

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

2013 CONSOLIDATED ANNUAL REPORT

Pursuant to the Amended and Consolidated Service Plan, as amended, 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, 2013, the Districts make the following report:

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

The Districts continue to implement the development schedule as contemplated in the Service Plan, as amended on May 6, 2014.

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

Copies of the audits filed by the Districts for the year ending December 31, 2013 are attached as **Exhibit A**.

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

As of December 31, 2013, the Districts have 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 2014 or later, as deemed appropriate by the Town of Castle Rock and Douglas County.

Copies of the Districts' budgets for the year ending December 31, 2013 are attached as **Exhibit B**.

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

For a summary of the financial obligations of the Districts as of December 31, 2013, see attached **Exhibit A**. It should be noted that the financial obligations of the Districts were substantially restructured in August 2014 pursuant to the financial proforma set forth in the First Amendment to the Amended and Restated Service Plan, as approved by the Town of Castle Rock on May 6, 2014.

The 2013 assessed valuation of all taxable properties within Crystal Valley Metropolitan District No. 1, as certified by the Douglas County Assessor's Office, was \$22,100. The 2013 assessed valuation of all taxable properties within Crystal Valley Metropolitan District No. 2, as certified by the Douglas County Assessor's Office, was \$15,137,230.

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 78 residential properties and no commercial development in 2013.

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 as of December 31, 2013. Since that time, the First Amendment to the Amended and Restated Service Plan, was approved by the Town of Castle Rock on May 6, 2014 and the findings under the Quinquennial Review have been cured.

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, Tanaka and Waldron 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, 2013**

Crystal Valley Metropolitan District No. 1

Financial Statements

Year Ended December 31, 2013

with

Independent Auditors' Report

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YANARI WATSON MCGAUGHEY P.C.

DALE M. YANARI (1947-2004) ♦ RANDY S. WATSON ♦ G. LANCE MCGAUGHEY ♦ DON W. GRUENLER
FINANCIAL CONSULTANTS/CERTIFIED PUBLIC ACCOUNTANTS

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, 2013, 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.

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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, 2013, 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.

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.

Yanari Watson McGaughey P.C.

Yanari Watson McGaughey, P.C.

July 3, 2014
Greenwood Village, Colorado

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

BALANCE SHEET/STATEMENT OF NET POSITION GOVERNMENTAL FUNDS December 31, 2013

| | <u>General</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Total</u> | <u>Adjustments</u> | Statement of <u>Net Position</u> |
|---|------------------|-------------------------|-----------------------------|---------------------|-----------------------|--|
| ASSETS | | | | | | |
| Cash and investments | \$ 821 | \$ - | \$ 48,320 | \$ 49,141 | \$ - | \$ 49,141 |
| Cash and investments - restricted | - | 1,112,132 | 1,380,800 | 2,492,932 | - | 2,492,932 |
| Accounts receivable: | | | | | | |
| County treasurer | 2 | 10 | - | 12 | - | 12 |
| Property taxes receivable | 221 | 1,015 | - | 1,236 | - | 1,236 |
| Developer | - | - | 276,590 | 276,590 | - | 276,590 |
| District 2 | 18,947 | - | - | 18,947 | - | 18,947 |
| Fire fees | - | 6,900 | - | 6,900 | - | 6,900 |
| Capital assets not being depreciated | - | - | - | - | 637,903 | 637,903 |
| Total Assets | <u>\$ 19,991</u> | <u>\$ 1,120,057</u> | <u>\$ 1,705,710</u> | <u>\$ 2,845,758</u> | <u>637,903</u> | <u>3,483,661</u> |
| LIABILITIES | | | | | | |
| Accounts payable | \$ 18,947 | \$ - | \$ 276,590 | \$ 295,537 | - | 295,537 |
| Accrued interest on developer notes | - | - | - | - | 25,445,778 | 25,445,778 |
| Accrued interest on bonds | - | - | - | - | 28,113 | 28,113 |
| Long-term liabilities: | | | | | | |
| Due within one year | - | - | - | - | 269,240 | 269,240 |
| Due in more than one year | - | - | - | - | 40,441,992 | 40,441,992 |
| Total Liabilities | <u>18,947</u> | <u>-</u> | <u>276,590</u> | <u>295,537</u> | <u>66,185,123</u> | <u>66,480,660</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Deferred property taxes | <u>221</u> | <u>1,015</u> | <u>-</u> | <u>1,236</u> | <u>-</u> | <u>1,236</u> |
| Total Deferred Inflows of Resources | <u>221</u> | <u>1,015</u> | <u>-</u> | <u>1,236</u> | <u>-</u> | <u>1,236</u> |
| FUND BALANCES | | | | | | |
| Fund Balances: | | | | | | |
| Restricted: | | | | | | |
| Emergencies | 2,956 | - | - | 2,956 | (2,956) | - |
| Debt service | - | 1,119,042 | - | 1,119,042 | (1,119,042) | - |
| Capital projects | - | - | 1,429,120 | 1,429,120 | (1,429,120) | - |
| Unassigned | <u>(2,133)</u> | <u>-</u> | <u>-</u> | <u>(2,133)</u> | <u>2,133</u> | <u>-</u> |
| Total Fund Balances | <u>823</u> | <u>1,119,042</u> | <u>1,429,120</u> | <u>2,548,985</u> | <u>(2,548,985)</u> | <u>-</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 19,991</u> | <u>\$ 1,120,057</u> | <u>\$ 1,705,710</u> | <u>\$ 2,845,758</u> | | |
| NET POSITION | | | | | | |
| Restricted for: | | | | | | |
| Emergencies | | | | | 2,956 | 2,956 |
| Debt service | | | | | 1,090,929 | 1,090,929 |
| Capital projects | | | | | 1,429,120 | 1,429,120 |
| Unrestricted | | | | | <u>(65,521,240)</u> | <u>(65,521,240)</u> |
| Total Net Position | | | | | <u>\$(62,998,235)</u> | <u>\$(62,998,235)</u> |

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES GOVERNMENTAL FUNDS For the Year Ended December 31, 2013

