536	\$ 32,271	\$ 0
Assessed valuation	\$ 17,990,510		\$ 18,241,110			\$ 14,771,930
New growth assessed valuation	\$ -		\$ -			\$ -
Mill Levy	10.000		10.000			10.000

**Crystal Valley Metropolitan District No. 2**  
**Adopted Budget**  
**Debt Service Fund**  
**For the Year ended December 31, 2012**

	Adopted Budget 2010	Estimate 2010	Adopted Budget 2011	Actual 7/31/2011	Estimate 2011	Adopted Budget 2012
Beginning fund balance	\$ 86,260	\$ 58,215	\$ 64,785	\$ 86,260	\$ 58,215	\$ 76,227
Revenues:						
Property taxes	826,484	826,484	837,997	823,514	837,997	678,623
Specific ownership taxes	66,119	66,119	67,040	56,374	67,040	54,289
Rental tax	-	70	-	78	78	-
Interest income	500	3,000	500	1,684	2,000	500
Total revenues	893,103	895,673	905,537	881,650	907,115	733,412
Total funds available	979,363	953,888	970,322	967,910	985,330	809,639
Expenditures:						
Miscellaneous	5,000	1,000	5,500	-	1,000	5,500
Treasurer's fees	12,397	12,397	12,570	12,369	12,397	10,179
Transfer to District 1	875,706	875,706	952,252	827,889	875,706	793,960
Total expenditures	893,103	889,103	970,322	840,358	889,103	809,639
Ending fund balance	\$ 86,260	\$ 64,785	\$ -	\$ 127,552	\$ 76,227	\$ -
Assessed valuation	\$ 17,990,510	\$ -	\$ 18,241,110	\$ -	\$ -	\$ 14,771,930
New growth assessed valuation	\$ -		\$ -			\$ -
Mill Levy	45.940		45.940			45.940
Total Mill Levy	55.940		55.940			55.940

## RESOLUTION TO AMEND 2012 BUDGET

COMES NOW Greg Brown, President of **CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1** (the "District") and certifies that at a regular meeting of the Board of Directors of the District held on February 24, 2012 at 1:30 P.M. at 1175 Crystal Valley Parkway, Castle Rock, Colorado, the following Resolution was adopted by affirmative vote of a majority of the Board of Directors, to-wit:

"WHEREAS, the Board of Directors of Crystal Valley Metropolitan District No. 1 appropriated funds for the fiscal year 2011 as follows:

General Fund	\$220,720
Debt Service Fund	\$1,454,623

and;

"WHEREAS, the necessity has arisen for additional expenditures and transfers by the District due to additional costs which could not have been reasonably anticipated at the time of adoption of the budget, requiring the expenditure of funds in excess of those appropriated for the fiscal year 2012; and

"WHEREAS, funds are available for such expenditure and transfer from surplus revenue funds of the District;

"NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of Crystal Valley Metropolitan District No. 1 shall and hereby does amend the budget for the fiscal year 2012 pursuant to the amended and restated budget for 2012, attached hereto as **Exhibit A**.

"BE IT FURTHER RESOLVED, that such sums are hereby appropriated from the revenues of the District to the funds named above, for the purpose stated, and that any ending fund balances shall be reserved for purposes of Amendment 1 to the Colorado Constitution, approved November 3, 1992."

Adopted this 24<sup>th</sup> day of February, 2012.

**CRYSTAL VALLEY METROPOLITAN  
DISTRICT NO. 1**

\_\_\_\_\_  
President

ATTEST:

\_\_\_\_\_  
Secretary

**Crystal Valley Metropolitan District No. 1**  
**Adopted Budget**  
**General Fund**  
**For the Year ended December 31, 2012**

