

6-28-2021 Draft

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

Financial Statements

Year Ended December 31, 2020

with

Independent Auditor's Report

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CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

BALANCE SHEET/STATEMENT OF NET POSITION GOVERNMENTAL FUNDS December 31, 2020

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS					
Cash and investments	\$ 18,191	\$ 28,235	\$ 46,426	\$ -	\$ 46,426
Cash and investments - restricted	2,550	4,434,327	4,436,877	-	4,436,877
Receivable - County Treasurer	3	-	3	-	3
Receivable - due from District No. 2	50,000	-	50,000	-	50,000
Property taxes receivable	41	-	41	-	41
Capital assets not being depreciated	-	-	-	12,166,410	12,166,410
Total Assets	<u>\$ 70,785</u>	<u>\$ 4,462,562</u>	<u>\$ 4,533,347</u>	<u>12,166,410</u>	<u>16,699,757</u>
LIABILITIES					
Accounts payable	\$ 37,798	\$ 233,517	\$ 271,315	-	271,315
Total Liabilities	<u>37,798</u>	<u>233,517</u>	<u>271,315</u>	<u>-</u>	<u>271,315</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred property taxes	41	-	41	-	41
Total Deferred Inflows of Resources	<u>41</u>	<u>-</u>	<u>41</u>	<u>-</u>	<u>41</u>
FUND BALANCES					
Fund Balances:					
Restricted:					
Emergencies	3,900	-	3,900	(3,900)	-
Capital projects	-	4,229,045	4,229,045	(4,229,045)	-
Unassigned	29,046	-	29,046	(29,046)	-
Total Fund Balances	<u>32,946</u>	<u>4,229,045</u>	<u>4,261,991</u>	<u>(4,261,991)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 70,785</u>	<u>\$ 4,462,562</u>	<u>\$ 4,533,347</u>		
NET POSITION					
Net investment in capital assets				12,166,410	12,166,410
Restricted for:					
Emergencies				3,900	3,900
Capital projects				4,229,045	4,229,045
Unrestricted				29,046	29,046
Total Net Position				<u>\$ 16,428,401</u>	<u>\$ 16,428,401</u>

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

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CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES GOVERNMENTAL FUNDS For the Year Ended December 31, 2020

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES					
Accounting and audit	\$ 37,823	\$ -	\$ 37,823	\$ -	\$ 37,823
Election expense	2,238	-	2,238	-	2,238
Insurance	3,283	-	3,283	-	3,283
Legal	137,649	-	137,649	-	137,649
Miscellaneous expenses	2,845	3,550	6,395	-	6,395
Treasurer's fees	5	-	5	-	5
Transfers to District 2	-	3,553,375	3,553,375	-	3,553,375
Repay short-term note	-	211,195	211,195	-	211,195
Reimbursement of contributed funds	-	4,051,111	4,051,111	-	4,051,111
Capital improvements	-	606,201	606,201	(606,201)	-
Capital improvements conveyed to other govts.	-	-	-	375,184	375,184
Total Expenditures	<u>183,843</u>	<u>8,425,432</u>	<u>8,609,275</u>	<u>(231,017)</u>	<u>8,378,258</u>
PROGRAM REVENUES					
Development fees	-	628,519	628,519	-	628,519
Total Program Revenues	<u>-</u>	<u>628,519</u>	<u>628,519</u>	<u>-</u>	<u>628,519</u>
Net Program Income (Expenses)	<u>(183,843)</u>	<u>(7,796,913)</u>	<u>(7,980,756)</u>	<u>231,017</u>	<u>(7,749,739)</u>
GENERAL REVENUES					
Property taxes	348	-	348	-	348
Specific ownership taxes	31	-	31	-	31
Miscellaneous income	-	12,500	12,500	-	12,500
Transfers from District 2	120,000	4,108,441	4,228,441	-	4,228,441
Reimbursements from other governments	-	1,379,607	1,379,607	-	1,379,607
Interest income	13,526	1,020	14,546	-	14,546
Total General Revenues	<u>133,905</u>	<u>5,501,568</u>	<u>5,635,473</u>	<u>-</u>	<u>5,635,473</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(49,938)</u>	<u>(2,295,345)</u>	<u>(2,345,283)</u>	<u>231,017</u>	<u>(2,114,266)</u>
OTHER FINANCING SOURCES (USES)					
Capital advances	-	519,674	519,674	-	519,674
Total Other Financing Sources (Uses)	<u>-</u>	<u>519,674</u>	<u>519,674</u>	<u>-</u>	<u>519,674</u>
NET CHANGES IN FUND BALANCES	<u>(49,938)</u>	<u>(1,775,671)</u>	<u>(1,825,609)</u>	<u>1,825,609</u>	<u>-</u>
CHANGE IN NET POSITION				<u>(1,594,592)</u>	<u>(1,594,592)</u>
FUND BALANCES/NET POSITION:					
BEGINNING OF YEAR	<u>82,884</u>	<u>6,004,716</u>	<u>6,087,600</u>	<u>11,935,393</u>	<u>18,022,993</u>
END OF YEAR	<u>\$ 32,946</u>	<u>\$ 4,229,045</u>	<u>\$ 4,261,991</u>	<u>\$ 12,166,410</u>	<u>\$ 16,428,401</u>