| | <u>General</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Total</u> | <u>Adjustments</u> | <u>Statement of Activities</u> |
|--|------------------|-------------------------|-----------------------------|------------------|--------------------|--|
| EXPENDITURES | | | | | | |
| Accounting and audit | \$ 34,066 | \$ - | \$ - | \$ 34,066 | \$ - | \$ 34,066 |
| Insurance | 3,148 | - | - | 3,148 | - | 3,148 |
| Legal | 61,307 | - | - | 61,307 | - | 61,307 |
| Miscellaneous expenses | 10 | - | 245 | 255 | - | 255 |
| Treasurer's fees | 5 | 21 | - | 26 | - | 26 |
| Bond principal | - | 214,586 | - | 214,586 | (214,586) | - |
| Bond interest expense | - | 345,409 | - | 345,409 | (679) | 344,730 |
| Trustee fees | - | 3,000 | - | 3,000 | - | 3,000 |
| Interest expense - developer notes | - | - | - | - | 3,308,920 | 3,308,920 |
| Bank note repayment | 100,244 | - | - | 100,244 | (96,200) | 4,044 |
| Capital improvements | - | - | 36,945 | 36,945 | (36,945) | - |
| Capital improvements conveyed to other govts. | - | - | - | - | 36,945 | 36,945 |
| Total Expenditures | 198,780 | 563,016 | 37,190 | 798,986 | 2,997,455 | 3,796,441 |
| PROGRAM REVENUES | | | | | | |
| Development fees | - | - | 17,640 | 17,640 | 96,861 | 114,501 |
| Fire fees | - | 65,700 | - | 65,700 | - | 65,700 |
| Total Program Revenues | - | 65,700 | 17,640 | 83,340 | 96,861 | 180,201 |
| Net Program Income (Expenses) | (198,780) | (497,316) | (19,550) | (715,646) | (2,900,594) | (3,616,240) |
| GENERAL REVENUES | | | | | | |
| Property taxes | 300 | 1,377 | - | 1,677 | - | 1,677 |
| Specific ownership taxes | 26 | 117 | - | 143 | - | 143 |
| Transfer from District 2 | 195,684 | 872,191 | - | 1,067,875 | - | 1,067,875 |
| Interest income | - | 1,072 | 1,734 | 2,806 | - | 2,806 |
| Total General Revenues | 196,010 | 874,757 | 1,734 | 1,072,501 | - | 1,072,501 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (2,770) | 377,441 | (17,816) | 356,855 | (2,900,594) | (2,543,739) |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | - | 10,028 | - | 10,028 | (10,028) | - |
| Transfers out | - | - | (10,028) | (10,028) | 10,028 | - |
| Total Other Financing Sources (Uses) | - | 10,028 | (10,028) | - | - | - |
| NET CHANGES IN FUND BALANCES | (2,770) | 387,469 | (27,844) | 356,855 | (356,855) | |
| CHANGE IN NET POSITION | | | | | (2,543,739) | (2,543,739) |
| FUND BALANCES/NET POSITION: | | | | | | |
| BEGINNING OF YEAR | 3,593 | 731,573 | 1,456,964 | 2,192,130 | (62,646,626) | (60,454,496) |
| END OF YEAR | \$ 823 | \$ 1,119,042 | \$ 1,429,120 | \$ 2,548,985 | \$ (65,547,220) | \$ (62,998,235) |

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, 2013

| | Original <u>Budget</u> | Final <u>Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|--|---------------------------|------------------------|----------------|--|
| REVENUES | | | | |
| Property taxes | \$ 303 | \$ 303 | \$ 300 | \$ (3) |
| Specific ownership taxes | 24 | 24 | 26 | 2 |
| Reimbursements from District 2 | <u>149,617</u> | <u>179,617</u> | <u>195,684</u> | <u>16,067</u> |
| Total Revenues | <u>149,944</u> | <u>179,944</u> | <u>196,010</u> | <u>16,066</u> |
| EXPENDITURES | | | | |
| Accounting and audit | 35,000 | 35,000 | 34,066 | 934 |
| Insurance | 3,000 | 3,000 | 3,148 | (148) |
| Legal | 35,000 | 60,000 | 61,307 | (1,307) |
| Miscellaneous expenses | - | - | 10 | (10) |
| Bank note repayment | 95,750 | 100,750 | 100,244 | 506 |
| Treasurer's fees | 5 | 5 | 5 | - |
| Emergency reserve | <u>2,149</u> | <u>2,149</u> | <u>-</u> | <u>2,149</u> |
| Total Expenditures | <u>170,904</u> | <u>200,904</u> | <u>198,780</u> | <u>2,124</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | | | | |
| | (20,960) | (20,960) | (2,770) | 18,190 |
| FUND BALANCE: | | | | |
| BEGINNING OF YEAR | <u>20,960</u> | <u>20,960</u> | <u>3,593</u> | <u>(17,367)</u> |
| END OF YEAR | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 823</u> | <u>\$ 823</u> |

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

Crystal Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2013

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.)

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

Crystal Valley Metropolitan District No. 1

Notes to Financial Statements December 31, 2013

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.

Recently Issued and Adopted Accounting Pronouncements

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognize, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Statement also limits the use of the term deferred to items reported as deferred outflows of resources or deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 although the District elected to early implement GASB Statement 65 in fiscal year 2012.

In November 2010, the GASB issued Statement 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. GASB 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This statement is effective for periods beginning after June 15, 2012. The District has adopted Statement 61.

Recently Issued Accounting Pronouncements That Could Affect This District

There are no recently issued accounting pronouncements that could affect this District.

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.

Crystal Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2013

Note 1: Summary of Significant Accounting Policies (continued)

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Crystal Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2013

Note 1: Summary of Significant Accounting Policies (continued)

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.

Subsequent to year-end, the District amended its total appropriations in the General Fund from \$170,904 to \$200,904 primarily due to an accelerated repayment of Wells Fargo bank note (see Note 4).

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, 2013, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

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

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

Estimates

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

Crystal Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2013

Note 1: Summary of Significant Accounting Policies (continued)

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 than the date the building permit is issued. The Prepaid Developer Fee Agreement is intended to provide funds for the construction of public infrastructure within the District. In 2009, the District amended the agreement increasing the fee to \$2,000, increasing five percent (5%) on January 1st each year commencing 2011.

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.

Deferred Outflows/Inflows of Resources

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

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

Capital Assets

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

Crystal Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2013

Note 1: Summary of Significant Accounting Policies (continued)

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated. No depreciation expense was recognized during 2013.

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.

Fund Equity

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

Nonspendable Fund Balance

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

Crystal Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2013

Note 1: Summary of Significant Accounting Policies (continued)

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 \$2,956 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$1,119,042 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 \$1,429,120 is restricted for the payment of the costs for capital improvements within the District.

Assigned Fund Balance

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

Unassigned Fund Balance

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

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

Committed Fund Balance

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

Crystal Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2013

Note 1: Summary of Significant Accounting Policies (continued)

Net Position

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

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets. The District did not have any items that qualify for reporting under this category.

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

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

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

Note 2: Cash and Investments

As of December 31, 2013, cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Position:

| | |
|-----------------------------------|---------------------|
| Cash and investments | \$ 49,141 |
| Cash and investments - restricted | <u>2,492,932</u> |
| Total | <u>\$ 2,542,073</u> |

Cash and investments as of December 31, 2013, consist of the following:

| | |
|--------------------------------------|---------------------|
| Deposits with financial institutions | \$ 1,518,483 |
| Investments - COLOTRUST | 44 |
| Investments - CSAFE | <u>1,023,546</u> |
| | <u>\$ 2,542,073</u> |

Crystal Valley Metropolitan District No. 1

Notes to Financial Statements December 31, 2013

Note 2: Cash and Investments (continued)

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.

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, 2013, the District had the following investments:

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust ("COLOTRUST") is rated AAAM by Standard & Poor's and the maturity is weighted average under 60 days. 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+.