	Adopted Budget 2010	Actual 2010	Adopted Budget 2011	Actual 7/31/2011	Estimate 2011	Adopted Budget 2012	Adopted Budget Amendment 2012
Beginning fund balance	\$ 33,728	\$ 33,728	\$ 48,548	\$ 28,744	\$ 28,744	\$ 37,851	\$ 9,113
Revenues:							
Property taxes	267	267	281	349	349	298	298
Specific ownership taxes	21	18	22	13	13	24	24
Developer advances	-	2,198	-	-	-	-	-
Transfer from District No. 2	190,437	154,142	196,904	98,891	196,904	182,547	182,547
Interest income	3	-	-	-	-	-	-
Total revenues	190,728	156,625	197,207	99,253	197,266	182,869	182,869
Total funds available	224,456	190,353	245,755	127,997	226,010	220,720	191,982
Expenditures:							
Accounting / audit	54,000	39,272	50,000	20,638	35,379	50,000	40,000
Legal	96,000	37,778	50,000	26,641	45,670	50,000	40,000
Management fees	6,000	6,000	6,000	10,000	18,000	30,000	5,000
Insurance	2,500	2,199	3,000	2,028	3,477	2,700	2,700
Miscellaneous	2,000	25	10,000	-	100	1,000	1,000
Landscape maintenance	-	9,567	15,000	4,976	4,976	15,000	15,000
Professional fees	-	10,860	-	6,153	10,548	20,000	10,000
Treasurer fees	4	4	4	5	9	4	4
Reimbursement to developer	-	55,904	100,000	30,000	70,000	30,000	-
Contingency	53,915	-	7,731	-	-	16,955	9,113
Wells Fargo repayment fees	-	-	-	-	-	-	65,754
Emergency reserve (3%)	4,815	-	4,020	-	-	5,061	3,411
Total expenditures	219,234	161,609	245,755	100,441	188,159	220,720	191,982
Ending fund balance	\$ 5,222	\$ 28,744	\$ -	\$ 27,556	\$ 37,851	\$ 0	\$ -
Assessed valuation	\$ 26,690		\$ 28,070			\$ 29,820	\$ 29,820
Mill Levy	10.000		10.000			10.000	10.000



**Crystal Valley Metropolitan District No. 1**  
**Adopted Budget**  
**Capital Projects Fund**  
**For the Year ended December 31, 2012**

	Adopted Budget 2010	Actual 2010	Adopted Budget 2011	Actual 7/31/2011	Estimate 2011	Adopted Budget 2012	Adopted Budget Amendment 2012
Beginning fund balance	\$ 3,761,570	\$ 3,761,570	\$ 2,231,431	\$ 2,233,066	\$ 2,233,066	\$ 2,135,373	\$ 2,135,373
Revenues:							
Developer advances	90,000	1,102	-	-	-	-	-
Interest income	5,000	4,637	5,000	2,730	4,095	3,000	3,000
Reimbursement from other governments	-	-	-	-	-	-	-
Reimbursement from UP railroad	1,462,791	-	-	-	-	-	-
Other income	-	-	-	376	-	-	-
Total revenues	1,557,791	5,739	5,000	3,106	4,095	3,000	3,000
Total funds available	5,319,361	3,767,309	2,236,431	2,236,172	2,237,161	2,138,373	2,138,373
Expenditures:							
Accounting	12,000	-	-	-	-	-	-
Legal	24,000	2,932	-	-	-	-	-
Capital expenditures	3,095,300	68,724	2,234,431	52,506	90,010	2,136,373	1,562,373
Miscellaneous	2,000	339	2,000	20,191	11,778	2,000	2,000
Transfer to Debt Service	-	-	-	-	-	-	574,000
Repay developer advances - short term note	-	417,869	-	-	-	-	-
Repay developer advances	-	868,349	-	-	-	-	-
Reimbursement to other governments	351,070	176,030	-	-	-	-	-
Total expenditures	3,484,370	1,534,243	2,236,431	72,697	101,788	2,138,373	2,138,373
Ending fund balance	\$ 1,834,991	\$ 2,233,066	\$ -	\$ 2,163,475	\$ 2,135,373	\$ (0)	\$ -

**Crystal Valley Metropolitan District No. 1**  
**Adopted Budget**  
**Debt Service Fund**  
**For the Year ended December 31, 2012**

