

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Financial Statements

Year Ended December 31, 2021

with

Independent Auditor's Report

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
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual – Capital Projects Fund	19
Summary of Assessed Valuation, Mill Levy and Property Taxes Collected	20



HIRATSUKA & ASSOCIATES, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 District, as of December 31, 2021, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplemental Information as listed in the table of contents is presented for the purpose of additional analysis and was not a required part of the financial statements.

The Supplemental Information is the responsibility of management and is derived from and related 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

September 30, 2022
Wheat Ridge, Colorado

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

BALANCE SHEET/STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2021

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Cash and investments	\$ 331,596	\$ -	\$ -	\$ 331,596	\$ -	\$ 331,596
Cash and investments - restricted	555	3,026,250	519,674	3,546,479	-	3,546,479
Receivable - County Treasurer	1,667	22,863	-	24,530	-	24,530
Property taxes receivable	174,368	3,748,903	-	3,923,271	-	3,923,271
Prepaid expenses	<u>2,385</u>	<u>-</u>	<u>-</u>	<u>2,385</u>	<u>-</u>	<u>2,385</u>
Total Assets	<u>\$ 510,571</u>	<u>\$ 6,798,016</u>	<u>\$ 519,674</u>	<u>\$ 7,828,261</u>	<u>-</u>	<u>7,828,261</u>
LIABILITIES						
Accounts payable	\$ 1,830	\$ -	\$ -	\$ 1,830	-	1,830
Due to District No. 1	-	-	519,674	519,674	-	519,674
Accrued interest on bonds	-	-	-	-	180,108	180,108
Long-term liabilities:						
Due within one year	-	-	-	-	250,000	250,000
Due in more than one year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,128,780</u>	<u>63,128,780</u>
Total Liabilities	<u>1,830</u>	<u>-</u>	<u>519,674</u>	<u>521,504</u>	<u>63,558,888</u>	<u>64,080,392</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	<u>174,368</u>	<u>3,748,903</u>	<u>-</u>	<u>3,923,271</u>	<u>-</u>	<u>3,923,271</u>
Total Deferred Inflows of Resources	<u>174,368</u>	<u>3,748,903</u>	<u>-</u>	<u>3,923,271</u>	<u>-</u>	<u>3,923,271</u>
FUND BALANCES/NET POSITION						
Fund Balances:						
Nonspendable:						
Prepays	2,385	-	-	2,385	(2,385)	-
Restricted:						
Emergencies	555	-	-	555	(555)	-
Debt service	-	3,049,113	-	3,049,113	(3,049,113)	-
Unassigned	<u>331,433</u>	<u>-</u>	<u>-</u>	<u>331,433</u>	<u>(331,433)</u>	<u>-</u>
Total Fund Balances	<u>334,373</u>	<u>3,049,113</u>	<u>-</u>	<u>3,383,486</u>	<u>(3,383,486)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 510,571</u>	<u>\$ 6,798,016</u>	<u>\$ 519,674</u>	<u>\$ 7,828,261</u>		
Net Position:						
Restricted for:						
Emergencies					555	555
Debt service					2,869,005	2,869,005
Unrestricted					<u>(63,044,962)</u>	<u>(63,044,962)</u>
Total Net Position					<u>\$ (60,175,402)</u>	<u>\$ (60,175,402)</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, 2021

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES						
Insurance	\$ 2,644	\$ -	\$ -	\$ 2,644	\$ -	\$ 2,644
Audit	5,400	-	-	5,400	-	5,400
Directors fees	3,300	-	-	3,300	-	3,300
Payroll taxes	252	-	-	252	-	252
Miscellaneous	120	-	-	120	-	120
Transfer to District No. 1	150,000	-	519,674	669,674	-	669,674
Paying agent / trustee fees	-	4,000	-	4,000	-	4,000
Treasurer's fees	3,676	50,414	-	54,090	-	54,090
Interest expense	-	2,161,300	-	2,161,300	(425,290)	1,736,010
Total Expenditures	<u>165,392</u>	<u>2,215,714</u>	<u>519,674</u>	<u>2,900,780</u>	<u>(425,290)</u>	<u>2,475,490</u>
PROGRAM REVENUES						
Facility fees	-	731,261	430,774	1,162,035	-	1,162,035
Total Program Revenues	-	731,261	430,774	1,162,035	-	1,162,035
Net Program Income (Expenses)	(165,392)	(1,484,453)	(88,900)	(1,738,745)	425,290	(1,313,455)
GENERAL REVENUES						
Property taxes	244,833	3,357,715	-	3,602,548	-	3,602,548
Specific ownership taxes	23,612	323,817	-	347,429	-	347,429
Interest income	1,095	3,700	1	4,796	-	4,796
Total General Revenues	<u>269,540</u>	<u>3,685,232</u>	<u>1</u>	<u>3,954,773</u>	<u>-</u>	<u>3,954,773</u>
NET CHANGES IN FUND BALANCES	104,148	2,200,779	(88,899)	2,216,028	(2,216,028)	
CHANGE IN NET POSITION					2,641,318	2,641,318
FUND BALANCES/NET POSITION:						
BEGINNING OF YEAR	<u>230,225</u>	<u>848,334</u>	<u>88,899</u>	<u>1,167,458</u>	<u>(63,984,178)</u>	<u>(62,816,720)</u>
END OF YEAR	<u>\$ 334,373</u>	<u>\$ 3,049,113</u>	<u>\$ -</u>	<u>\$ 3,383,486</u>	<u>\$ (63,558,888)</u>	<u>\$ (60,175,402)</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, 2021