Crystal Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2013

Note 2: Cash and Investments (continued)

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, 2013, the District had \$44 invested in COLOTRUST.

CSAFE

The local government investment pool Colorado Surplus Asset Fund Trust ("CSAFE"), is rated AAAm by Standard and Poor's and the maturity is weighted average under 60 days. 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, 2013, the District had \$1,023,546 invested in CSAFE through Zions Bank the trustee.

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2013, follows:

| | Balance 01/01/13 | Additions | Conveyances | Balance 12/31/13 |
|--------------------------|---------------------|-----------|-------------|---------------------|
| Construction in progress | \$ 637,903 | \$ 36,945 | \$ 36,945 | \$ 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 2013, the District conveyed \$36,945 of completed, accepted assets to the Town. Construction in progress is not subject to depreciation, therefore there were no depreciation expenses in 2013.

Crystal Valley Metropolitan District No. 1

Notes to Financial Statements December 31, 2013

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, 2013, total accrued interest was \$7,721,877.

\$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, 2013, total accrued interest was \$9,959,230.

Crystal Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2013

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, 2013, total accrued interest was \$1,696,274.

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, 2013, total accrued interest was \$6,068,397.

Crystal Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2013

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, Series 2004, maturing on October 1, 2034, to finance the acquisition, construction and equipping of certain facilities for Districts No. 1 and No. 2.

Demand Revenue Bonds Series 2004A/B. On February 24, 2012, the District remarketed the Series 2004 Bonds. The amount of \$10,490,000 of the remarketed bonds will be Series 2004A Bonds and 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 2013, the District received \$65,700 in fire station fees and \$872,191 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, 2013, the remaining principal was \$47,422. In 2013, the District paid \$4,044 in interest.

Crystal Valley Metropolitan District No. 1

Notes to Financial Statements December 31, 2013

Note 4: Long Term Debt (continued)

The following represents changes in long-term debt for the period ending December 31, 2013:

| | <u>Balance 1/1/2013</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 12/31/2013</u> | <u>Current Portion</u> |
|--|-----------------------------|------------------|-------------------|-------------------------------|----------------------------|
| <u>Series A Promissory Note:</u> | | | | | |
| 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 | - |
| <u>Water Promissory Note:</u> | | | | | |
| 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 | - |
| <u>Loan Agreement C-Crystal Valley Ranch Devel. Co.:</u> | | | | | |
| 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 | - |
| <u>Series 2002 Bonds - Subordinate Bonds:</u> | 7,405,000 | - | - | 7,405,000 | - |
| <u>Series 2004A Bonds - Revenue Bonds</u> | 10,282,409 | - | 214,586 | 10,067,823 | 221,818 |
| <u>Series 2004B Bonds-Revenue Sub. Bonds:</u> | 9,681,000 | - | - | 9,681,000 | - |
| <u>Bank Note - Wells Fargo</u> | 143,622 | - | 96,200 | 47,422 | 47,422 |
| Total Long-Term Debt | \$ 41,022,018 | \$ - | \$ 310,786 | \$ 40,711,232 | \$ 269,240 |

Crystal Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2013

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.

| | <u>Interest</u> | <u>Principal</u> | <u>Total</u> |
|-------------|----------------------|----------------------|----------------------|
| 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 | 1,081,405 | 9,134,684 | 10,216,089 |
| 2019 - 2023 | 3,872,400 | - | 3,872,400 |
| 2024 - 2028 | 3,872,400 | - | 3,872,400 |
| 2029 - 2033 | 3,872,400 | - | 3,872,400 |
| 2034 - 2038 | 3,872,400 | - | 3,872,400 |
| 2039 - 2041 | 2,323,440 | 9,681,000 | 12,004,440 |
| | <u>\$ 23,299,750</u> | <u>\$ 19,748,823</u> | <u>\$ 43,048,573</u> |

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

Note 5: Debt Authorization

As of December 31, 2013, 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. In 2014, the District has authorized the restructuring of some of the debt in which \$550,000 of the remaining authorized debt will be used for a bank loan for the Costs of Issuance (see Note 13).

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. Two other members of the Board of Directors of the District is a consultant, directly or indirectly, to Paulson Property Management, LLC, (the "Investor") which has ownership and/or development interests in property within the District. Management believes that all potential conflicts, if any, have been disclosed to the Secretary of State and the Board of Directors.

Crystal Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2013

Note 6: Related Party (continued)

During 2013, the following company, which is owned by a member of the Board of Directors, provided services to the District: Legacy Engineering provided \$605 in engineering services.

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.

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

Note 8: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The 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.

Crystal Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2013

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.

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

The District had an outstanding construction contract at December 31, 2013. As of December 31, 2013, the District had \$1,380,800 held in escrow to be used for the construction of a Highway Interchange (the "Interchange").

Crystal Valley Metropolitan District No. 1

Notes to Financial Statements December 31, 2013

Note 9: Commitments and contingencies (continued):

Notwithstanding, it is anticipated that District No. 1 will participate in construction of the Interchange. To date, District No. 1 has allocated bond proceeds of \$1,386,064 into an escrow account (the "Interchange Escrow"). The District funded \$88,018 in engineering costs from the escrow; therefore with interest earned the remaining balance is \$1,380,800 as of December 31, 2013. In addition, the District has expended monies totaling \$1,693,976 toward qualifying expenditures for the Interchange. The remaining responsibility for Interchange costs attributable to the Crystal Valley development is approximately \$2,300,000. Pursuant to the terms of the Crystal Valley Ranch Second Amended and Restated Development Agreement ("Agreement"), dated as of February 24, 2012, the developer is required to contribute the remaining Interchange costs attributable to the Crystal Valley development into the Interchange Escrow at the time due under such Agreement.

Note 10: Agreements

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

Note 11: Interfund and Operating Transfers

The transfer of \$10,028 from the Project Fund to the Debt Service Fund was transferred for the purpose of moving the un-used bond proceeds designated for capital projects to the debt service bond account.

Note 12: 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.

Crystal Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2013

Note 12: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements (continued)

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 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 13: Subsequent Events

District No. 1 and District No. 2 have entered into a Term Sheet with the bondholders of all of the following debt in District No. 1 (the "Subordinate Debt"):

\$3,940,437 Revenue and Limited Obligation Series A Promissory Notes
\$5,035,157 Revenue and Limited Tax Obligation Water Promissory Notes
\$4,487,480 Loan C Agreement
\$7,405,000 Revenue Subordinate Bonds, Series 2002
\$276,590 Construction Management Agreement

The Term Sheet contemplates restructuring of the above listed Subordinate Debt plus accrued interest into two separate series of general obligation debt of District No. 2: Series 2014A, tax exempt bonds in the amount of \$28,370,000 at a rate of 5.5% and Series 2014B, taxable bonds in the amount of \$10,000,000 at a rate of 0%. The amounts of all other Subordinate Debt of District No. 1, as listed above, that is not otherwise restructured into the Series 2014A and Series 2014B Bonds will be discharged in its entirety. Both the Series 2014A and 2014B Bonds will be subject to discharge in their entirety thirty-five years after issuance, unless litigation is filed against the developer entity, Bondholders or current or past board members by or through the Districts challenging the enforceability or terms of the Bonds, or relating in any way to the operations of the District. If such litigation is filed, the principal and interest due on the Series 2014A and Series 2014B Bonds will not be discharged at year thirty-five (35) but rather will be due and payable until paid in full.

