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

2012 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:

For the year ending December 31, 2012, the Districts make the following report:

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

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

B. <u>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.</u>

Copies of the audits filed by the Districts for the year ending December 31, 2012 are attached as **Exhibit A**.

C. <u>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.</u>

As of December 31, 2013, 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, 2012 are attached as **Exhibit B**.

D. <u>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.</u>

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

The 2012 assessed valuation of all taxable properties within Crystal Valley Metropolitan District No. 1, as certified by the Douglas County Assessor's Office, was $30,330. The 2012 assessed valuation of all taxable properties within Crystal Valley Metropolitan District No. 2, as certified by the Douglas County Assessor's Office, was $14,710,110.

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

Copies of the Districts' 2013 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 2012. 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, 2012

Crystal Valley Metropolitan District No. 1

Financial Statements

Year Ended December 31, 2012

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

Report on the Financial Statements

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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Crystal Valley Metropolitan District No. 1, Douglas County, Colorado, as of December 31, 2012, 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.

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(970) 726-0322 Fax (970)726-0324

Report on Other Legal and Regulatory Requirements

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 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

May 1, 2013
Denver, Colorado

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

BALANCE SHEET/STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2012

	General	Debt Service	Capital Projects	Total	Adjustments	Statement of Net Position
ASSETS						
Cash and investments	$ 533	$ 26,171	$ 33,898	$ 60,602	$ -	$ 60,602
Cash and investments - restricted	-	600,294	1,425,878	2,026,172	-	2,026,172
Accounts receivable:						
County treasurer	2	8	-	10	-	10
Property taxes receivable	303	1,548	-	1,851	-	1,851
Developer	-	100,000	276,590	376,590	-	376,590
District 2	13,266	-	-	13,266	-	13,266
Fire fees	-	5,100	-	5,100	-	5,100
Prepaid expenses	3,058	-	-	3,058	-	3,058
Capital assets not being depreciated	-	-	-	-	637,903	637,903
Total Assets	$ 17,162	$ 733,121	$1,736,366	$2,486,649	637,903	3,124,552
LIABILITIES						
Accounts payable	$ 13,266	$ -	$ 279,402	$ 292,668	-	292,668
Accrued interest on developer notes	-	-	-	-	22,136,858	22,136,858
Accrued interest on bonds	-	-	-	-	28,792	28,792
Prepaid development fees	-	-	-	-	96,861	96,861
Long-term liabilities:						
Due within one year	-	-	-	-	281,144	281,144
Due in more than one year	-	-	-	-	40,740,874	40,740,874
Total Liabilities	13,266	-	279,402	292,668	63,284,529	63,577,197
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	303	1,548	-	1,851	-	1,851
Total Deferred Inflows of Resources	303	1,548	-	1,851	-	1,851
FUND BALANCES						
Fund Balances:						
Nonspendable:						
Prepaids	3,058	-	-	3,058	(3,058)	-
Restricted:						
Emergencies	2,149	-	-	2,149	(2,149)	-
Debt service	-	731,573	-	731,573	(731,573)	-
Capital projects	-	-	1,456,964	1,456,964	(1,456,964)	-
Unassigned	(1,614)	-	-	(1,614)	1,614	-
Total Fund Balances	3,593	731,573	1,456,964	2,192,130	(2,192,130)	-
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 17,162	$ 733,121	$1,736,366	$2,486,649		
NET POSITION						
Net investment in capital assets					-	-
Restricted for:						
Emergencies					2,149	2,149
Debt service					702,781	702,781
Capital projects					1,456,964	1,456,964
Unrestricted					(62,616,390)	(62,616,390)
Total Net Position					$ (60,454,496)	$ (60,454,496)

