CASTLEWOOD RANCH METROPOLITAN DISTRICT

Financial Statements

Year Ended December 31, 2016

with

Independent Auditor's Report

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Independent Auditor's Report

Board of Directors
Castlewood Ranch Metropolitan District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Castlewood Ranch Metropolitan District as of and for the year ended December 31, 2016, and the related notes to the financial statements, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe 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 respective financial position of the governmental activities and each major fund of the Castlewood Ranch Metropolitan District as of December 31, 2016, 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.

Other Matters

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates 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 to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

L. Paul Goedecke P.C.

L. Paul Goedecke, P.C.
June 28, 2017

CASTLEWOOD RANCH METROPOLITAN DISTRICT

BALANCE SHEET/STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2016

	General	Debt Service	Capital Project	Total	Adjustments	Statement of Net Position
ASSETS						
Cash	$ 114,610	$ -	$ -	$ 114,610	$ -	$ 114,610
Cash - Restricted	1,908	206,910	296,310	505,128	-	505,128
Receivable county treasurer	1,259	8,812	-	10,071	-	10,071
Property taxes receivable	164,831	1,153,814	-	1,318,645	-	1,318,645
Other receivable	-	6,586	-	6,586	-	6,586
Prepaid expense	3,354	-	-	3,354	-	3,354
Capital assets	-	-	-	-	1,657,000	1,657,000
Total Assets	285,962	1,376,122	296,310	1,958,394	1,657,000	3,615,394
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Loss on Refunding	-	-	-	-	317,559	317,559
Total Deferred Ouflows of Resources	-	-	-	-	317,559	317,559
Total Assets and Deferred Outflows of Resources	285,962	1,376,122	296,310	1,958,394		
LIABILITIES						
Accounts payable	$ 3,405	$ -	$ -	$ 3,405	-	3,405
Accrued interest on bonds	-	-	-	-	39,356	39,356
Long-term liabilities						
Due within one year	-	-	-	-	730,000	730,000
Due in more than one year	-	-	-	-	17,575,000	17,575,000
Total Liabilities	3,405	-	-	3,405	18,344,356	18,347,761
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	164,831	1,153,814	-	1,318,645	-	1,318,645
Total Deferred Inflows of Resources	164,831	1,153,814	-	1,318,645	-	1,318,645
FUND BALANCES						
Nonspendable:						
Prepaids	3,354	-	-	3,354	(3,354)	-
Restricted:						
Emergencies	1,908	-	-	1,908	(1,908)	-
Debt service	-	222,308	-	222,308	(222,308)	-
Capital projects	-	-	296,310	296,310	(296,310)	-
Assigned						
Subsequent years' expenditures	26,712	-	-	26,712	(26,712)	-
Unassigned	85,752	-	-	85,752	(85,752)	-
Total Fund Balances	117,726	222,308	296,310	636,344	(636,344)	-
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 285,962	$ 1,376,122	$ 296,310	$ 1,958,394		
NET POSITION						
Restricted for:						
Emergencies					1,908	1,908
Debt service					182,952	182,952
Capital projects					296,310	296,310
Unrestricted					(16,214,623)	(16,214,623)
Total Net Position					$(15,733,453)	$(15,733,453)

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

CASTLEWOOD RANCH METROPOLITAN DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2016