Crystal Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2013

Note 13: Subsequent Events (continued)

The issuance of the 2014A and 2014B Bonds and implementation of the Term Sheet is contingent upon approval of a Service Plan Amendment through the Town of Castle Rock, (the "Town"), which subsequently has been approved by the Town.

The Series 2004A and Series 2004B Bonds will remain in District No. 1 under current terms and conditions.

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, 2013

| | Original and <u>Final Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|--|-------------------------------------|---------------------|--|
| REVENUES | | | |
| Fire fees | \$ 6,000 | \$ 65,700 | \$ 59,700 |
| Property taxes | 1,548 | 1,377 | (171) |
| Specific ownership taxes | 124 | 117 | (7) |
| Reimbursements from District 2 | 714,708 | 872,191 | 157,483 |
| Interest income | <u>-</u> | <u>1,072</u> | <u>1,072</u> |
| Total Revenues | <u>722,380</u> | <u>940,457</u> | <u>218,077</u> |
| EXPENDITURES | | | |
| Bond interest expense | 345,744 | 345,409 | 335 |
| Bond principal expense | 214,586 | 214,586 | - |
| Trustee fees | 5,000 | 3,000 | 2,000 |
| Paying agent fees | 10,000 | - | 10,000 |
| Treasurer's fees | <u>23</u> | <u>21</u> | <u>2</u> |
| Total Expenditures | <u>575,353</u> | <u>563,016</u> | <u>12,337</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 147,027 | 377,441 | 230,414 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | <u>-</u> | <u>10,028</u> | <u>10,028</u> |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>10,028</u> | <u>10,028</u> |
| NET CHANGE IN FUND BALANCE | 147,027 | 387,469 | 240,442 |
| FUND BALANCE: | | | |
| BEGINNING OF YEAR | <u>800,778</u> | <u>731,573</u> | <u>(69,205)</u> |
| END OF YEAR | <u>\$ 947,805</u> | <u>\$ 1,119,042</u> | <u>\$ 171,237</u> |

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

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

For the Year Ended December 31, 2013

| | Original and <u>Final Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|--|-------------------------------------|---------------------|--|
| REVENUES | | | |
| Interest income | \$ 1,000 | \$ 1,734 | \$ 734 |
| System development fees | <u>-</u> | <u>17,640</u> | <u>17,640</u> |
| Total Revenues | <u>1,000</u> | <u>19,374</u> | <u>18,374</u> |
| EXPENDITURES | | | |
| Capital improvements | 1,339,686 | 36,945 | 1,302,741 |
| Miscellaneous | <u>2,000</u> | <u>245</u> | <u>1,755</u> |
| Total Expenditures | <u>1,341,686</u> | <u>37,190</u> | <u>1,304,496</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (1,340,686) | (17,816) | 1,322,870 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers out | <u>-</u> | <u>(10,028)</u> | <u>(10,028)</u> |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>(10,028)</u> | <u>(10,028)</u> |
| NET CHANGE IN FUND BALANCE | (1,340,686) | (27,844) | 1,312,842 |
| FUND BALANCE: | | | |
| BEGINNING OF YEAR | <u>1,340,686</u> | <u>1,456,964</u> | <u>116,278</u> |
| END OF YEAR | <u>\$ -</u> | <u>\$ 1,429,120</u> | <u>\$ 1,429,120</u> |

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, 2013

with

Independent Auditors' Report

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YANARI WATSON MCGAUGHEY P.C.

DALE M. YANARI (1947-2004) ♦ RANDY S. WATSON ♦ G. LANCE MCGAUGHEY ♦ DON W. GRUENLER
FINANCIAL CONSULTANTS/CERTIFIED PUBLIC ACCOUNTANTS

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, 2013, 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.

9250 EAST COSTILLA AVENUE, SUITE 450
GREENWOOD VILLAGE, COLORADO 80112-3647
(303) 792-3020
FAX (303) 792-5153

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, 2013, 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.

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.

Yanari Watson McGaughey P.C.

Yanari Watson McGaughey, P.C.

July 15, 2014
Greenwood Village, Colorado

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

BALANCE SHEET/STATEMENT OF NET POSITION

GOVERNMENTAL FUNDS

December 31, 2013

| | <u>General</u> | <u>Debt Service</u> | <u>Total</u> | <u>Adjustments</u> | <u>Statement of Net Position</u> |
|---|-------------------|-------------------------|-------------------|--------------------|--|
| ASSETS | | | | | |
| Cash and investments | \$ 14,040 | \$ - | \$ 14,040 | \$ - | \$ 14,040 |
| Cash and investments - restricted | - | 80,383 | 80,383 | - | 80,383 |
| Receivable - cash with county treasurer | 1,053 | 4,837 | 5,890 | - | 5,890 |
| Property taxes receivable | <u>151,472</u> | <u>695,864</u> | <u>847,336</u> | <u>-</u> | <u>847,336</u> |
| Total Assets | <u>\$ 166,565</u> | <u>\$ 781,084</u> | <u>\$ 947,649</u> | <u>-</u> | <u>947,649</u> |
| LIABILITIES | | | | | |
| Accounts payable | <u>\$ 18,947</u> | <u>\$ -</u> | <u>\$ 18,947</u> | <u>-</u> | <u>18,947</u> |
| Total Liabilities | <u>18,947</u> | <u>-</u> | <u>18,947</u> | <u>-</u> | <u>18,947</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Deferred property taxes | <u>151,472</u> | <u>695,864</u> | <u>847,336</u> | <u>-</u> | <u>847,336</u> |
| Total Deferred Inflows of Resources | <u>151,472</u> | <u>695,864</u> | <u>847,336</u> | <u>-</u> | <u>847,336</u> |
| FUND BALANCES | | | | | |
| Fund Balances: | | | | | |
| Restricted: | | | | | |
| Emergencies | 205 | - | 205 | (205) | - |
| Debt service | - | 85,220 | 85,220 | (85,220) | - |
| Unassigned | <u>(4,059)</u> | <u>-</u> | <u>(4,059)</u> | <u>4,059</u> | <u>-</u> |
| Total Fund Balances | <u>(3,854)</u> | <u>85,220</u> | <u>81,366</u> | <u>(81,366)</u> | <u>-</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 166,565</u> | <u>\$ 781,084</u> | <u>\$ 947,649</u> | | |
| NET POSITION | | | | | |
| Restricted for: | | | | | |
| Emergencies | | | | 205 | 205 |
| Debt service | | | | 85,220 | 85,220 |
| Unrestricted | | | | <u>(4,059)</u> | <u>(4,059)</u> |
| Total Net Position | | | | <u>\$ 81,366</u> | <u>\$ 81,366</u> |