	Adopted Budget 2010	Actual 2010	Adopted Budget 2011	Actual 7/31/2011	Estimate 2011	Adopted Budget 2012	Adopted Budget Amendment 2012
Beginning fund balance	\$ 1,795,537	\$ 1,795,536	\$ 683,243	\$ 1,223,085	\$ 1,223,085	\$ 1,126,264	\$ 1,126,264
Revenues:							
Property taxes	934	934	1,304	1,221	1,304	1,524	1,524
Specific ownership taxes	75	64	104	47	104	122	122
Fire station fees @ 300.00/each	15,000	6,300	-	2,400	2,400	-	-
Transfer from Dist. No 2	875,706	827,989	952,252	681,621	875,706	793,960	793,960
Transfer from Capital projects	-	-	-	-	-	-	574,000
Remarketing notes	-	-	-	-	-	-	20,055,000
Interest income	8,000	3,320	-	958	1,000	-	-
Total revenues	899,715	838,607	953,660	686,247	880,514	795,606	21,424,606
Total funds available	2,695,252	2,634,143	1,636,903	1,909,332	2,103,599	1,921,870	22,550,870
Expenditures:							
Interest expense Series 2004 Bonds (2%)	1,125,800	52,396	829,600	23,877	100,000	829,600	6,000
Interest expense Series 2012 Bonds	-	-	-	-	-	-	386,007
Bond Principal	-	-	-	-	-	-	200,000
LOC Fee Series 2004 Bonds (2.50%)	520,000	521,876	530,000	390,316	669,113	530,000	-
Annual Remarketing fee	25,000	41,054	30,000	17,331	29,710	30,000	-
Miscellaneous	10,000	-	5,000	-	-	5,000	5,000
Professional fees	-	33,108	50,000	10,790	18,497	50,000	-
Developer reimbursement	-	753,150	-	150,000	150,000	-	-
Cost of issuance	-	-	-	-	-	-	579,225
Remarketed Series 2004 Bonds	-	-	-	-	-	-	20,740,000
Treasurer fees	14	14	20	18	14	23	23
Trustee / paying agent fees	10,000	10,000	10,000	5,250	10,000	10,000	10,000
Contingency	-	-	-	-	-	-	-
Total expenditures	1,690,814	1,411,598	1,454,620	597,582	977,335	1,454,623	21,926,255
Ending fund balance	\$ 1,004,438	\$ 1,222,545	\$ 182,283	\$ 1,311,750	\$ 1,126,264	\$ 467,247	\$ 624,615
Assessed valuation	\$ 26,690		\$ 28,390			\$ 33,180	\$ 33,180
Mill Levy	35.000		45.940			45.940	45.940
Total Mill Levy	45.000		55.940			55.940	55.940

**EXHIBIT D**

**Crystal Valley Metropolitan Districts Nos. 1 and 2  
Current Fee Resolution**

**SECOND AMENDED AND RESTATED  
JOINT RESOLUTION CONCERNING IMPOSITION OF DISTRICT  
DEVELOPMENT FEE**

---

WHEREAS, pursuant to an order of District Court of Douglas County, Colorado, Crystal Valley Metropolitan District Nos. 1 and 2 (collectively, the "Districts") have been duly and validly created as metropolitan districts in accordance with all applicable law; and

WHEREAS, the Districts are authorized pursuant to C.R.S. Section 32-1-1001(1)(j) to fix fees, rates, tolls, charges and penalties for services or facilities provided by the Districts which, until paid, shall constitute a perpetual lien on and against the property served; and

WHEREAS, the Districts' Consolidated Service Plan ("Service Plan") similarly empowers the imposition of such fees and rates for services and facilities provided by the Districts; and

WHEREAS, on June 4, 2001, the Districts adopted and approved the Joint Resolution Concerning Imposition of District Development Fee (the "Resolution") which imposed certain development fees and charges against property within the boundaries of the Districts (the "Development Fees"), as recorded in the Douglas County Clerk and Recorders records at reception number 2003027696, which was amended and restated on or about December 2, 2009; and