	General	Debt Service	Capital Project	Total	Adjustments	Statement of Activities
EXPENDITURES						
Accounting and audit	$ 9,030	$ -	$ -	$ 9,030	$ -	$ 9,030
Directors fees	1,200	-	-	1,200	-	1,200
District management	21,985	-	-	21,985	-	21,985
Repair and maintenance	260	-	-	260	-	260
Insurance	4,091	-	-	4,091	-	4,091
Legal	7,932	-	-	7,932	-	7,932
Office expense-misc	3,559	-	-	3,559	-	3,559
Election	332	-	-	332	-	332
Treasurer's fees	2,430	17,012	-	19,442	-	19,442
Bond principal	-	585,000	-	585,000	(585,000)	-
Bond interest expense	-	412,931	-	412,931	209,776	622,707
Refunding Loan principal	-	75,000	-	75,000	(75,000)	-
Refunding Loan interest	-	111,965	-	111,965	(27,699)	84,266
Cost of Issuance	-	136,315	-	136,315	-	136,315
Paying agent fees	-	150	-	150	-	150
Amortize bond insurance expense	-	-	-	-	5,830	5,830
Amortize loss on refunding	-	-	-	-	7,217	7,217
Total Expenditures	50,819	1,338,373	-	1,389,192	(464,876)	924,316
GENERAL REVENUES						
Property taxes	161,782	1,132,474	-	1,294,256	-	1,294,256
Specific ownership taxes	14,884	104,191	-	119,075	-	119,075
Tap fees/system development fees	-	-	50,000	50,000	-	50,000
Interest income	1,427	1,686	-	3,113	-	3,113
Permit fees/misc income	-	-	10,592	10,592	-	10,592
Total General Revenues	178,093	1,238,351	60,592	1,477,036	-	1,477,036
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	127,274	(100,022)	60,592	87,844	464,876	552,720
OTHER FINANCING SOURCES (USES)						
Refunding Bonds	-	18,380,000	-	18,380,000	(18,380,000)	-
Payment to Refunding Agent	-	(19,018,730)	-	(19,018,730)	19,018,730	-
Transfer to/from other funds	(140,000)	140,000	-	-	-	-
Total Other Financing Sources (Uses)	(140,000)	(498,730)	-	(638,730)	638,730	-
NET CHANGES IN FUND BALANCES	(12,726)	(598,752)	60,592	(550,886)	550,886	
CHANGE IN NET POSITION					552,720	552,720
FUND BALANCES/NET POSITION:						
BEGINNING OF YEAR	130,452	821,060	235,718	1,187,230	(17,473,403)	(16,286,173)
END OF YEAR	$ 117,726	$ 222,308	$ 296,310	$ 636,344	$ (16,369,797)	$ (15,733,453)

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

CASTLEWOOD RANCH METROPOLITAN DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
GENERAL FUND
For the Year Ended December 31, 2016

	Original & Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	$ 161,781	$ 161,782	$ 1
Specific ownership taxes	12,134	14,884	2,750
Interest income	1,600	1,427	(173)
Total Revenues	175,515	178,093	2,578
EXPENDITURES			
Accounting and audit	9,000	9,030	(30)
Directors fees	2,000	1,200	800
District management	20,000	21,985	(1,985)
Insurance	4,500	4,091	409
Legal	18,000	7,932	10,068
Election	5,000	332	4,668
Office expense-misc	2,500	3,559	(1,059)
Repair and maintenance	5,000	260	4,740
Treasurer's fees	2,427	2,430	(3)
Contingency	95,877	-	95,877
Emergency reserve	2,053	-	2,053
Total Expenditures	166,357	50,819	115,538
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	9,158	127,274	118,116
OTHER FINANCING SOURCES (USES)			
Transfers to other funds	(140,000)	(140,000)	-
Total Other Financing Sources (Uses)	(140,000)	(140,000)	-
NET CHANGE IN FUND BALANCE	(130,842)	(12,726)	118,116
FUND BALANCE - BEGINNING OF YEAR	130,842	130,452	(390)
FUND BALANCE - END OF YEAR	$ -	$ 117,726	$ 117,726

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

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Castlewood Ranch Metropolitan 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 on August 15, 1984, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was originally organized as The Villages at Castle Rock Metropolitan District No. 2. On February 20, 1998, the District changed its name to Castlewood Ranch Metropolitan District. The District was established to finance and construct water, sanitary and storm sewer, streets, and park and recreation facilities that benefit the citizens of the District. The District's primary revenues are property taxes. The District is governed by an elected Board of Directors.

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 pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency. The pronouncements also require including a possible component unit if it would be misleading to exclude it.

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

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

Basis of Presentation

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

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

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

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

<u>Measurement Focus, Basis of Accounting and Financial Statement Presentation</u>
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 *availabl*e when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The District reports the following major governmental funds:

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

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

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

Budgetary Accounting

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

In November 2016, the District amended its total appropriations in the Debt Service Fund from $1,409,143 to $20,383,883 primarily due to the refunding of the 2006 bonds.

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, 2016, 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

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

Estimates

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. It is the deferred loss on refunding reported in the government-wide statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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 item that qualifies 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.

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.

Loss on Refunding

The Loss on Refunding from the Series 2016 General Obligation Refunding Loan is being amortized over the term of the bonds using the straight line method. Accumulated amortization of the Loss on Refunding amounted to $7,217 at December 31, 2016.

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. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Depreciation expense has not been recorded as the assets were recorded as construction in progress. All assets, other than four detention ponds and certain vacant land tracts, have been dedicated to the Town of Castle Rock ("Town") as of December 31, 2016. No depreciation expense was recognized during 2016.