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

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

For the Year Ended December 31, 2013

| | <u>General</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Total</u> | <u>Adjustments</u> | Statement of Activities |
|--|-------------------|-------------------------|-----------------------------|------------------|--------------------|-------------------------------|
| EXPENDITURES | | | | | | |
| Audit | \$ 4,000 | \$ - | \$ - | \$ 4,000 | \$ - | \$ 4,000 |
| Insurance | 2,685 | - | - | 2,685 | - | 2,685 |
| Miscellaneous expenses | 144 | - | - | 144 | - | 144 |
| Transfer to District 1 | 195,684 | 872,191 | - | 1,067,875 | - | 1,067,875 |
| Treasurer's fees | <u>2,167</u> | <u>9,954</u> | <u>-</u> | <u>12,121</u> | <u>-</u> | <u>12,121</u> |
| Total Expenditures | <u>204,680</u> | <u>882,145</u> | <u>-</u> | <u>1,086,825</u> | <u>-</u> | <u>1,086,825</u> |
| GENERAL REVENUES | | | | | | |
| Property taxes | 146,640 | 673,665 | - | 820,305 | - | 820,305 |
| Specific ownership taxes | 12,335 | 56,666 | - | 69,001 | - | 69,001 |
| Rental tax | 1 | 8 | - | 9 | - | 9 |
| Interest income | <u>226</u> | <u>1,038</u> | <u>-</u> | <u>1,264</u> | <u>-</u> | <u>1,264</u> |
| Total General Revenues | <u>159,202</u> | <u>731,377</u> | <u>-</u> | <u>890,579</u> | <u>-</u> | <u>890,579</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (45,478) | (150,768) | - | (196,246) | 196,246 | |
| CHANGE IN NET POSITION | | | | | (196,246) | (196,246) |
| FUND BALANCES/NET POSITION: | | | | | | |
| BEGINNING OF YEAR | <u>41,624</u> | <u>235,988</u> | <u>-</u> | <u>277,612</u> | <u>-</u> | <u>277,612</u> |
| END OF YEAR | <u>\$ (3,854)</u> | <u>\$ 85,220</u> | <u>\$ -</u> | <u>\$ 81,366</u> | <u>\$ -</u> | <u>\$ 81,366</u> |

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

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

For the Year Ended December 31, 2013

| | Original Budget | Final Budget | Actual | Variance Favorable (Unfavorable) |
|--|--------------------|----------------|-------------------|--|
| REVENUES | | | | |
| Property taxes | \$ 147,101 | \$ 147,101 | \$ 146,640 | \$ (461) |
| Specific ownership taxes | 11,768 | 11,768 | 12,335 | 567 |
| Rental tax | 1 | 1 | 1 | - |
| Interest income | 10 | 10 | 226 | 216 |
| Total Revenues | <u>158,880</u> | <u>158,880</u> | <u>159,202</u> | <u>322</u> |
| EXPENDITURES | | | | |
| Audit | 4,250 | 4,250 | 4,000 | 250 |
| Insurance | 2,500 | 2,500 | 2,685 | (185) |
| Miscellaneous expenses | 100 | 100 | 144 | (44) |
| Transfer to District 1 | 149,617 | 199,617 | 195,684 | 3,933 |
| Treasurer's fees | 2,207 | 2,207 | 2,167 | 40 |
| Emergency reserve | 206 | 206 | - | 206 |
| Total Expenditures | <u>158,880</u> | <u>208,880</u> | <u>204,680</u> | <u>4,200</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | - | (50,000) | (45,478) | 4,522 |
| FUND BALANCE: | | | | |
| BEGINNING OF YEAR | - | 50,000 | 41,624 | (8,376) |
| END OF YEAR | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (3,854)</u> | <u>\$ (3,854)</u> |

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2013

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.

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2013

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

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

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

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

Recently Issued and Adopted Accounting Pronouncements

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognize, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Statement also limits the use of the term deferred to items reported as deferred outflows of resources or deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 although the District elected to early implement GASB Statement 65 in fiscal year 2012.

In November 2010, the GASB issued Statement 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. GASB 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This statement is effective for periods beginning after June 15, 2012. The District has adopted Statement 61.

Recently Issued Accounting Pronouncements That Could Affect This District

There are no recently issued accounting pronouncements that could affect this District.

Basis of Presentation

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.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2013

Note 1: Summary of Significant Accounting Policies (continued)

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*.

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.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2013

Note 1: Summary of Significant Accounting Policies (continued)

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.

In December 2013, the District amended its total appropriations in the General Fund from \$158,880 to \$208,880 and in the Debt Service Fund from \$730,345 to \$885,000 primarily due to primarily due to unbudgeted expenses.

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, 2013, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

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

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

Estimates

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2013

Note 1: Summary of Significant Accounting Policies (continued)

Deferred Outflows/Inflows of Resources

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

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

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 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

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2013

Note 1: Summary of Significant Accounting Policies (continued)

Nonspendable Fund Balance

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

Restricted Fund Balance

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

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$205 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 \$85,220 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).

Assigned Fund Balance

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

Unassigned Fund Balance

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

Deficits

The General Fund reported a deficit fund balance in the fund financial statements of \$3,854. The District anticipates eliminating the deficit with property tax income budgeted for 2014.

Net Position

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

Net investment in capital assets – consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets. At December 31, 2013 the District did not have any amounts to report in this category.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2013

Note 1: Summary of Significant Accounting Policies (continued)

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, 2013, cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Position:

| | |
|-----------------------------------|------------------|
| Cash and investments | \$ 14,040 |
| Cash and investments - Restricted | <u>80,383</u> |
| Total | \$ <u>94,423</u> |

Cash and investments as of December 31, 2013 consist of the following:

| | |
|--------------------------------------|------------------|
| Deposits with financial institutions | \$ 14,267 |
| Investments - COLOTRUST | <u>80,156</u> |
| | \$ <u>94,423</u> |

Deposits

Custodial Credit Risk

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2013

Note 2: Cash and Investments (continued)

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

Investments

Credit Risk

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

Custodial and Concentration of Credit Risk

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

Interest Rate Risk

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

As of December 31, 2013, the District had the following investments:

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust ("COLOTRUST") is rated AAAM by Standard & Poor's and the maturity is weighted average under 60 days. 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, 2013, the District had \$ 80,156 invested in COLOTRUST.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2013

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. Per the District's Service Plan, the District debt is limited to \$45,000,000 of which \$45,000,000 is remaining. The District has not budgeted to issue any new debt during 2014; however, the Board has approved the restructuring of debt from District No. 1 in which the remaining \$45,000,000 will be utilized (see Note 10).

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. Two members 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 and amended on February 24, 2012. 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.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2013

Note 6: Tax, Spending and Debt Limitations

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.

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.

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

Note 7: Risk Management

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

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2013

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

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

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

The District currently does not have any qualifying adjustments as described above.