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, 2012

	General	Debt Service	Capital Projects	Total	Adjustments	Statement of Activities
EXPENDITURES						
Accounting and audit	$ 36,882	$ -	$ -	$ 36,882	$ -	$ 36,882
Insurance	2,569	-	-	2,569	-	2,569
Legal	28,351	-	-	28,351	-	28,351
Management fees	5,000	-	-	5,000	-	5,000
Miscellaneous expenses	84	1,598	1,079	2,761	-	2,761
Professional fees	4,895	30,850	-	35,745	-	35,745
Treasurer's fees	4	21	-	25	-	25
Bond principal	-	207,591	-	207,591	(207,591)	-
Bond interest expense	-	274,244	-	274,244	28,792	303,036
Paying agent fees	-	4,824	-	4,824	-	4,824
Interest expense - developer notes	-	-	-	-	3,104,197	3,104,197
Bank note repayment	66,127	-	-	66,127	(55,240)	10,887
Capital improvements	-	-	125,908	125,908	(125,908)	-
Conveyance to other governments	-	-	-	-	2,579,205	2,579,205
Total Expenditures	143,912	519,128	126,987	790,027	5,323,455	6,113,482
PROGRAM REVENUES						
Development fees	-	-	-	-	41,895	41,895
Fire fees	-	28,200	-	28,200	-	28,200
Total Program Revenues	-	28,200	-	28,200	41,895	70,095
Net Program Income (Expenses)	(143,912)	(490,928)	(126,987)	(761,827)	(5,281,560)	(6,043,387)
GENERAL REVENUES						
Property taxes	299	1,370	-	1,669	-	1,669
Specific ownership taxes	23	105	-	128	-	128
Reimbursements from District 2	118,133	640,773	-	758,906	-	758,906
Bank note proceeds	198,862	-	-	198,862	(198,862)	-
Interest income	1	455	2,785	3,241	-	3,241
Miscellaneous income	-	-	45	45	-	45
Total General Revenues	317,318	642,703	2,830	962,851	(198,862)	763,989
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	173,406	151,775	(124,157)	201,024	(5,480,422)	(5,279,398)
OTHER FINANCING SOURCES (USES)						
Retirement of Series 2004 bonds	-	(569,000)	-	(569,000)	569,000	-
Bond remarketing costs	(198,862)	(590,526)	-	(789,388)	-	(789,388)
Transfers in	19,936	467,948	-	487,884	(487,884)	-
Transfers out	-	-	(487,884)	(487,884)	487,884	-
Total Other Financing Sources (Uses)	(178,926)	(691,578)	(487,884)	(1,358,388)	569,000	(789,388)
NET CHANGES IN FUND BALANCES	(5,520)	(539,803)	(612,041)	(1,157,364)	1,157,364	
CHANGE IN NET POSITION					(6,068,786)	(6,068,786)
FUND BALANCES/NET POSITION:						
BEGINNING OF YEAR- RESTATED	9,113	1,271,376	2,069,005	3,349,494	(57,735,204)	(54,385,710)
END OF YEAR	$ 3,593	$ 731,573	$ 1,456,964	$ 2,192,130	$ (62,646,626)	$ (60,454,496)

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, 2012

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Property taxes	$ 298	$ 298	$ 299	$ 1
Specific ownership taxes	24	24	23	(1)
Reimbursements from District 2	182,547	182,547	118,133	(64,414)
Bank note proceeds	-	198,862	198,862	-
Interest income	-	-	1	1
Total Revenues	182,869	381,731	317,318	(64,413)
EXPENDITURES				
Accounting and audit	50,000	40,000	36,882	3,118
Insurance	2,700	2,700	2,569	131
Legal	50,000	40,000	28,351	11,649
Management fees	30,000	5,000	5,000	-
Miscellaneous expenses	1,000	1,000	84	916
Professional fees	20,000	10,000	4,895	5,105
Bank note repayment	-	65,754	66,127	(373)
Treasurer's fees	4	4	4	-
Landscape maintenance - utilities	15,000	15,000	-	15,000
Developer reimbursement	30,000	-	-	-
Contingency	16,955	9,113	-	9,113
Emergency reserve	5,061	3,411	-	3,411
Total Expenditures	220,720	191,982	143,912	48,070
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(37,851)	189,749	173,406	(16,343)
OTHER FINANCING SOURCES (USES)				
Bond remarketing costs	-	(198,862)	(198,862)	-
Transfers in	-	-	19,936	19,936
Total Other Financing Sources (Uses)	-	(198,862)	(178,926)	19,936
NET CHANGE IN FUND BALANCE	(37,851)	(9,113)	(5,520)	3,593
FUND BALANCE:				
BEGINNING OF YEAR	37,851	9,113	9,113	-
END OF YEAR	$ -	$ -	$ 3,593	$ 3,593

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

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, (the "County"), conform to the accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized in 1986, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was organized concurrently with Crystal Valley Metropolitan District No. 2. District No. 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 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 GASB, Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units.*

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

In 2012, the District amended its total appropriations in the General Fund from $220,720 to $191,982. It was determined that this amount was insufficient, therefore, subsequent to year-end, the District amended its total appropriations in the General Fund from $191,982 to $390,844.

In 2012, the District amended its total appropriations in the Debt Service Fund from $1,454,623 to $1,871,255 primarily due to the remarketing of the Series 2004 Bonds.

Note 1: Summary of Significant Accounting Policies (continued)

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2012, 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.

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.

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 1st of each year beginning 2002. Development fees are due no later that 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, increasing five percent (5%) on January 1st each year commencing 2011.

Note 1: Summary of Significant Accounting Policies (continued)

In 2011, the Board approved the Second Amended and Restated joint resolution concerning the imposition of District development fees. The District approved the fee of $2,100 with a five percent (5%) increase at the Board's discretion, as the same is determined on an annual basis. In January 2012, the fee was raised to $2,205. There was no fee increase for 2013.

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 change. 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 2012.

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.

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

Note 1: Summary of Significant Accounting Policies (continued)

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.

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

The nonspendable fund balance in the General Fund in the amount of $3,058 represents prepaid expenditures.

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

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of $2,149 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of $731,573 is restricted for the payment of the debt service costs associated with the General Obligation Refunding Bonds Series 2004 (see Note 4).

The restricted fund balance in the Capital Projects Fund in the amount of $1,456,964 is restricted for the payment of the costs for capital improvements within the District.

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

Note 1: Summary of Significant Accounting Policies (continued)

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

Net Position

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

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets.

