

DANCING WILLOWS METROPOLITAN DISTRICT

Financial Statements

Year Ended December 31, 2010

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, 2010, 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, 2010, 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 16 through 18 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. This 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.

May 23, 2011

DANCING WILLOWS METROPOLITAN DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2010

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES					
Accounting and audit	\$ 11,846	\$ -	\$ 11,846	\$ -	\$ 11,846
District management	11,339	-	11,339	-	11,339
Directors' fees	300	-	300	-	300
Election expense	1,041	-	1,041	-	1,041
Insurance/SDA dues	4,031	-	4,031	-	4,031
Legal	6,727	-	6,727	-	6,727
Miscellaneous expenses	1,745	-	1,745	-	1,745
Payroll taxes	23	-	23	-	23
Treasurer's fees	1,200	2,285	3,485	-	3,485
Utilities	20,569	-	20,569	-	20,569
Grounds	1,921	-	1,921	-	1,921
Pool	13,819	-	13,819	-	13,819
Clubhouse	1,431	-	1,431	-	1,431
Snow removal	1,629	-	1,629	-	1,629
Maintenance	527	-	527	-	527
Current note interest	358	-	358	-	358
Bond principal	-	172,824	172,824	(172,824)	-
Bond interest expense	-	27,176	27,176	212,104	239,280
Note interest	-	-	-	193	193
Paying agent fees	-	400	400	-	400
Amortize bond cost of issuance	-	-	-	3,535	3,535
	<u>78,506</u>	<u>202,685</u>	<u>281,191</u>	<u>43,008</u>	<u>324,199</u>
Total Expenditures					
Net Program Income (Expense)	(78,506)	(202,685)	(281,191)	(43,008)	(324,199)
GENERAL REVENUES					
Property taxes	79,914	152,218	232,132	-	232,132
Specific ownership taxes	5,443	10,367	15,810	-	15,810
Facilities fees	7,400	-	7,400	-	7,400
Interest income	156	236	392	-	392
Miscellaneous income	2,375	500	2,875	-	2,875
	<u>95,288</u>	<u>163,321</u>	<u>258,609</u>	<u>-</u>	<u>258,609</u>
Total General Revenues					
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	16,782	(39,364)	(22,582)	(43,008)	(65,590)
OTHER FINANCING SOURCES (USES)					
Developer advances	-	77,263	77,263	(77,263)	-
Developer contribution	-	10,000	10,000	-	10,000
Transfer from other funds	-	11,100	11,100	(11,100)	-
Transfer (to) other funds	(11,100)	-	(11,100)	11,100	-
	<u>(11,100)</u>	<u>98,363</u>	<u>87,263</u>	<u>(77,263)</u>	<u>10,000</u>
Total Other Financing Sources (Uses)					
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	5,682	58,999	64,681	(64,681)	-
CHANGE IN NET ASSETS				(55,590)	(55,590)
FUND BALANCE/NET ASSETS - BEGINNING OF YEAR	<u>1,817</u>	<u>3,853</u>	<u>5,670</u>	<u>2,744,114</u>	<u>2,749,784</u>
FUND BALANCE/NET ASSETS - END OF YEAR	<u>\$ 7,499</u>	<u>\$ 62,852</u>	<u>\$ 70,351</u>	<u>\$ 2,623,843</u>	<u>\$ 2,694,194</u>

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

DANCING WILLOWS METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2010

Note 1: Summary of Significant Accounting Policies

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

Definition of Reporting Entity

The District was organized on January 17, 2006 as a quasi-municipal organization established under the State of Colorado Special District Act. The District was established to finance and construct public infrastructure improvements that benefit the citizens of the District. The District's primary revenues are property taxes. The District is governed by an elected Board of Directors.

The District follows the Governmental Accounting Standards Board ("GASB") accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set 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.

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.

The District is not financially accountable for any other organization.

Basis of Presentation

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

DANCING WILLOWS METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2010

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 except those required to be accounted for in another fund.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Budgetary Accounting

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

Assets, Liabilities and Net Assets

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, 2010, 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.

DANCING WILLOWS METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2010

Property Taxes

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

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

Fund Equity

In the fund financial statements, government funds report reservations of fund balances 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 balance to be "reserves" for future operations or capital replacements as defined by Article X, Section 20 of the Constitution of the State of Colorado (see Note 5).

Emergency Reserves have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$3,991 of the General Fund balance has been reserved in compliance with this requirement.

The reserved fund balance in the Debt Service Fund is reserved for the payment of the costs related to the Series 2008A and Series 2008B General Obligation Capital Appreciation Bonds (see Note 4).

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, 2010

Investments

Credit Risk

The District investment policy requires that the District follow state statutes for 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.

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust ("COLOTRUST") is rated AAAM by Standard & Poor's. COLOTRUST is an investment trust/joint ventures established for local government entities in Colorado to pool surplus funds. 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, 2010, the District had \$78,725 invested in COLOTRUST.

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.

As of December 31, 2010, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
COLOTRUST	Weighted average Under 60 days	<u>\$ 78,725</u>

DANCING WILLOWS METROPOLITAN DISTRICT

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December 31, 2010

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 Series 2008B 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 Series 2008B 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.

The following is a summary of the annual long-term debt principal and interest requirements to maturity as of December 31, 2010:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 250,000	\$ -	\$ 250,000
2012	155,000	119,700	274,700
2013	50,000	237,450	287,450
2014	60,000	234,300	294,300
2015	70,000	230,550	300,550
2016-2020	515,000	1,074,750	1,589,750
2021-2025	885,000	873,750	1,758,750
2026-2030	1,390,000	544,050	1,934,050
2031-2033	1,000,000	95,700	1,095,700
Total	<u>\$ 4,375,000</u>	<u>\$ 3,410,250</u>	<u>\$ 7,785,250</u>

Debt Authorization

As of December 31, 2010, the District has authorized but unissued indebtedness of \$487. The District has not budgeted to issue any new debt during 2011.

DANCING WILLOWS METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2010

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.

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.

SUPPLEMENTAL INFORMATION

DANCING WILLOWS METROPOLITAN DISTRICT

SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED

December 31, 2010

<u>Year Ended</u> <u>December 31,</u>	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied	Total Property Tax		Percent Collected to Levied
			<u>Levied</u>	<u>Collected</u> ¹	
2007	\$ 517,500	61.000	\$ 31,568	\$ 31,567	100.00%
2008	\$ 2,377,100	61.000	\$ 145,003	\$ 145,003	100.00%
2009	\$ 3,221,370	61.000	\$ 196,504	\$ 196,502	100.00%
2010	\$ 3,875,030	61.000	\$ 236,377	\$ 232,132	98.20%
Estimated for year ending					
December 31, 2011	\$ 4,481,050	61.000	\$ 273,344		

NOTE

Property taxes collected in any one year include the collection of delinquent property taxes levied and/or abatements or valuations in prior years.