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2020

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Crystal Valley Metropolitan District No. 1, (the “District”), located in Douglas County, Colorado, conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized in 1986, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was organized concurrently with Crystal Valley Metropolitan District No. 2, (“District No. 2”). The District has the power to provide water, streets, traffic and safety controls, televisions relay and translator, transportation, parks 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 the District and District No. 2 boundaries. The Service Plan anticipates that the District will convey water, sanitation facilities, streets and other facilities to the Town of Castle Rock, Colorado (the “Town”), or Douglas County (the “County”) for operation and maintenance purposes. The District may, however, upon mutual agreement with the Town, retain ownership in the facilities and/or retain responsibility for operations and maintenance. The District is governed by an elected Board of Directors.

The District is intended to serve as the “Operating District” while Crystal Valley Metropolitan District No. 2 is intended to serve as the “Taxing District”. The Operating District is responsible for providing the day-to day operations and administrative management for both Districts. (See Note 6.)

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.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2020

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.

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.

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Notes to Financial Statements December 31, 2020

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.

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

Budgetary Accounting

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

Subsequent to year-end, the District amended its total appropriations in the Capital Fund from \$3,398,900 to \$8,750,000 primarily due to the transfer of funds to District No. 2 for the Series 2020 bond issuance and the repayment of funds to CVRA (See Note 6).

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, 2020, 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. 1

Notes to Financial Statements December 31, 2020

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.

Interfund Balances

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". These amounts are eliminated in the Statement of Net Position.

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 item that qualify for reporting in this category. Deferred property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

Capital Assets

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

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Notes to Financial Statements December 31, 2020

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated. No depreciation expense was recognized during 2020.

Property Taxes

Property taxes are levied by the District's and District No. 2's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the Districts. The District receives from District No. 2 such taxes, rates, fees and charges needed to fund the costs of the administration and operations of both Districts as well as the debt service expenses for 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.

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.

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Notes to Financial Statements December 31, 2020

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 \$3,900 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Capital Projects Fund in the amount of \$4,229,045 is restricted for the payment of the costs for capital improvements within the District.

Committed Fund Balance

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

Assigned Fund Balance

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

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. The District has capital assets in the amount of \$12,166,410.

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Notes to Financial Statements December 31, 2020

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, 2020, cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and investments	\$ 46,426
Cash and investments - Restricted	<u>4,436,877</u>
Total	<u>\$ 4,483,303</u>

Cash and investments as of December 31, 2020 consist of the following:

Deposits with financial institutions	\$ 3,234,623
Investments - COLOTRUST	<u>1,248,680</u>
	<u>\$ 4,483,303</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. None of the District’s deposits were exposed to custodial credit risk.

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Notes to Financial Statements December 31, 2020

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.

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, 2020, 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.

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Notes to Financial Statements December 31, 2020

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, 2020, the District had \$1,248,680 invested in COLOTRUST.