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

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

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

Due to the implementation of GASB 65, the following discloses the restatement of net position as of the beginning of the fiscal year:

Net Assets (Position), beginning of year, as previously stated:	$(54,206,009)
Decrease due to the change in accounting for bond issuance costs	(279,701)
Net Position, beginning of year, as restated	$(54,485,710)

Note 2: Cash and Investments

As of December 31, 2012, cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Position:		
Cash and investments	$	60,602
Cash and investments - restricted		2,026,172
Total	$	2,086,774

Cash and investments as of December 31, 2012, consist of the following:

Deposits with financial institutions	$	1,476,463
Investments - COLOTRUST		16
Investments - CSAFE		610,295
	$	2,086,774

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, 2012

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, 2012, the District had the following investments:

Investment	Maturity	Fair Value
COLOTRUST Plus	Weighted Average - 60 Days	$ 16
CSAFE - with ZionsBank	Weighted Average - 60 Days	610,295
	Total Investments	$ 610,311

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, 2012, the District had $16 invested in COLOTRUST.

Note 2: Cash and Investments (continued)

CSAFE

The local government investment pool Colorado Surplus Asset Fund Trust ("CSAFE"), is rated AAAm by Standard and Poor's. CSAFE is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at $1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds, and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to custodian agreements. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodians' internal records identify the investments owned by CSAFE. At December 31, 2012, the District had $610,295 invested in CSAFE through ZionsBank the trustee.

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2012, follows:

	Balance 01/01/12	Additions	Conveyances	Balance 12/31/12
Construction in progress	$ 3,091,200	$ 125,908	$ 2,579,205	$ 637,903

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 2012, the District conveyed $2,579,205 of completed, accepted assets to the Town. Construction in progress is not subject to depreciation, therefore there were no depreciation expenses in 2012.

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. On February 17, 2012, the agreement was terminated by the Board.

Note 4: Long Term Debt

A description of the long-term obligations as of December 31, 2012, 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. In the event the notes are not paid when due, it shall continue to accrue interest on all amounts until repaid in full. 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. As of December 31, 2012, total accrued interest was $6,700,858.

$5,035,157 Revenue and Limited Tax Obligation Water Promissory Notes - $1,268,608 to Richard A. Putnam; $1,276,246 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. In the event the notes are not paid when due, it shall continue to accrue interest on all amounts until repaid in full. 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. As of December 31, 2012, total accrued interest was $8,642,392.

Note 4: Long Term Debt (continued)

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, 2006C 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 the event the notes are not paid when due, it shall continue to accrue interest on all amounts until repaid in full. As of December 31, 2012, total accrued interest was $1,387,215.

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. As of December 31, 2012, total accrued interest was $5,406,393.

Note 4: Long Term Debt (continued)

Variable Rate Demand Revenue Bonds, Series 2004. On October 1, 2004, the District issued $20,740,000 of Variable Rate Demand Revenue Bonds, Series2004, 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.

On February 24, 2012, the District remarketed the Series 2004 Bonds. The amount of $10,490,000 of the remarketed bonds will be Series 2004A Bonds and shall bear interest at 3.36% and shall mature on December 1, 2018. Interest payments are paid June 1st and December 1st commencing no later than June 1, 2012. The amount of $9,681,000 of the Series 2004 Bonds was remarketed as Subordinate Series 2004B Developer Bonds maturing December 1, 2041. The interest rate shall not exceed 9% accruing and compounding until paid. The remaining $569,000 was redeemed from District Funds and cancelled. The bonds are subject to a mandatory sinking fund redemption commencing on December 1, 2012. The Bonds are subject to an early redemption at the option of the District commencing December 1, 2012 with prepayment fee of 2% if prior to March 1, 2013 and 1% if prior to March 1, 2014 and par value if prepayments are received after March 1, 2014. The Bonds are secured by Pledged Revenues including fire station fees and property tax mill levies designated for debt service. The taxes are collected by District No. 2. In 2012, the District received $28,200 in fire station fees and $640,773 in property tax mill levy for debt service payment as outlined in the District Facilities Construction and Service Agreement. The Series 2004A Bonds are further secured by a reserve of $600,000 held by the trustee bank.

Wells Fargo Bank Loan. On February 21, 2012, the District entered into an *Agreement* ("Agreement") with Wells Fargo Bank, NA (the "Bank") whereas the District has agreed to pay $198,862 ("amount") in 1st Quarter 2012 letter of credit fees, legal and appraisal costs incurred by the Bank, on behalf of the District, associated with the remarketing of the Series 2004 Bonds (see Note 4). The District required all available funds on hand to be applied to the remarketing of the bonds, therefore, entered into this Agreement to pay the amounts to the Bank on a monthly basis over three years at 3.16% interest. As of December 31, 2012, the remaining principal was $143,622. In 2012, the District paid a total of $10,887 in interest.

