

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Financial Statements

Year Ended December 31, 2017

with

Independent Auditor's Report

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Office of the State Auditor

July 31, 2018

## C O N T E N T S

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



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

## **INDEPENDENT AUDITOR'S REPORT**

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

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

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

### **Other Matters**

#### *Required Supplementary Information*

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

*Other Information*

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

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

*Hiratsuka & Associates, LLP*

July 30, 2018  
Wheat Ridge, Colorado

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

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

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

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

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

For the Year Ended December 31, 2017

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

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

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

For the Year Ended December 31, 2017

	Original and <u>Final Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
<b>REVENUES</b>			
Property taxes	\$ 244,895	\$ 244,810	\$ (85)
Specific ownership taxes	19,592	26,827	7,235
Interest income	243	1,953	1,710
	<u>264,730</u>	<u>273,590</u>	<u>8,860</u>
Total Revenues			
<b>EXPENDITURES</b>			
Insurance	3,500	3,371	129
Audit	4,500	4,100	400
Directors fees	6,000	1,600	4,400
Payroll taxes	500	122	378
Legal	-	-	-
Miscellaneous	1,000	148	852
Transfer to District No. 1	245,107	65,000	180,107
Treasurer's fees	3,673	3,675	(2)
Emergency reserve	450	-	450
	<u>264,730</u>	<u>78,016</u>	<u>186,714</u>
Total Expenditures			
NET CHANGE IN FUND BALANCE	-	195,574	195,574
<b>FUND BALANCE:</b>			
BEGINNING OF YEAR	<u>-</u>	<u>236,492</u>	<u>236,492</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 432,066</u>	<u>\$ 432,066</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, 2017

### Note 1: Summary of Significant Accounting Policies

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

#### Definition of Reporting Entity

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

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

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

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

## CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2017

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

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

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

#### Basis of Presentation

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

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

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

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

#### Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

## CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2017

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

The District reports the following major governmental funds:

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

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

#### Budgetary Accounting

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

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

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

##### Fair Value of Financial Instruments

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

##### Deposits and Investments

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

## CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2017

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

#### Estimates

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

#### Deferred Outflows/Inflows of Resources

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

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

#### Property Taxes

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

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

## CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2017

#### Long-Term Obligations

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

#### Fund Equity

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

#### Nonspendable Fund Balance

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

#### Restricted Fund Balance

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

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

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

#### Committed Fund Balance

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

#### Assigned Fund Balance

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2017

Unassigned Fund Balance

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

Net Position

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

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

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

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

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

Note 2: Cash and Investments

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

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

## CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2017

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

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

#### Deposits

##### Custodial Credit Risk

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

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

#### Investments

##### Credit Risk

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

##### Custodial and Concentration of Credit Risk

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

##### Interest Rate Risk

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

## CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2017

#### Investment Valuation

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

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

#### COLOTRUST

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

## CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2017

#### Note 3: Long Term Debt

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

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

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

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

#### Limited Tax General Obligation Refunding Loan Series 2015

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2017

Limited Tax General Obligation Refunding Loan Series 2017

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

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

Amended and Restated Intercreditor Agreement

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

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

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2017

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

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

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

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

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

Debt Authorization

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

## CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2017

#### Note 5: Related Party

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

#### Note 6: Agreements

##### District Facilities Construction and Service Agreement

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

#### Note 7: Tax, Spending and Debt Limitations

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

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

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

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

## CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2017

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

Note 8: Risk Management

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

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

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

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

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

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

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

SUPPLEMENTAL INFORMATION

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

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

For the Year Ended December 31, 2017

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

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

SUMMARY OF ASSESSED VALUATION, MILL LEVY  
AND PROPERTY TAXES COLLECTED

December 31, 2017

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

**NOTE**

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