	Original <u>Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES				
Property taxes	\$ 244,837	\$ 244,837	\$ 244,833	\$ (4)
Specific ownership taxes	13,576	23,576	23,612	36
Interest income	360	360	1,095	735
Total Revenues	<u>258,773</u>	<u>268,773</u>	<u>269,540</u>	<u>767</u>
EXPENDITURES				
Insurance	5,000	2,644	2,644	-
Audit	5,500	5,500	5,400	100
Directors fees	6,000	6,000	3,300	2,700
Payroll taxes	460	460	252	208
Miscellaneous	1,984	750	120	630
Transfer to District No. 1	235,601	469,995	150,000	319,995
Treasurer's fees	3,673	3,676	3,676	-
Emergency reserve	555	555	-	555
Total Expenditures	<u>258,773</u>	<u>489,580</u>	<u>165,392</u>	<u>324,188</u>
NET CHANGE IN FUND BALANCE	-	(220,807)	104,148	324,955
FUND BALANCE:				
BEGINNING OF YEAR	-	220,807	230,225	9,418
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 334,373</u>	<u>\$ 334,373</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, 2021

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 funding capital projects.

On July 21, 2020, the Crystal Valley Metropolitan District No. 2 Sub-District (“Sub-District”) was formed for the purpose of fixing a different rate of levy for property tax purposes against the taxable property within the Sub District according to services, programs and facilities furnished or to be furnished, and to pledge such revenue to finance those services programs and facilities to be furnished. During 2021, the Sub-District did not incur any activities.

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2021

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

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

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*.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2021

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

The District reports the following major governmental funds:

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

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

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

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 2021, the District amended its total appropriations in the General Fund from \$258,773 to \$489,580 and in the Capital Projects Fund from \$0 to \$547,910 and in the Debt Service Fund from \$2,221,666 to \$2,226,666 primarily due the anticipation of unbudgeted expenses.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2021

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, 2021, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

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

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

Estimates

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

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.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2021

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 30 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.

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.

Original Issue Premium

The Series 2020A Bonds (see Note 3) were issued at a premium of \$7,782,603 which is being amortized over the life of the bonds. As of December 31, 2021, \$513,823 has been amortized.

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 \$555 of the General Fund balance has been restricted in compliance with this requirement.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2021

The restricted fund balance in the Debt Service Fund in the amount of \$3,049,113 is restricted for the payment of the debt service costs associated with the General Obligation Refunding Bonds 2020A (see Note 3).

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.

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, 2021, 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.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2021

Note 2: Cash and Investments

As of December 31, 2021, cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and investments	\$ 331,596
Cash and investments - Restricted	<u>3,546,479</u>
Total	\$ <u>3,878,075</u>

Cash and investments as of December 31, 2021, consist of the following:

Deposits with financial institutions	\$ 174,401
Investments - COLOTRUST	<u>3,703,674</u>
	\$ <u>3,878,075</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.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2021

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.

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.

The District has the following investments as of December 31, 2021:

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, 2021, the District had \$3,703,674 invested in COLOTRUST.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2021

Note 3: Long Term Debt

A description of the long-term obligations as of December 31, 2021, is as follows:

Limited Tax General Obligation Refunding and Improvement Bonds Series 2020A

On September 17, 2020, the District issued General Obligation Refunding & Improvement Bonds Series 2020A, (the “Series 2020A Bonds”), for refunding of the outstanding Series 2014A and Series 2014B Bonds, the Series 2015 Loan, and the Series 2017 Loan, and to reimburse a portion of the costs of acquiring, constructing, and/or installing certain public infrastructure to serve the development. The Series 2020A Bonds bear interest at rates ranging from 3.0% to 5.0% payable semiannually on each June 1 and December 1, commencing on December 1, 2020. The 2020A Bonds have a final maturity date of December 1, 2049, and have a final discharge date of December 31, 2052, regardless of the amount of principal and interest paid prior to that date.