Crystal Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2012

Note 4: Long Term Debt (continued)

The following represents changes in long-term debt for the period ending December 31, 2012:

	Balance 1/1/2012	Additions	Deletions	Balance 12/31/2012	Current Portion
Series A Promissory Note:					
Craig C. Avery	$ 992,596	$ -	$ -	$ 992,596	$ -
James Ostenson	992,596	-	-	992,596	-
Richard A. Putnam	992,596	-	-	992,596	-
Wayne E. Brown Family	962,649	-	-	962,649	-
Water Promissory Note:					
Wayne E. Brown	1,276,246	-	-	1,276,246	-
Maple Grove	2,537,216	-	-	2,537,216	-
Richard A. Putnam	1,268,608	-	-	1,268,608	-
Loan Agreement C-Crystal Valley Ranch Devel. Co.:					
Capital Series 2005A	1,664,587	-	-	1,664,587	-
Capital Series 2005B	2,709,214	-	-	2,709,214	-
Capital Series 2005D	113,679	-	-	113,679	-
Series 2002 Bonds - Subordinate Bonds:	7,405,000	-	-	7,405,000	-
Series 2004 Bonds - Variable Rate Demand:	20,740,000	-	20,740,000	-	-
Series 2004A Bonds - Revenue Bonds	-	10,490,000	207,591	10,282,409	214,856
Series 2004B Bonds-Revenue Sub. Bonds:		9,681,000	-	9,681,000	-
Bank Note - Wells Fargo	-	198,862	55,240	143,622	66,288
Total Long-Term Debt	**$ 41,654,987**	**$ 20,369,862**	**$ 21,002,831**	**$ 41,022,018**	**$ 281,144**

Note 4: Long Term Debt (continued)

The following is a summary of the annual long-term debt principal and interest requirements for the Series 2004A and 2004B Bonds only.

	Interest	Principal	Total
2013	$ 345,489	$ 214,586	$ 560,075
2014	1,112,759	221,818	1,334,577
2015	1,105,306	229,293	1,334,599
2016	1,097,602	237,020	1,334,622
2017	1,089,638	245,008	1,334,646
2018 - 2022	4,179,325	9,134,684	13,314,009
2023 - 2027	3,872,400	-	3,872,400
2028 - 2032	3,872,400	-	3,872,400
2033 - 2037	3,872,400	-	3,872,400
2038 - 2041	3,097,920	9,681,000	12,778,920
	$ 23,645,239	$ 19,963,409	$ 43,608,648

Payment schedules for the remaining long-term debt is unavailable.

Note 5: Debt Authorization

As of December 31, 2012, the District had remaining voted debt authorization of approximately $93,543,989. In the future, the District may issue a portion or all of the remaining authorized, but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District's service area, however, as of the date of this audit, the amount and timing of any debt issuances is not determinable. Per the District's Service Plan, the District debt is limited to $45,000,000 of which $1,043,989 is remaining.

Note 6: Related Party

Two of the Board of Directors are employees, owners or are otherwise associated with Crystal Valley Ranch Development Co., LLC, (the "Developer"), and may have conflicts of interest in dealing with the District. Another member of the Board of Directors of the District is a consultant, directly or indirectly, to Paulson Property Management, LLC, (the "Investor") which acquired significant ownership and/or development interests in property within the District in February 2012. Management believes that all potential conflicts, if any, have been disclosed to the Secretary of State and the Board of Directors.

Note 6: Related Party (continued)

During 2012, the following companies, which are owned by certain members of the Board of Directors, provided services to the District: 1) BCI Management, Inc. provided $5,000 in management services; 2) Legacy Engineering provided $33,984 in engineering services.

In February 2012, one of the board members who provided consulting services to the Investor was hired as the Executive Vice President of Raintree Investment Corporation, the exclusive agent for the Investor.

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.

Note 8: Risk Management (continued)

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

Note 9: Commitments and contingencies

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

The District had outstanding construction contracts at December 31, 2012. As of December 31, 2012, remaining commitments totaling $1,456,964 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, 2012

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

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

1) capital improvements used in government activities are not financial resources and, therefore are not reported in the funds; and

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

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

1) governmental funds report capital outlays as expenditures, however, in the statement of activities, the costs of those assets are held as construction in process pending transfer to other governmental entities;

2) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities;

3) governmental funds report developer advances as revenue; and,

4) governmental funds report long-term debt payments as expenditures, however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long-term liabilities.

Note 12: Prior Period Adjustment

Prior to year end, it was discovered that a portion of the 4th quarter 2011 letter of credit fees paid on the Series 2004 Bonds to the Bank by the District was reduced by $100,000 and refunded by the Bank to the Developer instead of the District. As a result, the District removed the amount from the expense category into an accounts receivable due from the Developer. Subsequent to 2012 year-end, the Developer has repaid all moneys. Therefore, the beginning Fund Balance for the Debt Service Fund has been restated as follows:

Fund Balance, beginning of year, as previously stated:	$ 1,171,376
Prior period adjustment:	100,000
Restated beginning Fund Balance:	$ 1,271,376