The dedication of assets to the Town resulted in a deficit balance in the Statement of Net Position. The reason for this deficit is that the District maintains an obligation to repay the bonds used to construct public improvements.

Property Taxes

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

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

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.

The nonspendable fund balance in the General Fund in the amount of $3,354 represents prepaid expenditures.

Restricted Fund Balance

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

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of $1,908 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 $222,308 is restricted for the payment of the debt service costs associated with the future payment of the bond principal, interest and other costs related to general obligation debt (see Note 4).

The restricted fund balance in the Capital Projects Fund in the amount of $296,310 is reserved for capital improvements within the District.

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

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

The assigned fund balance in the General Fund represents the amount appropriated for use in the budget for the year ending December 31, 2017.

Unassigned Fund Balance
Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

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

Net Position
Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District 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, 2016, the District did not have any amounts that qualified for reporting in this category.

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

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

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

Note 2: Cash

As of December 31, 2016, cash is classified in the accompanying financial statements as follows:

Statement of net position:

Cash	$ 114,610
Cash– Restricted	505,128
Total	$ 619,738

Cash as of December 31, 2016 consist of the following:

Deposits with financial institutions	$ 619,738

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.

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2016 follows:

	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016
Governmental Type Activities:				
Capital assets not being depreciated:				
Detention Ponds	$ 1,657,000	$ -	$ -	$ 1,657,000

Note 4: Long Term Debt

A description of the long-term obligations as of December 31, 2016, is as follows:

$18,380,000 General Obligation Refunding Loan, Series 2016
On September 6, 2016, the District entered into a Loan Agreement ("2016 Loan") with Key Government Finance, Inc. ("Lender") for a General Obligation Refunding Loan in the amount of $18,380,000. The 2016 Loan is evidenced by a promissory note and was issued to currently refund the 2006 Bonds with the exception of the bonds coming due on December 1, 2016, and to pay the costs of issuance of the 2016 Loan.

The 2016 Loan matures on September 6, 2031. Principal payments are due on December 1 of each year beginning December 1, 2016. Interest is payable on June 1 and December 1 of each year beginning December 1, 2016. The 2016 Loan bears interest at a rate of 2.58% per annum calculated on the basis of a 360-day year and twelve 30-day months. The District may, at its option, prepay the 2016 Loan in whole or in part on any interest payment date upon payment to the lender of the principal amount so prepaid, accrued interest thereon at the rate then borne by the 2016 Loan to the date the lender receives such prepayment, plus a Prepayment Fee.

As a result of the issuance of the 2016 Loan, the refunded bonds are considered to be defeased and the liabilities have been removed from the governmental activities column of the statement of net position. The reacquisition price of the old debt exceeded the net carrying amount by $324,776. This amount is recorded as a deferred outflow and is being amortized over the original remaining life of the refunded bonds. The refunding resulted in an economic gain of $2,562,580 due to the interest rate of the 2016 Loan being lower than the refunded bonds and the reduction of the final maturity of the bonds from 2034 to 2031.

$22,495,000 General Obligation Refunding Bonds – Series 2006
On December 1, 2006, the District issued $22,495,000 of General Obligation Refunding Bonds, Series 2006 (the "Series 2006 Bonds"). The Series 2006 Bonds were issued to (i) current refund the Subordinate Bonds in the amount of $688,042, including accrued interest of $9,945; (ii) to current refund the Series 2004 Bonds in the amount of $13,000,000; (iii) to current refund the Series 2001 Bonds in the amount of $9,500,000; and (iv) to pay the costs of issuing the Series 2006 Bonds.

The Series 2006 Bonds mature in incremental amounts beginning December 1, 2007 through December 1, 2034. The Series 2006 Bonds bear interest between the rates of 3.5% to 5.0%, payable semiannually on each June 1 and December 1, commencing on June 1, 2007.

The Series 2006 Bonds maturing on December 1, 2021, are subject to mandatory sinking fund redemption commencing on December 1, 2017. The Series 2006 Bonds maturing on December 1, 2029, are subject to mandatory sinking fund redemption commencing on December 1, 2022. The Series 2006 Bonds maturing on December 1, 2034, are subject to mandatory sinking fund redemption commencing on December 1, 2030. The Series 2006 Bonds maturing on or before December 1, 2016, are not subject to redemption prior to maturity. The Series 2006 Bonds maturing on or after December 1, 2021 are subject to an early redemption at the option of the District, in whole or in integral multiples of $5,000 commencing December 1, 2016 and on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date with no redemption premium.

The Series 2006 Bonds were fully defeased on September 6, 2016, with the issuance of the 2016 Loan.