WHEREAS, the Districts are parties to a District Facilities Construction and Services Agreement, dated as of June 4, 2001, as amended (the "Master IGA"), which Master IGA provides that District No. 1 shall own, operate, maintain, construct all public facilities benefitting the Districts and that District No. 2 will fund all such activities from the proceeds of bonds or property taxes; and

WHEREAS, pursuant to the Master IGA, all fees and charges are imposed by District No. 1 for services and facilities provided to or for the benefit of District No. 2; and

WHEREAS, the Board of Directors of District No. 1 desires to restate the provisions of the Resolution to provide for differential rates for single and multi-family products and further clarify the circumstances under which the Development Fee may be increased or decreased.

NOW, THEREFORE, be it resolved by the Board of Directors of the District No. 1 as follows:

**COVENANTS AND AGREEMENTS**

1. Amendment and Restatement of Fee Resolution. The Fee Resolution is hereby amended and restated in its entirety with this Resolution.

2. Imposition of Fees. As of the effective date hereto, District No. 1 authorizes imposition of all fees and charges established hereunder against all property as is now and in the future within the boundaries of District No. 1 and District No. 2, as such boundaries may be adjusted in the future ("Legal Boundaries").

---

a. Residential Property. A one-time "Development Fee" is hereby established for all residential dwelling units within the Legal Boundaries of the Districts.

i. Residential Detached Dwelling Units. The Development Fee for all residential detached dwelling units shall be set hereunder at the rate of \$2,100.

ii. Multi-family Attached Dwelling Units. The Development Fee for all multi-family attached dwelling units shall be set hereunder at the rate of \$1,260.

b. Commercial Property. A one-time "Development Fee" is hereby established for all property within the Legal Boundaries developed for commercial uses at an SFE rate of \$2,100 and shall be applied to all such commercial property on the basis of 4 SFEs per each acre of commercial property or \$8,400 per acre of zoned commercial property.

c. The Development Fees established hereunder shall be subject to increase at the discretion of the Board of Directors of District No. 1 on an annual basis as part of the next succeeding year's budget. Any such increases shall be limited to five percent (5%) rounded to the nearest twenty-five dollars (\$25.00) on January 1 of each year commencing January 1, 2012 until no further single or multi-family dwelling units or commercial property remain to be constructed within the Districts.

3. Due at Building Permit. All Development Fees shall be due not later than the date a building permit is obtained by the owner of any portion of the property within the Districts upon which a dwelling unit or commercial property may be constructed. The amount of each Development Fee due hereunder shall be at the rate in effect at the time of that the building permit is obtained.

4. Penalties for Late Payment. Any Fee that is not paid in full within ten (10) days after the scheduled due date may be assessed a late fee of \$25 per month, not to exceed twenty-five percent (25%) of the amount due, pursuant to §29-1-1102(3), C.R.S. The District may also apply interest to the outstanding fee, exclusive of assessed late fees, at the rate of eighteen (18%) per annum pursuant to §29-1-1102(7), C.R.S.

5. Decrease of Development Fee. Development Fees established hereunder are intended for use in connection with costs of District facilities and services. The Districts are parties to a Prepaid Development Fee Agreement, dated as of December 15, 2005, under which Crystal Valley Development Company LLC ("CVDC") has purchased and hold Certificates for 108 prepaid development fees (the "Prepaid Fees"). Development fees required to be paid hereunder shall first be applied for redemption of the Prepaid Fees by CVDC until no further Prepaid Fees are outstanding. By signature below, the Districts further acknowledge and represent that after

application of the Development Fees for redemption of the Prepaid Fees, the next \$300,000 of Development Fees collected shall be placed in an escrow account for necessary funding associated with construction of the I-25 Interchange at Crystal Valley Parkway (the "Interchange Escrow"). If the District determines in its sole discretion that funding of the Interchange Escrow is not necessary or is necessary in an amount less than \$300,000, all Development Fees thereafter received shall constitute a pledged revenue source for payment subordinate indebtedness of the Districts. Any decrease in the Development Fees established hereunder shall not be permitted without the prior written consent of at least 75% of subordinate bondholders, including those individuals or entities that hold multi-fiscal year loans, promissory notes or other financial obligations of the Districts. The lien of such pledge shall be valid, binding, and enforceable as against all persons having claims of any kind in tort, contract, or otherwise against the District irrespective of whether such persons have notice of the lien.