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, 2012

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Fire fees	$ -	$ -	$ 28,200	$ 28,200
Property taxes	1,524	1,524	1,370	(154)
Specific ownership taxes	122	122	105	(17)
Reimbursements from District 2	793,960	793,960	640,773	(153,187)
Interest income	-	-	455	455
Miscellaneous income	-	-	-	-
Total Revenues	795,606	795,606	670,903	(124,703)
EXPENDITURES				
Bond interest expense	829,600	392,007	274,244	117,763
Bond principal expense	-	200,000	207,591	(7,591)
Letter of credit fees	530,000	-	-	-
Annual remarketing fee	30,000	-		-
Miscellaneous	5,000	5,000	1,598	3,402
Professional fees	50,000	-	30,850	(30,850)
Paying agent fees	10,000	10,000	4,824	5,176
Treasurer's fees	23	23	21	2
Total Expenditures	1,454,623	607,030	519,128	87,902
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(659,017)	188,576	151,775	(36,801)
OTHER FINANCING SOURCES (USES)				
Retirement of Series 2004 bonds	-	(685,000)	(569,000)	116,000
Bond remarketing costs	-	(579,225)	(590,526)	(11,301)
Transfers in	-	574,000	467,948	(106,052)
Total Other Financing Sources (Uses)	-	(690,225)	(691,578)	(1,353)
NET CHANGE IN FUND BALANCE	(659,017)	(501,649)	(539,803)	(38,154)
FUND BALANCE:				
BEGINNING OF YEAR	1,126,264	1,126,264	1,271,376	145,112
END OF YEAR	$ 467,247	$ 624,615	$ 731,573	$ 106,958

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, 2012

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Miscellaneous income	$ -	$ 45	$ 45
Interest income	3,000	2,785	(215)
Total Revenues	3,000	2,830	(170)
EXPENDITURES			
Capital improvements	1,562,373	125,908	1,436,465
Miscellaneous	2,000	1,079	921
Total Expenditures	1,564,373	126,987	1,437,386
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,561,373)	(124,157)	1,437,216
OTHER FINANCING SOURCES (USES)			
Transfers out	(574,000)	(487,884)	86,116
Total Other Financing Sources (Uses)	(574,000)	(487,884)	86,116
NET CHANGE IN FUND BALANCE	(2,135,373)	(612,041)	1,523,332
FUND BALANCE:			
BEGINNING OF YEAR	2,135,373	2,069,005	(66,368)
END OF YEAR	$ -	$ 1,456,964	$ 1,456,964

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, 2012

with

Independent Auditors' Report

CONTENTS

Hiratsuka & Associates, L.L.P.
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Crystal Valley Metropolitan District No. 2, Douglas County, Colorado, as of December 31, 2012, 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.

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Report on Other Legal and Regulatory Requirements

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 were not a required part of the financial statements. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service Fund 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

May 1, 2013
Denver, Colorado

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

BALANCE SHEET/STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2012

	General	Debt Service	Total	Adjustments	Statement of Net Position
ASSETS					
Cash and investments	$ 52,663	$ -	$ 52,663	$ -	$ 52,663
Cash and investments - restricted	-	237,482	237,482	-	237,482
Property taxes receivable	147,101	675,783	822,884	-	822,884
Prepaid expenses	2,552	-	2,552	-	2,552
Total Assets	$ 202,316	$ 913,265	$ 1,115,581	-	1,115,581
LIABILITIES					
Accounts payable	$ 13,591	$ 1,494	$ 15,085	-	15,085
Total Liabilities	13,591	1,494	15,085	-	15,085
DEFERRED INFLOWS OF RESOURCES					
Deferred property taxes	147,101	675,783	822,884	-	822,884
Total Deferred Inflows of Resources	147,101	675,783	822,884	-	822,884
FUND BALANCES					
Fund Balances:					
Nonspendable:					
Prepaids	2,552	-	2,552	(2,552)	-
Restricted:					
Emergencies	200	-	200	(200)	-
Debt service	-	235,988	235,988	(235,988)	-
Unassigned	38,872	-	38,872	(38,872)	-
Total Fund Balances	41,624	235,988	277,612	(277,612)	-
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 202,316	$ 913,265	$ 1,115,581		
NET POSITION					
Restricted for:					
Emergencies				200	200
Debt service				235,988	235,988
Capital projects				-	-
Unrestricted				41,424	41,424
Total Net Position				$ 277,612	$ 277,612

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	General	Debt Service	Total	Adjustments	Statement of Activities
EXPENDITURES					
Audit	$ 4,000	$ -	$ 4,000	$ -	$ 4,000
Insurance	2,247	-	2,247	-	2,247
Miscellaneous expenses	70	-	70	-	70
Transfer to District 1	118,133	640,773	758,906	-	758,906
Treasurer's fees	2,199	10,100	12,299	-	12,299
Total Expenditures	126,649	650,873	777,522	-	777,522
GENERAL REVENUES					
Property taxes	146,467	672,870	819,337	-	819,337
Specific ownership taxes	11,318	51,997	63,315	-	63,315
Rental tax	31	143	174	-	174
Interest income	304	1,396	1,700	-	1,700
Total General Revenues	158,120	726,406	884,526	-	884,526
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	31,471	75,533	107,004	(107,004)	
CHANGE IN NET POSITION				107,004	107,004
FUND BALANCES/NET POSITION:					
BEGINNING OF YEAR	10,153	160,455	170,608	-	170,608
END OF YEAR	$ 41,624	$ 235,988	$ 277,612	$ -	$ 277,612

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, 2012

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	$ 147,719	$ 146,467	$ (1,252)
Specific ownership taxes	11,818	11,318	(500)
Rental tax	1	31	30
Interest income	10	304	294
Total Revenues	159,548	158,120	(1,428)
EXPENDITURES			
Audit	4,250	4,000	250
Insurance	2,500	2,247	253
Miscellaneous expenses	100	70	30
Transfer to District 1	182,547	118,133	64,414
Treasurer's fees	2,216	2,199	17
Emergency reserve	206	-	206
Total Expenditures	191,819	126,649	65,170
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(32,271)	31,471	63,742
FUND BALANCE:			
BEGINNING OF YEAR	32,271	10,153	(22,118)
END OF YEAR	$ -	$ 41,624	$ 41,624

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

Notes to Financial Statements
December 31, 2012

Note 1: **Summary of Significant Accounting Policies**

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

Definition of Reporting Entity

The District was organized in 1986 concurrently with Crystal Valley Metropolitan District No. 1, 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 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.