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2020 follows:

	Balance 01/01/20	Additions	Conveyances	Balance 12/31/20
Construction in progress	\$ 11,935,393	\$ 606,201	\$ 375,184	\$ 12,166,410

It is anticipated that the District will convey the completed infrastructure to the Town or County for operations and maintenance purposes. The District retains the right to maintain ownership in the facilities and/or retain responsibility for operations and maintenance. Construction in progress is not subject to depreciation, therefore there were no depreciation expenses in 2020.

Note 4: Debt Authorization

As of December 31, 2020, the District had remaining voted debt authorization of approximately \$93,543,989. In the future, the District may issue a portion or all of the remaining authorized, but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District's service area, however, as of the date of this audit, the amount and timing of any debt issuances is not determinable. Per the District's Service Plan, the District debt is limited to \$45,000,000 of which \$1,043,989 is remaining.

Note 5: Related Party

Two of the Board of Directors are employees, owners, consultants or are otherwise associated with Crystal Valley Ranch Development Co., LLC, (the "Developer"), and may have conflicts of interest in dealing with the District. One member of the Board of Directors is an employee of RainTree Investment Corporation ("RainTree"), which has significant ownership and/or investment interests in the property within the Districts. One other director is a consultant, directly or indirectly, to Raintree. Management believes that all potential conflicts, if any, have been disclosed to the Secretary of State and the Board of Directors.

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Notes to Financial Statements December 31, 2020

Note 6: Agreements

District Development Fees

On June 4, 2001, the District and District No. 2 adopted and approved the Joint Resolution Concerning Imposition of the District Development Fee. The Districts approved the fee of \$2,100 for a single family equivalent (“SFE”) dwelling unit and \$1,260 for multi-family attached dwelling units with a five percent (5%) increase at the Board’s discretion, as the amount is determined on an annual basis. The fees were designated to repay the prepaid development fees paid by the developer in 2005. The repayment of the prepaid fees obligation has been met, therefore the next \$300,000 in fees collected are now designated to the construction of the highway interchange. Once that has been satisfied or the Districts determine that funding of the projects is no longer necessary, the fees will be a revenue source for the payment of subordinate indebtedness of the Districts. The fees are due at the time a building permit is obtained by the builder. In January 2012, the SFE fee was raised to \$2,205. There was no fee increase for 2019. In 2020, the District received \$628,519 in SFE fees.

Development and Cost Reimbursement Agreement

In 2005, the District entered into a Development and Cost Reimbursement Agreement with Crystal Crossing Metropolitan District (“Crystal Crossing”), and Lanterns Metropolitan District (“Lanterns”), whereby the three districts would pay the costs of building a bridge, which would extend Crystal Valley Parkway over Plum Creek and Union Pacific Railroad. The Agreement states that the District is responsible for 76% of the costs while Lanterns and Crystal Crossing are each responsible for 12% of the costs respectively. Each District agreed to fund 115% of the amount of their Track Bridge Share of the construction costs. Additionally, Lanterns is not obligated to fund any portion of its share until 35 days after recordation of a Development Plat. As such, the District funded 86.4% of the costs and Crystal Crossing the remaining 13.6%. All construction costs incurred in 2011 were expensed. The District has paid all costs on their behalf. As part of this project, the District entered into an Intergovernmental Agreement with the County whereby the County would manage the construction project. Construction costs related to this project were conveyed immediately to the County. Lanterns currently owes the District \$1,192,986, however, did not appear to have the capacity to repay the District at year end, therefore, the receivable is not recorded in the financial statements. In 2020, Lanterns reimbursed the District for the total amount owed, which will be reflected in the 2020 financial statements.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2020

Assignment of Revenues under the Track Bridge Agreement

Pursuant to the Assignment of Revenues under the Track Bridge Agreement dated January 23, 2006, and amended July 19, 2006 and February 17, 2012, Developer paid the District \$1,200,000 to help finance Lanterns' obligation for the construction of the track bridge. As the repayment is contingent upon Lanterns' ability to repay the District, the amount was recorded as revenue and does not accrue interest. In 2010, \$988,805 of this amount was repaid with the settlement received from Union Pacific Railroad. Per this agreement, \$211,195 of the amount receivable from Lanterns is assigned to the Developer from the District. During 2020, the District received the funds owed by Lanterns and this balance was paid to the Developer.