6. Perpetual Lien. All fees contemplated herein shall, until paid, constitute a perpetual lien on and against the property served or to be served by any improvements provided by the Districts. All such liens shall be in a senior position as against all other liens of record affecting the property served or benefited, or to be served or benefited by improvements of the Districts and shall run with the Property and remain in effect as to any portion of such property as to which the appropriate fee has not been paid. All liens contemplated herein may be foreclosed in any manner authorized by law at such time as the Districts may determine that Fees hereunder have not been paid as required.

7. Prepayment Agreements. The Districts may enter into agreements for the prepayment of Development Fees in order to permit property owners to avoid scheduled increases in the Development Fee. The rate for such prepaid Development fees shall be the rate of the then-current Development Fee at the time of prepayment rather than the rate in effect at the time a building permit is obtained for the dwelling unit to which such prepaid Development Fee shall be allocated.

7. Amendment. The Districts may raise the amount of the Development Fee set hereunder when, in the Districts discretion, inflation or other budgetary factors so require.

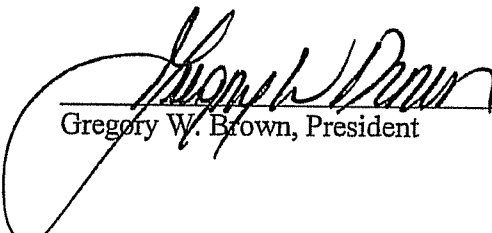
8. Validity. Invalidation of any of the provisions of this Resolution or of any paragraph, sentence, clause, phrase, or word herein, or the application thereof in any given circumstance, shall not affect the validity of any other provision of this Resolution.

*[Remainder of Page Intentionally Blank].*

ADOPTED AND APPROVED this 19 day of October 2011.

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**CRYSTAL VALLEY METROPOLITAN  
DISTRICT NO. 1**

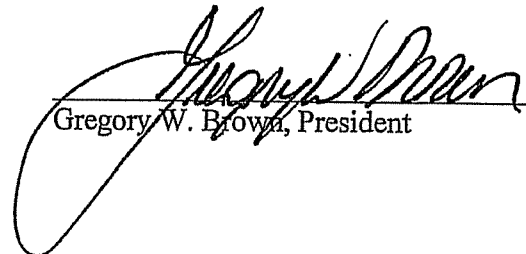
  
\_\_\_\_\_  
Gregory W. Brown, President

ATTEST:

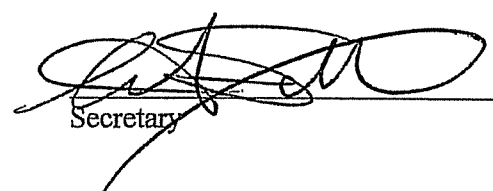
  
\_\_\_\_\_  
Secretary

**ACKNOWLEDGED AND AGREED TO:**

**CRYSTAL VALLEY METROPOLITAN  
DISTRICT NO. 2**

  
\_\_\_\_\_  
Gregory W. Brown, President

ATTEST:

  
\_\_\_\_\_  
Secretary

**EXHIBIT E**

**Crystal Valley Metropolitan Districts Nos. 1 and 2  
Quinquennial Review**



**RESOLUTION NO. 2008-51**

**A RESOLUTION MAKING FINDINGS ON THE APPLICATION OF  
CRYSTAL VALLEY RANCH METROPOLITAN DISTRICT NOS. 1 AND 2  
FOR QUINQUENNIAL FINDINGS OF REASONABLE DILIGENCE**