Note 1: <u>Summary of Significant Accounting Policies (continued)</u>

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 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.

<u>Basis of Presentation</u>
The accompanying financial statements are presented per GASB Statement No. 34.

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

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

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 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.

Note 1: Summary of Significant Accounting Policies (continued)

Assets, Liabilities and Net Position:

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2012, 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.

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

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

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.

Nonspendable Fund Balance

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

The nonspendable fund balance in the General Fund in the amount of $2,552 represents prepaid expenditures.

Restricted Fund Balance

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

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of $200 of the General Fund balance has been restricted in compliance with this requirement.

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

The restricted fund balance in the Debt Service Fund in the amount of $235,988 is restricted for the transfer to District No. 1 as outlined in District Facilities Construction and Service Agreement with District No. 1 on June 4, 2002 (see Note 5).

Net Position

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

Net investment in capital assets – consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets.

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

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

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

Note 2: **Cash and Investments**

As of December 31, 2012, cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and investments	$ 52,663
Cash and investments - Restricted	237,482
Total	$ 290,145

Cash and investments as of December 31, 2012 consist of the following:

Deposits with financial institutions	$ 14,540
Investments - COLOTRUST	275,605
	$ 290,145

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, 2012, the District's cash deposits had a bank balance of $16,830 and carrying balance of $14,540.

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

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, 2012, the District had $275,605 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, 2012, the District had the following investments:

Investment	Maturity	Fair Value
COLOTRUST	Weighted average Under 60 days	$ 275,605
Total investments		$ 275,605

Note 3: Debt Authorization

In 1999, 2000 and 2001, a majority of the qualified electors of the District who voted in the election authorized the issuance of indebtedness of $137,500,000. As of December 31, 2012, the amount of debt authorized by the District's electorate but unissued was $137,500,000. The District has not budgeted to issue any new debt during 2013. Per the District's Service Plan, the District debt is limited to $45,000,000 of which $45,000,000 is remaining.

Note 4: Related Party

One of the Board of Directors is an employee, owner or are otherwise associated with Crystal Valley Ranch Development Co., LLC, (the "Developer"), and may have conflicts of interest in dealing with the District. One member of the Board of Directors of the District is a consultant, directly or indirectly, to Paulson Property Management, LLC, (the "Investor") which acquired significant ownership and/or development interests in property within the District in February 2012. In February 2012, the board member who provided consulting services to the Investor was hired as the Executive Vice President of Raintree Investment Corporation, the exclusive agent for the Investor. Management believes that all potential conflicts, if any, have been disclosed to the Secretary of State and the Board of Directors.

Note 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 is required to raise revenues to be paid to the District No. 1 for capital costs and service costs for 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.

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, 2012

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	$ 678,623	$ 672,870	$ (5,753)
Specific ownership taxes	54,289	51,997	(2,292)
Rental tax	-	143	143
Interest income	500	1,396	896
Total Revenues	733,412	726,406	(7,006)
EXPENDITURES			
Miscellaneous	5,500	-	5,500
Transfer to District 1	793,960	640,773	153,187
Treasurer's fees	10,179	10,100	79
Total Expenditures	809,639	650,873	158,766
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(76,227)	75,533	151,760
FUND BALANCE:			
BEGINNING OF YEAR	76,227	160,455	84,228
END OF YEAR	$ -	$ 235,988	$ 235,988

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, 2012

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied General Fund	Mills Levied Debt Service	Total Property Tax Levied	Total Property Tax Collected	Percent Collected to Levied
2003	$ 58,390	40.000	0.000	$ 2,336	$ 2,339	100.15%
2004	$ 1,554,320	1.000	47.940	$ 76,068	$ 77,900	102.41%
2005	$ 4,648,370	1.000	45.940	$ 218,194	$ 230,085	105.45%
2006	$ 6,905,280	1.000	45.940	$ 324,134	$ 390,995	120.63%
2007	$ 14,088,457	1.000	45.940	$ 661,312	$ 663,021	100.26%
2008	$ 18,898,700	1.000	45.940	$ 887,105	$ 798,105	89.97%
2009	$ 18,965,710	1.000	45.940	$ 890,250	$ 703,655	79.04%
2010	$ 17,990,510	10.000	45.940	$ 1,006,389	$ 1,005,743	99.94%
2011	$ 18,241,110	10.000	45.940	$ 1,020,408	$ 1,022,812	100.24%
2012	$ 14,771,930	10.000	45.940	$ 826,342	$ 819,337	99.15%
Estimated for year ending December 31, 2013	$ 14,710,110	10.000	45.940	$ 822,884		