The Series 2020A Bonds maturing on or after December 1, 2031, are subject to redemption prior to maturity at the option of the District, as a whole, or in part, in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, on December 1, 2030, and on any date thereafter at a redemption price equal to the principal amount so redeemed plus accrued interest to the date of redemption.

The Series 2020A Bonds maturing on December 1, 2044, are also subject to a mandatory sinking fund prior to the maturity date of such bonds, in part, by lot, upon payment of par and accrued interest without redemption premium commencing on December 1, 2041. The Series 2020A Bonds maturing on December 1, 2049, are also subject to a mandatory sinking fund prior to the maturity date of such bonds, in part, by lot, upon payment of par and accrued interest without redemption premium commencing on December 1, 2045.

The Series 2020A Bonds are secured by Pledged Revenues including: (a) the property tax revenues; (b) the portion of the specific ownership tax which is collected as a result of the imposition of the required mill levy; (c) the pledged developer fee revenue; and (d) any other legally available moneys which the District determines to be used as pledged revenue. The payment of principal and interest on the Series 2020A Bonds is secured under a municipal insurance policy with Assured Guaranty Municipal Corp.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2021

The following is a summary of the annual long-term debt principal and interest requirements for the Series 2020A Bonds:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 250,000	\$ 2,161,300	\$ 2,411,300
2023	780,000	2,148,800	2,928,800
2024	875,000	2,109,800	2,984,800
2025	920,000	2,066,050	2,986,050
2026	1,025,000	2,020,050	3,045,050
2027 - 2031	6,355,000	9,254,250	15,609,250
2032 - 2036	8,760,000	7,666,700	16,426,700
2037 - 2041	11,525,000	5,702,900	17,227,900
2042 - 2046	14,975,000	3,162,400	18,137,400
2047 - 2049	10,645,000	647,250	11,292,250
	<u>\$ 56,110,000</u>	<u>\$ 36,939,500</u>	<u>\$ 93,049,500</u>

The following is an analysis of changes in long-term debt for the period ending December 31, 2021:

	<u>Balance 1/1/2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2021</u>	<u>Current Portion</u>
<i>General Obligation Bonds</i>					
G.O. Refunding Bonds 2020A	\$ 56,110,000	\$ -	\$ -	\$ 56,110,000	\$ 250,000
Original issue premium	7,694,070	-	425,290	7,268,780	-
	<u>\$ 63,804,070</u>	<u>\$ -</u>	<u>\$ 425,290</u>	<u>\$ 63,378,780</u>	<u>\$ 250,000</u>

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2021

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, 2021, 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 \$0 is remaining. The District has not budgeted to issue an any debt in 2022.

In 2021, a majority of the qualified electors of the Sub District who voted in the election authorized the issuance of indebtedness of \$5,000,000. The Sub District's Service Plan limits the issuance by the Sub District of long-term financial obligations to an aggregate principal amount of \$3,600,000. In 2022, the Sub District has budgeted to issue bonds totaling \$3,600,000.

Note 4: 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. 1 under which District No. 1 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. The District 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.

District Development Fees

The District has adopted fees for services and/or development provided by the District under a Resolution dated as of July 23, 2020. The District authorized an increase in the fees effective January 1, 2021, for a total residential development fee payable of \$2,315, a multi-family development fee payable of \$1,323, and a commercial development fee of \$9,261 per acre of zoned commercial property. The Development Fee is due and required to be paid by the home builder not later than the time at which a building permit is obtained. In 2021, the District collected \$1,162,035 in fees. The District authorized an increase in the fees effective January 1, 2022, the fee was increased to \$2,430 for a single family detached unit, a multi-family unit fee of \$1,390, and a commercial development fee of \$9,724 per acre of zoned commercial property.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2021

Central Corridor Landscaping Escrow Agreement

On November 4, 2020, District No. 1 entered into an agreement with Crystal Valley Ranch Acquisition, ("CVRA"), to construct and install certain landscaping improvements within the District (the "Central Corridor Improvements"). CVRA has entered into an Agreement Regarding Reimbursement of Advances with the District, dated as of July 21, 2020 (the "CVRA Agreement"), under which District No. 1 will reimburse CVRA for costs associated with the construction of the Central Corridor Infrastructure from certain System Development Fees, as the same is more specifically set forth in the CVRA Agreement. In order for District No. 1 to appropriate for payment of amounts due under the Construction Contract, pursuant to a Funding and Reimbursement Agreement between the District No. 1 and CVRA, dated as of July 23, 2020 (the "Funding Agreement"), CVRA has agreed that it will fund the amount of \$1,248,889 to be held in an escrow fund (the "Escrow Fund") created under this Agreement. In 2020, CVRA funded \$519,674; District No. 1 funded \$643,649 and the District funded \$57,330. The SDF fees payable by the District to District No. 1 at year end will reimburse CVRA for their portion in full during 2022.

