

DANCING WILLOWS METROPOLITAN DISTRICT

General Purpose Financial Statements

Year Ended December 31, 2008

with

Independent Auditors' Report

Board of Directors
Dancing Willows Metropolitan District
Jefferson County, Colorado

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities and each major fund of the Dancing Willows Metropolitan District, Jefferson County, Colorado, as of and for the year ended December 31, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The District has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Dancing Willows Metropolitan District as of December 31, 2008, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Dancing Willows Metropolitan District's basic financial statements. The accompanying supplemental information on pages 17 through 20 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material aspects in relation to the basic financial statements taken as a whole.

Simmons & Wheeler P.C.

March 21, 2009

DANCING WILLOWS METROPOLITAN DISTRICT

Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balances/Statement of Activities
For the Year Ended December 31, 2008

	<u>General</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures:						
Accounting and audit	\$ 159	\$ -	\$ -	\$ 159	\$ -	\$ 159
District management	38,857	-	-	38,857	-	38,857
Election expenses	1,262	-	-	1,262	-	1,262
Insurance/SDA dues	3,139	-	-	3,139	-	3,139
Legal	53,492	-	-	53,492	-	53,492
Office supplies/miscellaneous	1,680	-	-	1,680	-	1,680
Treasurer's fees	749	1,427	-	2,176	-	2,176
Repay developer advance - principal	-	91,900	-	91,900	(91,900)	-
Bond interest	-	-	-	-	182,009	182,009
Amortize bond cost of issuance	-	-	-	-	3,535	3,535
Utilities	10,016	-	-	10,016	-	10,016
Pool	10,332	-	-	10,332	-	10,332
Clubhouse	250	-	-	250	-	250
Snow removal	4,950	-	-	4,950	-	4,950
Engineering	4,900	-	-	4,900	-	4,900
Capital outlay	-	-	6,654,217	6,654,217	(6,654,217)	-
Total expenditures	<u>129,786</u>	<u>93,327</u>	<u>6,654,217</u>	<u>6,877,330</u>	<u>(6,560,573)</u>	<u>316,757</u>
General revenues:						
Property taxes	49,919	95,084	-	145,003	-	145,003
Ownership taxes	3,884	7,399	-	11,283	-	11,283
Developer advances	-	-	91,900	91,900	(91,900)	-
Interest income	166	355	-	521	-	521
Facilities fees	7,400	-	-	7,400	-	7,400
Miscellaneous income	700	-	-	700	-	700
Total revenues	<u>62,069</u>	<u>102,838</u>	<u>91,900</u>	<u>256,807</u>	<u>(91,900)</u>	<u>164,907</u>
Excess (deficiency) of revenues over expenditures	<u>(67,717)</u>	<u>9,511</u>	<u>(6,562,317)</u>	<u>(6,620,523)</u>	<u>6,468,673</u>	<u>(151,850)</u>
Other financing sources (uses)						
Bond proceeds	-	-	3,719,513	3,719,513	(3,719,513)	-
Bond issuance costs	-	-	(91,900)	(91,900)	91,900	-
Developer contribution	68,800	-	2,934,704	3,003,504	60,100	3,063,604
Total other financing sources (uses)	<u>68,800</u>	<u>-</u>	<u>6,562,317</u>	<u>6,631,117</u>	<u>(3,567,513)</u>	<u>3,063,604</u>
Excess of revenues and other sources over expenditures and other uses	1,083	9,511	-	10,594	2,901,160	2,911,754
Fund balance/net assets - beginning of year	2,874	-	-	2,874	(60,100)	(57,226)
Fund balance/net assets - end of year	<u>\$ 3,957</u>	<u>\$ 9,511</u>	<u>\$ -</u>	<u>\$ 13,468</u>	<u>\$ 2,841,060</u>	<u>\$ 2,854,528</u>

DANCING WILLOWS METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2008

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Dancing Willows Metropolitan District, located in Jefferson County, Colorado, conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting entity

The District, a quasi-municipal corporation, was created on January 17, 2006, and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Jefferson County, Colorado. The District was established to finance and construct certain public infrastructure improvements that benefit the citizens of the District. The District's primary revenues are property taxes. The District is managed by an elected Board of Directors.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District has no component units as defined by the Governmental Accounting Standards Board (GASB), Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

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 statement of net assets and the statement of governmental fund revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District, which are normally supported by taxes and intergovernmental revenues. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

DANCING WILLOWS METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2008

Note 1: Summary of Significant Accounting Policies (continued)

Budgets

Budgets are adopted on a non-GAAP basis for the governmental funds. In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The District's Board of Directors can modify the budget and appropriations resolutions upon completion of notification and publication requirements. The appropriation is at the total fund expenditures level and lapses at year end.