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
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 2010	Actual 2010	Adopted Budget 2011	Actual 7/31/2011	Estimate 2011	Adopted Budget 2012
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	190,728	156,625	197,207	99,253	197,266	182,869
Total funds available	224,456	190,353	245,755	127,997	226,010	220,720
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 maintnenace	-	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	219,234	161,609	245,755	100,441	188,159	220,720
Ending fund balance	$ 5,222	$ 28,744	$ -	$ 27,556	$ 37,851	$ 0
Assessed valuation	$ 26,690		$ 28,070			$ 29,820
Mill Levy	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
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	1,557,791	5,739	5,000	3,106	4,095	3,000
Total funds available	5,319,361	3,767,309	2,236,431	2,236,172	2,237,161	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	2,234,431
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	3,484,370	1,534,243	2,236,431	72,697	101,788	2,236,431
Ending fund balance	$ 1,834,991	$ 2,233,066	$ -	$ 2,163,475	$ 2,135,373	$ -

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
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	965,330	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	827,989	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

EXHIBIT C

Crystal Valley Metropolitan Districts Nos. 1 and 2
2013 Budgets

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1
2013
BUDGET MESSAGE

Attached please find a copy of the adopted 2013 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 the Wells Fargo repayment fees; 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, fire station fees and property taxes. In 2013, 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, 2013

	Actual 2011	Adopted Budget 2012	Adopted Budget Amendment 2012	Actual 8/31/2012	Estimate 2012	Adopted 2013
Beginning fund balance	$ 28,744	$ 37,851	$ 9,113	$ 9,113	$ 9,113	$ 20,960
Revenues:						
Property taxes	281	298	298	298	298	303
Specific ownership taxes	19	24	24	13	24	24
Transfer from District No. 2	219,804	182,547	182,547	69,348	161,345	149,617
Transfer from Cap Projs	-	-	-	19,936	19,936	-
Interest income	-	-	-	1	2	-
Total revenues	220,104	182,869	182,869	89,596	181,605	149,944
Total funds available	248,848	220,720	191,982	98,709	190,718	170,904
Expenditures:						
Accounting / audit	52,502	50,000	40,000	25,277	37,916	35,000
Legal	62,320	50,000	40,000	18,063	38,465	35,000
Management fees	20,000	30,000	5,000	5,000	5,000	-
Insurance	2,028	2,700	2,700	2,569	2,569	3,000
Miscellaneous	-	1,000	1,000	27	50	-
Landscape maintnenace	4,976	15,000	15,000	-	15,000	-
Professional fees	27,904	20,000	10,000	4,894	5,000	-
Treasurer fees	5	4	4	4	4	5
Reimbursement to developer	70,000	30,000	-	-	-	-
Contingency	-	16,955	9,113	-	-	-
Wells Fargo repayment fees	-	-	65,754	42,294	65,754	95,750
Emergency reserve (3%)	-	5,061	3,411	-	-	2,149
Total expenditures	239,735	220,720	191,982	98,128	169,758	170,904
Ending fund balance	$ 9,113	$ -	$ -	$ 581	$ 20,960	$ 0
Assessed valuation		$ 29,820	$ 29,820			$ 30,330
Mill Levy		10.000	10.000			10.000

Crystal Valley Metropolitan District No. 1
Adopted Budget
Capital Projects Fund
For the Year ended December 31, 2013

	Actual 2011	Adopted Budget 2012	Adopted Budget Amendment 2012	Actual 8/31/2012	Estimate 2012	Adopted 2013
Beginning fund balance	$ 2,233,067	$ 2,135,373	$ 2,135,373	$ 2,069,005	$ 2,069,005	$ 1,340,686
Revenues:						
Developer advances	-	-	-	-	-	-
Interest income	4,266	3,000	3,000	1,696	3,000	1,000
Reimbursement from other governments	-	-	-	-	-	-
Reimbursement from UP railroad	-	-	-	-	-	-
Other income	376	-	-	45	376	-
Total revenues	4,642	3,000	3,000	1,741	3,376	1,000
Total funds available	2,237,709	2,138,373	2,138,373	2,070,746	2,072,381	1,341,686
Expenditures:						
Accounting	-	-	-	-	-	-
Legal	-	-	-	-	-	-
Capital expenditures	148,428	2,136,373	1,562,373	149,080	223,620	1,339,686
Miscellaneous	20,276	2,000	2,000	829	20,191	2,000
Transfer to Debt Service	-	-	574,000	487,884	487,884	-
Repay developer advances - short term note	-	-	-	-	-	-
Repay developer advances	-	-	-	-	-	-
Reimbursement to other governments	-	-	-	-	-	-
Total expenditures	168,704	2,138,373	2,138,373	637,793	731,695	1,341,686
Ending fund balance	$ 2,069,005	$ -	$ -	$ 1,432,953	$ 1,340,686	$ -

Crystal Valley Metropolitan District No. 1
Adopted Budget
Debt Service Fund
For the Year ended December 31, 2013