The following is an analysis of changes in long-term debt for the period ending December 31, 2016:

	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016	Current Portion
General Obligation Refunding Bonds - Series 2006	$ 19,225,000		$ (19,225,000)	$ -	
General Obligation Refunding Loan - Series 2016	-	18,380,000	(75,000)	$ 18,305,000	730,000
	$ 19,225,000	$ 18,380,000	$ (19,300,000)	$ 18,305,000	$ 730,000

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

	Principal	Interest	Total
2017	$ 730,000	$ 472,269	$ 1,202,269
2018	770,000	453,435	1,223,435
2019	790,000	433,569	1,223,569
2020	835,000	413,187	1,248,187
2021	860,000	391,644	1,251,644
2022-2026	4,805,000	1,608,759	6,413,759
2027-2031	9,515,000	897,539	10,412,539
	$ 18,305,000	$ 4,670,402	$ 22,975,402

Debt Authorization

As of December 31, 2016, the District had remaining voted debt authorization of approximately $110,000,000. In the future, the District may issue a portion or all of the remaining authorized, but unissued general obligation debt for the 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. The District's Service Plan and bond documents place certain restrictions on the District's ability to issue additional debt.

Note 5: Other Agreements

Intergovernmental Agreement – Town of Castle Rock

On March 5, 2003, the District entered into an Intergovernmental Agreement with the Town of Castle Rock ("Town"). The Town will assume the responsibility for the repair and maintenance of a storm water detention pond ("Tract N Pond"). The agreement was amended and restated on April 27, 2004, wherein the Town agreed to assume inspection, maintenance and repair obligations for two additional ponds ("Tract J Pond" and "Tract C Pond"). The District has agreed to fund all costs incurred by the Town with respect to the inspection and maintenance of the pond.

Agreement with Castle Rock 25 Partners LLC

On July 9, 2004, the District entered into an agreement with Castle Rock 25 Partners LLC ("Castle Rock 25"), the Town, and Castlewood Ranch Master Association (as amended on July 21, 2006) whereby Castle Rock 25 agrees to pay $526,308 to the District. This amount represents 50% of the Mikelson Condemnation Area Roadway Construction Estimate. Payment will be made to the District in advance of the earlier of: (1) The Town's issuance to Castle Rock 25 of any improvement construction permit associated with the final plat for Castle Rock 25's property or (2) the Town's issuance to Castle Rock 25 of any building permits associated with such plat.

Amended and Restated Tract Maintenance and License Agreement

The District and the Castlewood Ranch Master Association (the "HOA") are parties to that certain Amended and Restated Tract Maintenance and License Agreement dated June 28, 2013 (the "Maintenance Agreement"). The District owns certain real property (the "Tracts") within Castlewood Ranch (the "Development"). The Tracts are utilized for detention pond purposes and open space for the benefit of the Development. Pursuant to the Maintenance Agreement, the HOA has agreed to maintain the Tracts, at the HOA's cost and expense. The District granted the HOA a license to perform such maintenance. The District, however, has the obligation to maintain any "Pond Functional Improvements" which are all facilities, fixtures and improvements constructed and installed to effect or carry out the functional storm drainage, flow, detention, or retention capabilities of the detention ponds located on the Tracts. The Maintenance Agreement establishes certain standards for the HOA's performance of its maintenance duties.

Note 6: Tax, Spending and Debt Limitations

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

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

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

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

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 is a member of the Colorado Special Districts Property and Liability Pool ("the Pool"), which is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

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

Note 8: Interfund and Operating Transfers

The transfer of $140,000 from the General Fund to the Debt Service fund was for the purpose of funding the interest and principal payments on the Series 2016 General Obligation Funding Loan.

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

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

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

2) bond insurance costs are reported as deferred charges and amortized over the term of the related debt in the government-wide financial statements.

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

1) Governmental funds report bond insurance costs as an expenditure; however, on the Statement of Activities, the bond insurance costs are amortized over the term of the related debt;

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

3) governmental funds report bond principal payments as expenditures; however, these costs are considered reductions in long-term debt for the Statement of Activities.