Development Agreement

Pursuant to the terms of the Crystal Valley Ranch Second Amended and Restated Development Agreement ("Agreement"), dated as of February 24, 2012, notwithstanding, it is anticipated that the District will participate in construction of a Highway Interchange (the "Interchange"). To date, the District has allocated bond proceeds of \$1,386,064 into an escrow account (the "Interchange Escrow") and funded \$88,018 in engineering costs from the escrow. In addition, the District has expended monies totaling \$1,693,976 toward qualifying expenditures for the Interchange. The remaining responsibility for Interchange costs attributable to the Crystal Valley development was approximately \$2,300,000. Per the agreement, the investor contributed \$3,000,000 of which \$687,153 was disbursed to the District. The balance of \$2,312,847 was retained by the Interchange Escrow. As of December 31, 2020, the District has \$3,213,674 in escrow to be used for the Interchange construction.

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.

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2020

Improvement and Escrow Agreement

On June 9, 2016, the District entered into an Improvement and Escrow Agreement with the Investor and Melody Homes, (“Melody”), and Heritage Title Company, Inc., (“Escrow Agent”). Melody has agreed to purchase 234 lots within the District No. 2. The Investor has agreed to construct, install and obtain acceptance by all applicable governmental entities of North / South drainage system and Ditmars Road Extension. Per this agreement, the Investor deposited \$2,743,026 with the Escrow Agent to fund the cost of the improvements on behalf of the District. The moneys were treated as Investor contributions on the Income Statement. As of December 31, 2020, the Investor has contributed \$6,099,054 for the project which also includes the addition of the East / West Drainage project and several approved change orders.

Property Owner Contribution Agreement

In 2016, the District entered into a Property Owner Contribution Agreement with the Investor. The District has entered into certain contracts for the construction of the Crystal Valley Parkway improvements, (the “Westbound Lanes”). Since the District does not have the funding to complete the Westbound Lanes, the Investor has agreed to contribute to the District the funds not to exceed \$3,066,710 unless there are any change orders that would increase the contract and the Investor does not object, the funds contributed may increase. The moneys were treated as Investor contributions on the Income Statement. As of December 31, 2020, the Investor has contributed \$3,602,538.

Property Owner Contribution Agreement

On August, 23, 2016, the District entered into a Property Owner Contribution Agreement with the Investor. The District has entered into certain contracts for the construction of the retaining wall and overlot grading, (“Filing 12 Improvements”). Since the District does not have the funding to complete the Filing 12 Improvements, the Investor has agreed to contribute to the District the funds not to exceed \$984,401 unless there are any change orders that would increase the contract and the Investor does not object, the funds contributed may increase. The moneys were treated as Investor contributions on the Income Statement. As of December 31, 2020, the Investor has contributed \$1,624,435.

Agreement Regarding Reimbursement of Advances

On July 21, 2020, the District entered into an Agreement Regarding Reimbursement of Advances with Crystal Valley Recovery Acquisition, LLC, a Delaware limited liability corporation (“CVRA”). The District and CVRA previously entered into the Property Owner Contribution Agreement (Crystal Valley Parkway – Westbound Lanes) dated August 24, 2016; Property Owner Contribution Agreement (Crystal Valley Ranch, Filing 12, Phases 1 and 2, Overlot Grading and Retaining Wall) dated August 23, 2016; and CVRA advanced funds to District No. 1 for the construction of the Filing 12 Improvements, as defined therein (the “Filing 12 Contribution Agreement”, and with the Parkway Contribution Agreement, collectively referred to as the “Contribution Agreements”).

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2020

Pursuant to the Contribution Agreements, CVRA incurred expenditures and provided funds to the District, for the construction of certain public improvements including the Highway Interchange, and construction of Pinnacle Park (collectively referred to herein as "Prior Public Improvements" or "Prior District Eligible Costs"). The District acknowledges and agrees that the Prior Public Improvements are of direct benefit to the District and were constructed by the District. District No. 2 refinanced its 2014 Series A and B Bonds and issued additional bonds in 2020 (the "2020 Bonds"). The Parties agree and acknowledge the Contribution Agreements are between CVRA the District. The District has determined it appropriate and in the best interests of its taxpayers and residents to use a portion of the 2020 Bonds' proceeds to directly reimburse CVRA for the Prior Public Improvements in the amount of \$4,051,111.