**WHEREAS**, in 2001 the Town Council approved the Amended and Consolidated Service Plan for the Crystal Valley Ranch Metropolitan Districts Nos. 1 and 2 (Service Plan) and the associated Master Intergovernmental Agreement (IGA),

**WHEREAS**, the Districts obtained voter approval to issue general obligation debt in the aggregate amount of approximately \$45 million, a portion of which remains authorized but unissued,

**WHEREAS**, the Districts have undertaken construction of infrastructure and issued various debt instruments to finance such construction pursuant to statutory authority and the terms of the service plan,

**WHEREAS**, the Districts have made application for a quinquennial finding of reasonable diligence pursuant to Colorado Revised Statute §32-1-1101.5 (Application) and the provisions of the service plan and IGA,

**WHEREAS**, the Town Council has determined that it is necessary and advisable to hold a public hearing to determine whether the Service Plan and financial plan of the Districts are adequate to meet the debt financing requirements of the authorized and unissued general obligation debt of the Districts based upon present conditions within the Districts, and

**WHEREAS**, the Town has adopted regulations governing special districts which are codified in the Castle Rock Municipal Code as Chapter 11.02 – Special District Oversight, and the Districts are governed by and subject to compliance with such regulations.

**NOW, THEREFORE BE IT RESOLVED BY THE TOWN COUNCIL OF  
THE TOWN OF CASTLE ROCK, COLORADO AS FOLLOWS:**

**Section 1. Findings.** After review of the Application, the financial information supplied by the Districts, staff reports and recommendations and public testimony at the public hearing held on May 6, 2008, the Town Council finds that:

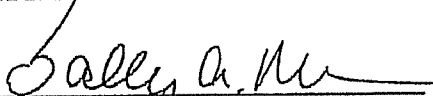
- The impact fee and property tax revenue projected for receipt by the Districts in the Service Plan have not been achieved as a result of fewer homes being constructed in the Crystal Valley Ranch PD, which has substantially reduced the ability of the Districts to service current and future debt and other financial obligations in the near term.

- The Districts' failure to meet revenue projections constitutes a "material modification" of its Service Plan under the Special District Oversight ordinance.
- The reduced residential construction in the Districts' service area is not due to any action or inaction by the Districts, but rather reflects market conditions over which the Districts exercise no control.
- The Districts have voter-authorized general obligation bonding authority that remains unissued and given the Districts' current financial condition and market conditions it would be fiscally imprudent and detrimental to current and future District taxpayers to increase the amount of debt payable from property taxes as otherwise permitted under the Service Plan.
- It is not apparent how the Districts would timely and reasonably discharge additional general obligation debt under current financial and market conditions.
- It is important that the Districts retain maximum flexibility to refund or refinance any existing general obligation debt and/or other financial obligations of the Districts on terms and conditions consistent with applicable restrictions on the Service Plan but otherwise as determined in the discretion of the Boards of Directors of the Districts.


**Section 2. Required Consent.** Pursuant to 32-1-1101.5 (2)(a) C.R.S., the Districts are denied the authority to issue any remaining authorized general obligation debt absent the further approval and consent of the Town Council. Such prohibition shall not apply to the refunding of any outstanding bond, note or other debt or financial obligation of the Districts.

**PASSED, APPROVED AND ADOPTED** this 6th day of May, 2008, by the Town Council of the Town of Castle Rock, Colorado, on first and final reading by a vote of 7 for and 0 against.

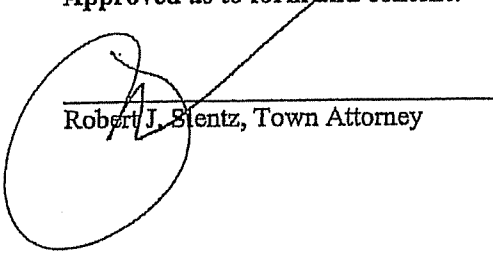
**ATTEST:**

  
Sally A. Misare Town Clerk

**TOWN OF CASTLE ROCK**

  
Randy A. Reed, Mayor

**Approved as to form and content:**

  
Robert J. Stentz, Town Attorney