Note 10: Subsequent Events

District No. 1 and District No. 2 have entered into a Term Sheet with the bondholders of all of the following debt in District No. 1 (the "Subordinate Debt"):

\$3,940,437 Revenue and Limited Obligation Series A Promissory Notes
\$5,035,157 Revenue and Limited Tax Obligation Water Promissory Notes
\$4,487,480 Loan C Agreement
\$7,405,000 Revenue Subordinate Bonds, Series 2002
\$276,590 Construction Management Agreement

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2013

Note 10: Subsequent Events (continued)

The Term Sheet contemplates restructuring of the above listed Subordinate Debt plus accrued interest into two separate series of general obligation debt of District No. 2: Series 2014A, tax exempt bonds in the amount of \$28,370,000 at a rate of 5.5% and Series 2014B, taxable bonds in the amount of \$10,000,000 at a rate of 0%. The amounts of all other Subordinate Debt of District No. 1, as listed above, that is not otherwise restructured into the Series 2014A and Series 2014B Bonds will be discharged in its entirety. Both the Series 2014A and 2014B Bonds will be subject to discharge in their entirety thirty-five years after issuance, unless litigation is filed against the developer entity, Bondholders or current or past board members by or through the Districts challenging the enforceability or terms of the Bonds, or relating in any way to the operations of the District. If such litigation is filed, the principal and interest due on the Series 2014A and Series 2014B Bonds will not be discharged at year thirty-five (35) but rather will be due and payable until paid in full.

The issuance of the 2014A and 2014B Bonds and implementation of the Term Sheet is contingent upon approval of a Service Plan Amendment through the Town of Castle Rock, (the "Town"), which subsequently has been approved by the Town.

The Series 2004A and Series 2004B Bonds will remain in District No. 1 under current terms and conditions.

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, 2013

| | Original <u>Budget</u> | <u>Final Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|--|---------------------------|---------------------|------------------|--|
| REVENUES | | | | |
| Property taxes | \$ 675,783 | \$ 675,783 | \$ 673,665 | \$ (2,118) |
| Specific ownership taxes | 54,062 | 54,062 | 56,666 | 2,604 |
| Rental tax | - | - | 8 | 8 |
| Interest income | <u>500</u> | <u>500</u> | <u>1,038</u> | <u>538</u> |
| Total Revenues | <u>730,345</u> | <u>730,345</u> | <u>731,377</u> | <u>1,032</u> |
| EXPENDITURES | | | | |
| Miscellaneous | 5,500 | 5,500 | - | 5,500 |
| Transfer to District 1 | 714,708 | 869,363 | 872,191 | (2,828) |
| Treasurer's fees | <u>10,137</u> | <u>10,137</u> | <u>9,954</u> | <u>183</u> |
| Total Expenditures | <u>730,345</u> | <u>885,000</u> | <u>882,145</u> | <u>2,855</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | - | (154,655) | (150,768) | 3,887 |
| FUND BALANCE: | | | | |
| BEGINNING OF YEAR | <u>-</u> | <u>154,655</u> | <u>235,988</u> | <u>81,333</u> |
| END OF YEAR | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 85,220</u> | <u>\$ 85,220</u> |

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

Crystal Valley Metropolitan District No. 2

SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED December 31, 2013

| <u>Year Ended</u> <u>December 31,</u> | <u>Prior</u> <u>Year Assessed</u> <u>Valuation</u> <u>for Current</u> <u>Year Property</u> <u>Tax Levy</u> | <u>Mills Levied</u> | | <u>Total Property Tax</u> | | <u>Percent</u> <u>Collected</u> <u>to Levied</u> |
|--|---|---------------------|---------------------|---------------------------|------------------|--|
| | | <u>General Fund</u> | <u>Debt Service</u> | <u>0</u> | <u>Collected</u> | |
| | | | | 0 | | |
| 2003 | \$ 58,390 | 40.000 | 0.000 | \$ 2,336 | \$ 2,339 | 100.15% |
| 2004 | \$ 1,554,320 | 1.000 | 47.940 | \$ 76,068 | \$ 77,900 | 102.41% |
| 2005 | \$ 4,648,370 | 1.000 | 45.940 | \$ 218,194 | \$ 230,085 | 105.45% |
| 2006 | \$ 6,905,280 | 1.000 | 45.940 | \$ 324,134 | \$ 390,995 | 120.63% |
| 2007 | \$ 14,088,457 | 1.000 | 45.940 | \$ 661,312 | \$ 663,021 | 100.26% |
| 2008 | \$ 18,898,700 | 1.000 | 45.940 | \$ 887,105 | \$ 798,105 | 89.97% |
| 2009 | \$ 18,965,710 | 1.000 | 45.940 | \$ 890,250 | \$ 703,655 | 79.04% |
| 2010 | \$ 17,990,510 | 10.000 | 45.940 | \$ 1,006,389 | \$ 1,005,743 | 99.94% |
| 2011 | \$ 18,241,110 | 10.000 | 45.940 | \$ 1,020,408 | \$ 1,022,812 | 100.24% |
| 2012 | \$ 14,771,930 | 10.000 | 45.940 | \$ 826,342 | \$ 819,337 | 99.15% |
| 2013 | \$ 14,710,110 | 10.000 | 45.940 | \$ 822,884 | \$ 820,305 | 99.69% |
| Estimated for year ending | | | | | | |
| December 31, 2014 | \$ 15,147,230 | 10.000 | 45.940 | \$ 847,336 | | |

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 <u>2010</u> | Actual <u>2010</u> | Adopted Budget <u>2011</u> | Actual <u>7/31/2011</u> | Estimate <u>2011</u> | Adopted Budget <u>2012</u> |
|------------------------------|----------------------------------|-----------------------|----------------------------------|----------------------------|-------------------------|----------------------------------|
| Beginning fund balance | \$ 33,728 | \$ 33,728 | \$ 48,548 | \$ 28,744 | \$ 28,744 | \$ 37,851 |
| Revenues: | | | | | | |
| Property taxes | 267 | 267 | 281 | 349 | 349 | 298 |
| Specific ownership taxes | 21 | 18 | 22 | 13 | 13 | 24 |
| Developer advances | - | 2,198 | - | - | - | - |
| Transfer from District No. 2 | 190,437 | 154,142 | 196,804 | 98,891 | 196,804 | 182,547 |
| Interest income | 3 | - | - | - | - | - |
| Total revenues | <u>190,728</u> | <u>156,625</u> | <u>197,207</u> | <u>99,253</u> | <u>197,266</u> | <u>182,869</u> |
| Total funds available | <u>224,456</u> | <u>190,353</u> | <u>245,755</u> | <u>127,997</u> | <u>226,010</u> | <u>220,720</u> |
| Expenditures: | | | | | | |
| Accounting / audit | 54,000 | 39,272 | 50,000 | 20,638 | 35,379 | 50,000 |
| Legal | 96,000 | 37,778 | 50,000 | 26,641 | 45,670 | 50,000 |
| Management fees | 6,000 | 6,000 | 6,000 | 10,000 | 18,000 | 30,000 |
| Insurance | 2,500 | 2,199 | 3,000 | 2,028 | 3,477 | 2,700 |
| Miscellaneous | 2,000 | 25 | 10,000 | - | 100 | 1,000 |
| Landscape maintenance | - | 9,567 | 15,000 | 4,976 | 4,976 | 15,000 |
| Professional fees | - | 10,860 | - | 6,153 | 10,548 | 20,000 |
| Treasurer fees | 4 | 4 | 4 | 5 | 9 | 4 |
| Reimbursement to developer | - | 55,904 | 100,000 | 30,000 | 70,000 | 30,000 |
| Contingency | 53,915 | - | 7,731 | - | - | 16,955 |
| Emergency reserve (3%) | 4,815 | - | 4,020 | - | - | 5,061 |
| Total expenditures | <u>219,234</u> | <u>161,609</u> | <u>245,755</u> | <u>100,441</u> | <u>188,159</u> | <u>220,720</u> |
| Ending fund balance | \$ <u>5,222</u> | \$ <u>28,744</u> | \$ <u>-</u> | \$ <u>27,556</u> | \$ <u>37,851</u> | \$ <u>0</u> |
| Assessed valuation | \$ <u>26,690</u> | | \$ <u>28,070</u> | | | \$ <u>29,820</u> |
| Mill Levy | <u>10.000</u> | | <u>10.000</u> | | | <u>10.000</u> |