	Actual 2011	Adopted Budget 2012	Adopted Budget Amendment 2012	Actual 8/31/2012	Estimate 2012	Adopted 2013
Beginning fund balance	$ 1,223,085	$ 1,126,264	$ 1,126,264	$ 1,223,085	$ 1,223,085	$ 800,778
Revenues:						
Property taxes	1,290	1,524	1,524	1,370	1,304	1,548
Specific ownership taxes	85	122	122	60	104	124
Fire station fees @ 300.00/each	11,700	-	-	6,900	2,400	6,000
Transfer from Dist. No 2	851,621	793,960	793,960	252,372	780,705	714,708
Transfer from Capital projects	-	-	574,000	467,948	467,948	-
Remarketing notes	-	-	20,055,000	-	-	-
Interest income	1,473	-	-	958	1,000	-
Total revenues	866,169	795,606	21,424,606	729,608	1,253,461	722,380
Total funds available	2,089,254	1,921,870	22,550,870	1,952,693	2,476,546	1,523,158
Expenditures:						
Interest expense Series 2004 Bonds (2%)	36,133	829,600	6,000	3,043	3,043	-
Interest expense Series 2004A Bonds	-	-	386,007	94,969	271,201	345,744
Bond principal expense Series 2004A Bonds	-	-	200,000	-	207,591	214,586
LOC Fee Series 2004 Bonds (2.50%)	521,849	530,000	-	-	-	-
Annual Remarketing fee	26,138	30,000	-	-	-	-
Miscellaneous	-	5,000	5,000	20	34	5,000
Professional fees	11,092	50,000	-	30,850	30,850	-
Developer reimbursement	300,000	-		-	-	-
Cost of issuance	11,147	-	579,225	590,526	590,526	-
Remarketed Series 2004 Bonds	-	-	20,740,000	569,000	569,000	-
Treasurer fees	19	23	23	21	23	23
Trustee / paying agent fees	11,500	10,000	10,000	1,825	3,500	10,000
Contingency	-	-	-	-	-	-
Total expenditures	917,878	1,454,623	21,926,255	1,290,254	1,675,768	575,353
Ending fund balance	$ 1,171,376	$ 467,247	$ 624,615	$ 662,439	$ 800,778	$ 947,805
Assessed valuation		$ 33,180	$ 33,180			$ 33,690
Mill Levy		45.940	45.940			45.940
Total Mill Levy		55.940	55.940			55.940

Audit Notes:
The new Series 2004A Bonds require a Reserve of $600,000.
Any amounts remaining after the reserve requirement is transferred to Supplemental reserve with trustee.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2
2013
BUDGET MESSAGE

Attached please find a copy of the adopted 2013 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 source of revenue for the District in 2013 will be property taxes. In 2013, 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, 2013

	Actual 2011	Adopted Budget 2012	Actual 8/31/2012	Estimate 2012	Adopted Budget 2013
Beginning fund balance	$ 43,233	$ 32,271	$ 10,154	$ 10,154	$ (0)
Revenues:					
Property taxes	182,841	147,719	146,527	147,719	147,101
Specific ownership taxes	12,050	11,818	6,467	11,818	11,768
Rental tax	15	1	12	15	1
Interest income	381	10	144	200	10
Total revenues	195,287	159,548	153,150	159,752	158,880
Total funds available	238,520	191,819	163,304	169,906	158,880
Expenditures:					
Accounting / audit	4,000	4,250	4,000	4,000	4,250
Insurance	1,725	2,500	2,247	1,725	2,500
Miscellaneous	90	100	45	100	100
Payment to District 1	219,804	182,547	69,348	161,345	149,617
Treasurer fees	2,747	2,216	2,199	2,736	2,207
Contingency	-	-	-	-	-
Emergency reserve (3%)	-	206	-	-	206
Total expenditures	228,366	191,819	77,839	169,906	158,880
Ending fund balance	$ 10,154	$ -	$ 85,465	$ (0)	$ (0)
Assessed valuation		$ 14,771,930			$ 14,710,110
Mill Levy		10.000			10.000

Crystal Valley Metropolitan District No. 2
Adopted Budget
Debt Service Fund
For the Year ended December 31, 2013

	Actual 2011	Adopted Budget 2012	Actual 8/31/2012	Estimate 2012	Adopted Budget 2013
Beginning fund balance	$ 58,215	$ 76,227	$ 160,455	$ 58,215	$ -
Revenues:					
Property taxes	837,997	678,623	673,146	678,623	675,783
Specific ownership taxes	67,040	54,289	29,711	54,289	54,062
Rental tax	78	-	54	60	-
Interest income	2,000	500	657	700	500
Total revenues	907,115	733,412	703,568	733,672	730,345
Total funds available	965,330	809,639	864,023	791,887	730,345
Expenditures:					
Miscellaneous	1,000	5,500	-	1,000	5,500
Treasurer's fees	12,397	10,179	10,101	10,179	10,137
Transfer to District 1	875,706	793,960	252,372	780,708	714,708
Total expenditures	889,103	809,639	262,473	791,887	730,345
Ending fund balance	$ 76,227	$ -	$ 601,550	$ -	$ -
Assessed valuation	$ -	$ 14,771,930	$ -	$ -	$ 14,710,110
Mill Levy		45.940			45.940
Total Mill Levy		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. <u>Amendment and Restatement of Fee Resolution</u>. 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").

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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.

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ADOPTED AND APPROVED this 19 day of October 2011.

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 exiting 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. Slentz, Town Attorney