During 2008, the District amended the appropriation in the General Fund from \$141,692 to \$150,000, and the appropriation in the Capital Projects Fund from \$0 to \$6,750,000.

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 statement of net assets. Bond cost of issuance, premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of unreserved fund balances indicate management's intention for future utilization of such funds and are subject to change by management. The District considers all unreserved fund balances to be "reserves" for future operations or capital replacement as defined within Article X, Section 20 of the Constitution of the State of Colorado (see Note 6).

The reserved fund balance in the General Fund in the amount of \$2,600 represents emergency reserve funds as required for by Article X, Section 20 of the Constitution of the State of Colorado (see Note 6).

The reserved fund balance in the Debt Service Fund is reserved for use in the payment of principal and interest related to long-term obligations.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

DANCING WILLOWS METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2008

Note 1: Summary of Significant Accounting Policies (Continued)

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 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 cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at their estimated fair value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated.

Note 2: Cash and Investments

As of December 31, 2008, cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Assets:

Cash and investments	\$ 5,500
Cash with county treasurer	<u>845</u>
	\$ <u>6,345</u>

Cash and investments as of December 31, 2008 consist of the following:

Deposits with financial institutions	\$ 795
Investments - COLOTRUST	<u>4,705</u>
	\$ <u>5,500</u>

DANCING WILLOWS METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2008

Note 2: Cash and Investments (Continued)

Interest rate risk

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

As of December 31, 2008, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
COLOTRUST	Weighted average Under 60 days	\$ 4,705

COLOTRUST is an investment trust/joint venture established for local government entities in Colorado to pool surplus funds. The trust operates similarly to a money market fund with each share maintaining a value of \$1.00. Investments consist of U.S. Treasury bills and notes and repurchase agreements collateralized by U.S. Treasury securities. Designated custodian banks provide safekeeping and depository services to the trust. Substantially all securities owned by the trust 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.

DANCING WILLOWS METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2008

Note 4: Long-Term Debt

Series 2008A and Series 2008B

On March 11, 2008, the District issued \$610,904 of General Obligation (Limited Tax Convertible to Unlimited Tax) Capital Appreciation Bonds Series 2008A and \$3,108,609 of General Obligation (Limited Tax Convertible to Unlimited Tax) Convertible Capital Appreciation Bonds Series 2008B. The Series 2008A bonds mature on June 1, 2012. The Series 2008B bonds mature on December 1, 2033. The bonds accrete to a total of \$4,716,000.

The Series 2008A bonds pay no current interest and accrete at the rate of 6% per annum compounding semi-annually on June 1 and December 1, commencing June 1, 2008. The Series 2008A bonds are not subject to optional redemption prior to maturity.

Prior to the conversion date on June 1, 2012, the Series 2008B bonds pay no current interest and accrete at the rate of 6% per annum compounding semi-annually on June 1 and December 1, commencing June 1, 2008. On the conversion date, the Series 2008B bonds will cease to be capital appreciation bonds and automatically convert to current interest bonds. The bonds will then bear interest at 6% per annum payable semi-annually on June 1 and December 1, commencing June 1, 2012. The Series 2008B bonds are subject to redemption prior to maturity on June 1, 2018 and on any date thereafter, upon payment of the principal amount plus accrued interest without redemption premium.

The bonds were issued for the purpose of paying project costs. The bond costs of issuance were to be paid from non-bond related funds.

The bonds are payable from pledged revenue which includes ad valorem taxes, specific ownership taxes, and any legally available monies which the District determines to be applied. The ad valorem taxes and specific ownership taxes are pledged proportionate to the mills certified to the Debt Service Fund.