SUPPLEMENTAL INFORMATION

CASTLEWOOD RANCH METROPOLITAN DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
DEBT SERVICE FUND
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Property taxes	$ 1,132,470	$ 1,132,470	$ 1,132,474	$ 4
Specific ownership taxes	84,935	84,935	104,191	19,256
Interest income	1,000	1,000	1,686	686
Total Revenues	1,218,405	1,218,405	1,238,351	19,946
EXPENDITURES				
Bond principal	585,000	585,000	585,000	-
Bond interest expense	804,656	760,666	412,931	347,735
Refunding Loan principal	-	-	75,000	(75,000)
Refunding Loan Interest Expense	-	-	111,965	(111,965)
Cost of Issuance	-	-	136,315	(136,315)
Paying agent fees	2,500	2,500	150	2,350
Treasurer's fees	16,987	16,987	17,012	(25)
Total Expenditures	1,409,143	1,365,153	1,338,373	26,780
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(190,738)	(146,748)	(100,022)	46,726
OTHER FINANCING SOURCES (USES)				
Refunding Loan Proceeds	-	18,380,000	18,380,000	-
Transfer to Escrow Agent	-	(19,018,730)	(19,018,730)	-
Transfer to/from other funds	140,000	140,000	140,000	-
Total Other Financing Sources (Uses)	140,000	(498,730)	(498,730)	-
CHANGE IN FUND BALANCE	(50,738)	(645,478)	(598,752)	46,726
FUND BALANCE - BEGINNING OF YEAR	766,960	766,960	821,060	54,100
FUND BALANCE - END OF YEAR	$ 716,222	$ 121,482	$ 222,308	$ 100,826

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

CASTLEWOOD RANCH METROPOLITAN DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
CAPITAL PROJECTS FUND
For the Year Ended December 31, 2016

	Original & Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Tap fees/system development fees	$ 50,000	$ 50,000	$ -
Permit fees/misc income	2,028	10,592	8,564
Total Revenues	52,028	60,592	8,564
EXPENDITURES			
Capital outlay	317,746	-	317,746
Total Expenditures	317,746	-	317,746
CHANGE IN FUND BALANCE	(265,718)	60,592	326,310
FUND BALANCE - BEGINNING OF YEAR	265,718	235,718	(30,000)
FUND BALANCE - END OF YEAR	$ -	$ 296,310	$ 296,310

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

CASTLEWOOD RANCH METROPOLITAN DISTRICT

SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED
December 31, 2016

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied		Total Property Tax		Percent Collected to Levied
		Fund	Debt Service	Levied	Collected	
2007	$ 24,762,944	5.000	35.000	$ 947,013	$ 990,716	104.61%
2008	$ 29,340,820	5.000	35.000	$ 1,173,632	$ 1,174,362	100.06%
2009	$ 30,160,350	5.000	35.000	$ 1,206,414	$ 1,204,031	99.80%
2010	$ 30,356,650	5.000	35.000	$ 1,214,266	$ 1,215,299	100.09%
2011	$ 30,440,450	5.000	35.000	$ 1,217,618	$ 1,217,391	99.98%
2012	$ 25,238,930	5.000	40.000	$ 1,135,752	$ 1,127,121	99.24%
2013	$ 25,272,020	5.000	40.000	$ 1,137,241	$ 1,137,299	100.01%
2014	$ 25,019,205	5.000	40.000	$ 1,125,864	$ 1,124,823	99.91%
2015	$ 25,309,700	5.000	40.000	$ 1,138,937	$ 1,138,769	99.99%
2016	$ 32,356,280	5.000	35.000	$ 1,294,251	$ 1,294,256	100.00%
Estimated for year ending December 31, 2017	$ 32,966,130	5.000	35.000	$ 1,318,645		

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.

ADDITIONAL INFORMATION - UNAUDITED

CASTLEWOOD RANCH METROPOLITAN DISTRICT

LARGEST TAXPAYERS IN THE DISTRICT
December 31, 2016
(UNAUDITED)

	Assessed Valuation	Percentage of District's Total Assessed Valuation
Adamo Building Company LLC	392,480	1.1906%
Individual Homeowner	86,720	0.2631%
CWR Construction LLC	83,060	0.2520%
Individual Homeowner	78,490	0.2381%
Individual Homeowner	69,540	0.2109%
Individual Homeowner	66,510	0.2018%
Individual Homeowner	66,220	0.2009%
Individual Homeowner	65,020	0.1972%
Individual Homeowner	64,460	0.1955%
Individual Homeowner	64,390	0.1953%
	1,036,890	3.1453%

CASTLEWOOD RANCH METROPOLITAN DISTRICT

SELECTED DEBT RATIOS
December 31, 2016
(UNAUDITED)

	2016
General Obligation Debt Outstanding	$18,305,000
Assessed Value	$32,966,130
Ratio of Debt to Assessed Value	55.53%