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

| | Adopted Budget 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 | <u>1,557,791</u> | <u>5,739</u> | <u>5,000</u> | <u>3,106</u> | <u>4,095</u> | <u>3,000</u> |
| Total funds available | <u>5,319,361</u> | <u>3,767,309</u> | <u>2,236,431</u> | <u>2,236,172</u> | <u>2,237,161</u> | <u>2,138,373</u> |
| Expenditures: | | | | | | |
| Accounting | 12,000 | - | - | - | - | - |
| Legal | 24,000 | 2,932 | - | - | - | - |
| Capital expenditures | 3,095,300 | 68,724 | 2,234,431 | 52,508 | 90,010 | 2,234,431 |
| Miscellaneous | 2,000 | 339 | 2,000 | 20,191 | 11,778 | 2,000 |
| Repay developer advances - short term note | - | 417,869 | - | - | - | - |
| Repay developer advances | - | 868,349 | - | - | - | - |
| Reimbursement to other governments | 351,070 | 176,030 | - | - | - | - |
| Total expenditures | <u>3,484,370</u> | <u>1,534,243</u> | <u>2,236,431</u> | <u>72,697</u> | <u>101,788</u> | <u>2,236,431</u> |
| Ending fund balance | <u>\$ 1,834,991</u> | <u>\$ 2,233,066</u> | <u>\$ -</u> | <u>\$ 2,163,475</u> | <u>\$ 2,135,373</u> | <u>\$ -</u> |

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

| | Adopted Budget 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 | 52,398 | 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 | 1,454,823 |
| 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 | \$ 9,881 | \$ 43,233 | \$ 43,233 | \$ 32,271 |
| Revenues: | | | | | | |
| Property taxes | 179,805 | 179,259 | 182,411 | 179,493 | 179,805 | 147,719 |
| Specific ownership taxes | 14,392 | 12,271 | 14,593 | 7,017 | 14,392 | 11,818 |
| Rental tax | 1 | 18 | 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 | 208,323 | 208,698 | 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 | 180,437 | 154,142 | 186,804 | 98,891 | 186,804 | 182,547 |
| Treasurer fees | 2,699 | 2,692 | 2,736 | 2,694 | 2,736 | 2,218 |
| Contingency | . | . | . | . | . | . |
| Emergency reserve (3%) | 241 | - | 208 | - | - | 208 |
| Total expenditures | 201,404 | 183,090 | 206,698 | 107,357 | 205,465 | 191,819 |
| Ending fund balance | \$ 7,314 | \$ 43,233 | \$ - | \$ 122,536 | \$ 32,271 | \$ 0 |
| Assessed valuation | \$ 17,880,510 | | \$ 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 | \$ 88,280 | \$ 58,215 | \$ 84,785 | \$ 88,280 | \$ 58,215 | \$ 78,227 |
| Revenues: | | | | | | |
| Property taxes | 828,484 | 828,484 | 837,897 | 823,514 | 837,897 | 678,823 |
| Specific ownership taxes | 88,119 | 88,119 | 87,040 | 58,374 | 87,040 | 54,289 |
| Rental tax | . | 70 | . | 78 | 78 | . |
| Interest income | 500 | 3,000 | 500 | 1,884 | 2,800 | 500 |
| Total revenues | 893,103 | 895,873 | 805,537 | 881,850 | 907,115 | 733,412 |
| Total funds available | 978,383 | 953,888 | 970,322 | 967,910 | 985,330 | 808,839 |
| Expenditures: | | | | | | |
| Miscellaneous | 5,000 | 1,000 | 5,500 | . | 1,000 | 5,500 |
| Treasurer's fees | 12,387 | 12,387 | 12,570 | 12,389 | 12,387 | 10,179 |
| Transfer to District 1 | 875,708 | 875,708 | 952,252 | 827,899 | 875,708 | 793,980 |
| Total expenditures | 893,103 | 889,103 | 970,322 | 840,358 | 889,103 | 809,639 |
| Ending fund balance | \$ 88,280 | \$ 84,785 | \$. | \$ 127,552 | \$ 78,227 | \$. |
| Assessed valuation | \$ 17,990,510 | \$. | \$ 18,241,110 | \$. | \$. | \$ 14,771,930 |
| New growth assessed valuation | \$. | | \$. | | | \$. |
| Mill Levy | 45.840 | | 45.840 | | | 45.840 |
| Total Mill Levy | 55.840 | | 55.840 | | | 55.840 |

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 <u>2011</u> | Adopted Budget <u>2012</u> | Adopted Budget Amendment <u>2012</u> | Actual <u>8/31/2012</u> | Estimate <u>2012</u> | Adopted <u>2013</u> |
|------------------------------|-----------------------|----------------------------------|--|----------------------------|-------------------------|------------------------|
| 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 | <u>220,104</u> | <u>182,869</u> | <u>182,869</u> | <u>89,596</u> | <u>181,605</u> | <u>149,944</u> |
| Total funds available | <u>248,848</u> | <u>220,720</u> | <u>191,982</u> | <u>98,709</u> | <u>190,718</u> | <u>170,904</u> |
| 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 maintenace | 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 | <u>239,735</u> | <u>220,720</u> | <u>191,982</u> | <u>98,128</u> | <u>169,758</u> | <u>170,904</u> |
| Ending fund balance | \$ <u>9,113</u> | \$ - | \$ - | \$ <u>581</u> | \$ <u>20,960</u> | \$ <u>0</u> |
| Assessed valuation | | \$ <u>29,820</u> | \$ <u>29,820</u> | | | \$ <u>30,330</u> |
| Mill Levy | | <u>10.000</u> | <u>10.000</u> | | | <u>10.000</u> |