DANCING WILLOWS METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2008

Note 4: Long-Term Debt (continued)

Facilities Funding and Acquisition Agreement

On November 19, 2007, the District entered into a Facilities Funding and Acquisition Agreement with the Developer which provided for any advances to the District related to the construction of public infrastructure improvements for the benefit of the District as well as the responsibilities related to the acquisition by the District of the engineer-verified, district eligible improvements constructed by the Developer. Concurrent with the issue of the bonds, the District acquired the improvements and this agreement was terminated. No advances were required under this agreement.

Letter Agreement – Developer Advance for Bond Costs of Issuance

By letter agreement dated March 11, 2008, the Developer agreed to provide the District with an advance for the \$91,900 to cover the bond costs of issuance. The District repaid the advance in August 2008 using property taxes received from the debt service mill levy.

The long-term debt transactions of the District during 2008 are as follows:

	Balance 12/31/2007	Additions	Payments/ Refundings	Balance 12/31/2008	Current portion
Developer advances - operations	\$ 60,100	\$ -	\$ 60,100	\$ -	\$ -
Developer advances - bond COI	-	91,900	91,900	-	-
Series 2008A	610,904	26,648	-	637,552	141,000
Series 2008B	3,108,609	135,950	-	3,244,559	-
Total	<u>\$3,779,613</u>	<u>\$ 162,598</u>	<u>\$ -</u>	<u>\$3,882,111</u>	<u>\$141,000</u>

Note 5: Related Party

The majority of the members of the Board of Directors are employees or are associated with Dancing Willows by Remington Homes, Inc. ("Developer"), the developer within the District. The Developer is the original purchaser and current owner of the District's bonds (see Note 4.)

DANCING WILLOWS METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2008

Note 7: Risk Management (continued)

The District pays annual premiums to the Pool for auto, public officials' liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other members.

Note 8: Reconciliation of government-wide financial statements and fund financial statements

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

(1) capital improvements and bond costs of issuance used in government activities are not financial resources and, therefore are not reported in the funds; and,

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

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

(1) repayments of developer advances consume the current resources of the governmental funds and bond proceeds and developer advances provide current resources to the governmental funds; and,

(2) other expenses reported in the statement of activities such as amortization of bond costs of issuance, accrued interest on bonds payable and depreciation on capital assets do not require the use of current financial resources and, therefore, are not reported in the governmental funds.

SUPPLEMENTAL INFORMATION

DANCING WILLOWS METROPOLITAN DISTRICT

Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual -
Capital Projects Fund
For the Year Ended December 31, 2008

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Developer advances	\$ -	\$ 91,900	\$ 91,900	\$ -
Miscellaneous income	-	3,883	-	(3,883)
Total revenues	-	95,783	91,900	(3,883)
Expenditures:				
Capital outlay	-	6,658,100	6,654,217	3,883
Total expenditures	-	6,658,100	6,654,217	3,883
Excess (deficiency) of revenues over expenditures	-	(6,562,317)	(6,562,317)	-
Other financing sources (uses)				
Bond proceeds	-	3,719,513	3,719,513	-
Bond issuance costs	-	(91,900)	(91,900)	-
Developer contribution	-	2,934,704	2,934,704	-
Total other financing sources (uses)	-	6,562,317	6,562,317	-
Excess of revenues and other sources over expenditures and other uses	-	-	-	-
Fund balance - beginning of year	-	-	-	-
Fund balance - end of year	\$ -	\$ -	\$ -	\$ -

See notes to financial statements.

DANCING WILLOWS METROPOLITAN DISTRICT

Summary of Assessed Valuation,
Mill Levy and
Property Taxes Collected
Year Ended December 31, 2008

Year Ended December 31,	Prior Year Assessed Valuation For Current Year Tax Levy	Mills Levied	<u>Total Property Taxes</u>		Percent Collected to Levied
			<u>Levied</u>	<u>Collected</u>	
2007	517,500	61.000	31,568	31,567	100.00%
2008	2,377,100	61.000	145,003	145,003	100.00%
Estimated 2009	3,221,370	61.000	196,504		