Note 5: 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.

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2021

Note 6: 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 7: 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 may 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 may 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.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2021

Note 8: Subsequent Event

In 2022, the Sub-District issued Limited Tax General Obligation Bonds, Series 2022 for \$3,600,000. Proceeds from the sale of the Bonds will be used to fund a portion of the costs of designing, engineering, constructing, and/or installing certain water system improvements and facilities to serve development within the Sub-District. Proceeds of the Bonds will also be used to fund the costs of issuing the Bonds. The Bonds are cash flow limited tax general obligations of the Sub-District secured by and payable from the Pledged Revenue, which consists of the following revenues of the Sub-District: (a) all Property Tax Revenues; (b) all Specific Ownership Tax Revenues; (c) all Pledged Development Fees; and (d) any other legally available moneys which the Sub-District determines, in its absolute discretion, to credit to the Bond Fund. No regularly scheduled payments of principal are due on the Bonds prior to their maturity date, and any accrued interest on the Bonds that are not paid when due will continue to accrue and compound on each interest payment date until sufficient Pledged Revenue is available for payment therefor, subject to discharge on the Termination Date. Notwithstanding anything in the Indenture to the contrary, in the event that, on December 1, 2060, any amount of principal of or interest on the Bonds remains unpaid after the application of all Pledged Revenue available therefor in accordance with the Indenture, the Bonds and the lien of the Indenture securing payment thereof will be deemed discharged.

In 2022, District No. 1 approved the Resolution of District No. 1 for the purpose of dissolving the District No. 1. With the dissolution, the District will terminate the District Facilities Construction and Service Agreement (see Note 6), between the District and District No. 1, therefore, assigning any cash or other assets remaining in District No. 1 as of December 31, 2022, to the District. Upon dissolution of District No. 1, the District will assume full operations.

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, 2021

	Original <u>Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES				
Property taxes	\$ 3,357,759	\$ 3,357,759	\$ 3,357,715	\$ (44)
Specific ownership taxes	201,460	201,460	323,817	122,357
Facility fees	-	-	731,261	731,261
Interest income	<u>20,000</u>	<u>20,000</u>	<u>3,700</u>	<u>(16,300)</u>
Total Revenues	<u>3,579,219</u>	<u>3,579,219</u>	<u>4,416,493</u>	<u>837,274</u>
EXPENDITURES				
Miscellaneous	-	5,000	-	5,000
Paying agent / trustee fees	10,000	10,000	4,000	6,000
Treasurer's fees	50,366	50,366	50,414	(48)
Interest expense	<u>2,161,300</u>	<u>2,161,300</u>	<u>2,161,300</u>	<u>-</u>
Total Expenditures	<u>2,221,666</u>	<u>2,226,666</u>	<u>2,215,714</u>	<u>10,952</u>
NET CHANGE IN FUND BALANCE	1,357,553	1,352,553	2,200,779	848,226
FUND BALANCE:				
BEGINNING OF YEAR	<u>620,844</u>	<u>620,844</u>	<u>848,334</u>	<u>227,490</u>
END OF YEAR	<u>\$ 1,978,397</u>	<u>\$ 1,973,397</u>	<u>\$ 3,049,113</u>	<u>\$ 1,075,716</u>

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2

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

For the Year Ended December 31, 2021

	Original <u>Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES				
Interest income	\$ -	\$ -	\$ 1	\$ 1
Facility fees	<u>-</u>	<u>547,910</u>	<u>430,774</u>	<u>(117,136)</u>
Total Revenues	<u>-</u>	<u>547,910</u>	<u>430,775</u>	<u>(117,135)</u>
EXPENDITURES				
Transfers to District 1	<u>-</u>	<u>547,910</u>	<u>519,674</u>	<u>28,236</u>
Total Expenditures	<u>-</u>	<u>547,910</u>	<u>519,674</u>	<u>28,236</u>
NET CHANGE IN FUND BALANCE	-	-	(88,899)	(88,899)
FUND BALANCE:				
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>88,899</u>	<u>88,899</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2021

<u>Year Ended</u> <u>December 31,</u>	Prior Year Assessed Valuation for Current Year Property Tax Levy	<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%
2018	\$ 33,757,540	10.776	49.508	\$ 2,035,040	\$ 2,036,870	100.09%
2019	\$ 40,260,310	10.776	49.508	\$ 2,427,053	\$ 2,426,875	99.99%
2020	\$ 58,052,340	5.000	49.854	\$ 3,184,403	\$ 3,184,125	99.99%
2021	\$ 69,953,320	3.500	48.000	\$ 3,602,596	\$ 3,602,548	100.00%
Estimated for year ending December 31, 2022	\$ 87,183,780	2.000	43.000	\$ 3,923,271		

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.