Central Corridor Landscaping Escrow Agreement

On November 4, 2020, the District entered into an agreement with 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 District No. 2, dated as of July 21, 2020 (the "CVRA Agreement"), under which District No. 2 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 the District to appropriate for payment of amounts due under the Construction Contract, pursuant to a Funding and Reimbursement Agreement between the District 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; the District funded \$643,649 and District No. 2 funded \$57,330.

Note 6: Tax, Spending and Debt Limitations

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

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

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

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2020

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

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

Note 7: Risk Management

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

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

Note 8: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

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

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

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

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

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SUPPLEMENTAL INFORMATION

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CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

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

For the Year Ended December 31, 2020

	Original and <u>Final Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 359	\$ 348	\$ (11)
Specific ownership taxes	29	31	2
Transfers from District 2	1,491,354	120,000	(1,371,354)
Interest income	<u>1,000</u>	<u>13,526</u>	<u>12,526</u>
Total Revenues	<u>1,492,742</u>	<u>133,905</u>	<u>(1,358,837)</u>
EXPENDITURES			
Accounting and audit	35,000	37,823	(2,823)
Insurance	4,500	3,283	1,217
Legal	35,000	137,649	(102,649)
Election expense	10,000	2,238	7,762
Miscellaneous expenses	500	2,845	(2,345)
Treasurer's fees	5	5	-
Contingency	1,405,187	-	1,405,187
Emergency reserve	<u>2,550</u>	<u>-</u>	<u>2,550</u>
Total Expenditures	<u>1,492,742</u>	<u>183,843</u>	<u>1,308,899</u>
NET CHANGE IN FUND BALANCE	-	(49,938)	(49,938)
FUND BALANCE:			
BEGINNING OF YEAR	<u>-</u>	<u>82,884</u>	<u>82,884</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 32,946</u>	<u>\$ 32,946</u>

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

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CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - CAPITAL PROJECTS FUND For the Year Ended December 31, 2020

	Original <u>Budget</u>	Final Budget	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES				
Interest income	\$ 2,000	\$ 2,000	\$ 1,020	\$ (980)
Transfers from District 2	-	4,015,100	4,108,441	93,341
Reimbursements from other governments	-	1,211,000	1,379,607	168,607
Miscellaneous income	-	125,000	12,500	(112,500)
System development fees	<u>396,900</u>	<u>396,900</u>	<u>628,519</u>	<u>231,619</u>
Total Revenues	<u>398,900</u>	<u>5,750,000</u>	<u>6,130,087</u>	<u>380,087</u>
EXPENDITURES				
Miscellaneous	2,000	2,000	3,550	(1,550)
Transfers to District 2	-	3,600,000	3,553,375	46,625
Repay short-term note	-	212,000	211,195	805
Reimbursement of contributed funds	-	4,051,000	4,051,111	(111)
Capital improvements	<u>3,396,900</u>	<u>885,000</u>	<u>606,201</u>	<u>278,799</u>
Total Expenditures	<u>3,398,900</u>	<u>8,750,000</u>	<u>8,425,432</u>	<u>324,568</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,000,000)	(3,000,000)	(2,295,345)	704,655
OTHER FINANCING SOURCES (USES)				
Capital advances	<u>3,000,000</u>	<u>3,000,000</u>	<u>519,674</u>	<u>(2,480,326)</u>
Total Other Financing Sources (Uses)	<u>3,000,000</u>	<u>3,000,000</u>	<u>519,674</u>	<u>(2,480,326)</u>
NET CHANGE IN FUND BALANCE	-	-	(1,775,671)	(1,775,671)
FUND BALANCE:				
BEGINNING OF YEAR	-	-	6,004,716	6,004,716
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,229,045</u>	<u>\$ 4,229,045</u>

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