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

| | <u>Actual</u> <u>2011</u> | <u>Adopted</u> <u>Budget</u> <u>2012</u> | <u>Adopted</u> <u>Budget Amendment</u> <u>2012</u> | <u>Actual</u> <u>8/31/2012</u> | <u>Estimate</u> <u>2012</u> | <u>Adopted</u> <u>2013</u> |
|--|------------------------------|--|--|-----------------------------------|--------------------------------|-------------------------------|
| 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

| | <u>Actual</u> <u>2011</u> | <u>Adopted</u> <u>Budget</u> <u>2012</u> | <u>Adopted</u> <u>Budget Amendment</u> <u>2012</u> | <u>Actual</u> <u>8/31/2012</u> | <u>Estimate</u> <u>2012</u> | <u>Adopted</u> <u>2013</u> |
|---|------------------------------|--|--|-----------------------------------|--------------------------------|-------------------------------|
| 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 <u>2011</u> | Adopted Budget <u>2012</u> | Actual <u>8/31/2012</u> | Estimate <u>2012</u> | Adopted Budget <u>2013</u> |
|--------------------------|-----------------------|----------------------------------|----------------------------|-------------------------|----------------------------------|
| 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 | <u>195,287</u> | <u>159,548</u> | <u>153,150</u> | <u>159,752</u> | <u>158,880</u> |
| Total funds available | <u>238,520</u> | <u>191,819</u> | <u>163,304</u> | <u>169,906</u> | <u>158,880</u> |
| 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 | <u>228,366</u> | <u>191,819</u> | <u>77,839</u> | <u>169,906</u> | <u>158,880</u> |
| Ending fund balance | <u>\$ 10,154</u> | <u>\$ -</u> | <u>\$ 85,465</u> | <u>\$ (0)</u> | <u>\$ (0)</u> |
| Assessed valuation | | <u>\$ 14,771,930</u> | | | <u>\$ 14,710,110</u> |
| Mill Levy | | <u>10.000</u> | | | <u>10.000</u> |

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

| | Actual <u>2011</u> | Adopted Budget <u>2012</u> | Actual <u>8/31/2012</u> | Estimate <u>2012</u> | Adopted Budget <u>2013</u> |
|--------------------------|-----------------------|----------------------------------|----------------------------|-------------------------|----------------------------------|
| 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. Amendment and Restatement of Fee Resolution. The Fee Resolution is hereby amended and restated in its entirety with this Resolution.

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

- a. Residential Property. A one-time "Development Fee" is hereby established for all residential dwelling units within the Legal Boundaries of the Districts.
 - i. Residential Detached Dwelling Units. The Development Fee for all residential detached dwelling units shall be set hereunder at the rate of \$2,100.
 - ii. Multi-family Attached Dwelling Units. The Development Fee for all multi-family attached dwelling units shall be set hereunder at the rate of \$1,260.
- b. Commercial Property. A one-time "Development Fee" is hereby established for all property within the Legal Boundaries developed for commercial uses at an SFE rate of \$2,100 and shall be applied to all such commercial property on the basis of 4 SFEs per each acre of commercial property or \$8,400 per acre of zoned commercial property.
- c. The Development Fees established hereunder shall be subject to increase at the discretion of the Board of Directors of District No. 1 on an annual basis as part of the next succeeding year's budget. Any such increases shall be limited to five percent (5%) rounded to the nearest twenty-five dollars (\$25.00) on January 1 of each year commencing January 1, 2012 until no further single or multi-family dwelling units or commercial property remain to be constructed within the Districts.

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

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

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

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

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

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

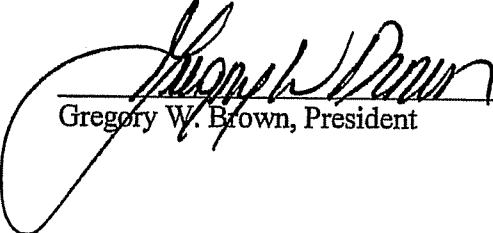
7. Amendment. The Districts may raise the amount of the Development Fee set hereunder when, in the Districts discretion, inflation or other budgetary factors so require.

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

[Remainder of Page Intentionally Blank].

ADOPTED AND APPROVED this 19 day of October 2011.

**CRYSTAL VALLEY METROPOLITAN
DISTRICT NO. 1**



Gregory W. Brown, President

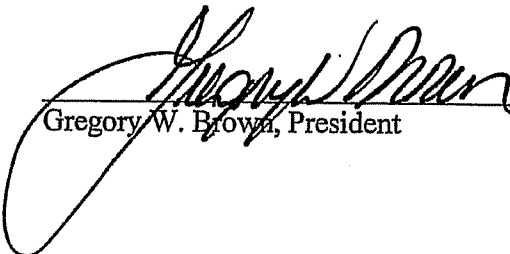
ATTEST:



Secretary

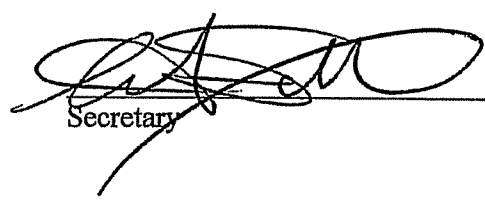
ACKNOWLEDGED AND AGREED TO:

**CRYSTAL VALLEY METROPOLITAN
DISTRICT NO. 2**



Gregory W. Brown, President

ATTEST:



Secretary

EXHIBIT E

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

RESOLUTION NO. 2008-51

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

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

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

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

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

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

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

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

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

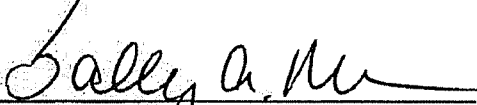
- The impact fee and property tax revenue projected for receipt by the Districts in the Service Plan have not been achieved as a result of fewer homes being constructed in the Crystal Valley Ranch PD, which has substantially reduced the ability of the Districts to service current and future debt and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

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

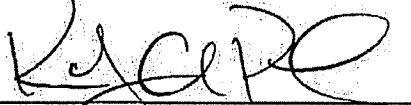
Section 2. Required Consent. Pursuant to 32-1-1101.5 (2)(a) C.R.S., the Districts are denied the authority to issue any remaining authorized general obligation debt absent the further approval and consent of the Town Council. Such prohibition shall not apply to the refunding of any outstanding bond,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

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

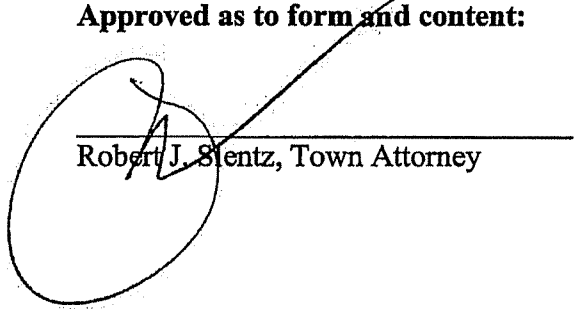
ATTEST:


Sally A. Misare Town Clerk

TOWN OF CASTLE ROCK


Randy A. Reed, Mayor

Approved as to form and content:


Robert J. Stentz, Town Attorney