

DANCING WILLOWS METROPOLITAN DISTRICT

Financial Statements

Year Ended December 31, 2011

with

Independent Auditors' Report

SIMMONS & WHEELER, P.C.

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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, 2011, 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 opinions on the basic financial statements are not affected by this missing information.

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, 2011, 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 financial statements as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Dancing Willows Metropolitan District. 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 to the financial statements themselves, and other 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 taken as a whole.

Simmons & Wheeler P.C.

May 22, 2012

DANCING WILLOWS METROPOLITAN DISTRICT

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

For the Year Ended December 31, 2011

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES					
Accounting and audit	\$ 17,855	\$ -	\$ 17,855	\$ -	\$ 17,855
District management	15,702	-	15,702	-	15,702
Clubhouse administration	200	-	200	-	200
Directors' fees	900	-	900	-	900
Insurance/SDA dues	5,015	-	5,015	-	5,015
Legal	32,787	-	32,787	-	32,787
Statutory compliance	268	-	268	-	268
Miscellaneous expenses	1,579	-	1,579	-	1,579
Payroll taxes	63	-	63	-	63
Treasurer's fees	1,434	2,732	4,166	-	4,166
Utilities	47,095	-	47,095	-	47,095
Grounds	5,674	-	5,674	-	5,674
Pool	9,561	-	9,561	-	9,561
Clubhouse	2,825	-	2,825	-	2,825
Snow removal	7,701	-	7,701	-	7,701
Current note interest	357	-	357	-	357
Bond principal	-	203,628	203,628	(203,628)	-
Bond interest expense	-	46,372	46,372	194,293	240,665
Note interest	-	-	-	3,091	3,091
Paying agent fees	-	214	214	-	214
Depreciation	-	-	-	127,238	127,238
Amortize bond cost of issuance	-	-	-	3,535	3,535
Total Expenditures	<u>149,016</u>	<u>252,946</u>	<u>401,962</u>	<u>124,529</u>	<u>526,491</u>
Net Program Income (Expense)	(149,016)	(252,946)	(401,962)	(124,529)	(526,491)
GENERAL REVENUES					
Property taxes	95,620	182,134	277,754	-	277,754
Specific ownership taxes	6,047	11,518	17,565	-	17,565
Interest income	51	126	177	-	177
Clubhouse rentals	2,200	-	2,200	-	2,200
Miscellaneous income	696	-	696	-	696
Total General Revenues	<u>104,614</u>	<u>193,778</u>	<u>298,392</u>	<u>-</u>	<u>298,392</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(44,402)	(59,168)	(103,570)	(124,529)	(228,099)
OTHER FINANCING SOURCES (USES)					
Note proceeds	50,000	-	50,000	(50,000)	-
Transfer of assets	-	-	-	(2,219,568)	(2,219,568)
Donated assets	-	-	-	868,032	868,032
Developer reimbursement	10,611	-	10,611	-	10,611
Total Other Financing Sources (Uses)	<u>60,611</u>	<u>-</u>	<u>60,611</u>	<u>(1,401,536)</u>	<u>(1,340,925)</u>
NET CHANGE IN FUND BALANCE	16,209	(59,168)	(42,959)	42,959	
CHANGE IN NET ASSETS				(1,569,024)	(1,569,024)
FUND BALANCE/NET ASSETS - BEGINNING OF YEAR	<u>7,499</u>	<u>62,852</u>	<u>70,351</u>	<u>2,623,843</u>	<u>2,694,194</u>
FUND BALANCE/NET ASSETS - END OF YEAR	<u>\$ 23,708</u>	<u>\$ 3,684</u>	<u>\$ 27,392</u>	<u>\$ 1,097,778</u>	<u>\$ 1,125,170</u>

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

DANCING WILLOWS METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2011

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, 2011

The District reports the following major governmental funds:

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

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

Budgetary Accounting

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

During December 2011, the District modified its appropriation in the General Fund from \$133,047 to \$155,000, primarily due to the additional legal costs related to new District agreements and additional utility costs for repairs.

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, 2011, 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.

DANCING WILLOWS METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2011

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 Assets.

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

Beginning with the fiscal year ending December 31, 2011, the District implemented GASB Statement 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. In the fund financial statements, the District considers all restricted and unrestricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. The District considers all committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for the purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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 \$4,959 of the General Fund balance has been restricted in compliance with this requirement.

The assigned fund balance in the General Fund in the amount of \$34,304 represents the amount for use as budgeted for the year ended December 31, 2012.

DANCING WILLOWS METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2011

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, 2011, the District had \$60,454 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, 2011, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
COLOTRUST	Weighted average Under 60 days	<u>\$ 60,454</u>

DANCING WILLOWS METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2011

Note 4: Long Term Debt

A description of the long-term obligations as of December 31, 2011 is as follows:

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 ("Series 2008A Bonds") and \$3,108,609 of General Obligation (Limited Tax Convertible to Unlimited Tax) Convertible Capital Appreciation Bonds Series 2008B ("Series 2008B Bonds"). The Series 2008A Bonds mature on June 1, 2012. The Series 2008B Bonds mature on December 1, 2033.

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.

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. By letter agreement dated March 11, 2008, Dancing Willows by Remington Homes, Inc. ("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.

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 in the amount of \$3,990,000. 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.

On January 13, 2012 (see Note 8) the District restructured its Series 2008B Bonds.

DANCING WILLOWS METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2011

Promissory Note – McGeady Sisneros, P.C.

The District entered into a Promissory Note with McGeady Sisneros, P.C. for \$3,539.30 effective as of January 1, 2009 (“McGeady Note”). The McGeady Note bears interest at 4% per annum.

Promissory Note – Special District Management Services, Inc.

The District entered into a Promissory Note with Special District Management Services, Inc. for \$5,398.48 effective as of January 1, 2009 (“SDMS Note”). The SDMS Note bears interest at 4% per annum.

Promissory Notes – DWH Investments LLC

On November 29, 2010 and December 10, 2010, the District entered into Promissory Notes with DWH Investments LLC (“Noteholder”) for \$12,263 and \$65,000 respectively (hereinafter collectively the “DWH Notes”). The DWH Notes bear interest at 4% per annum. If not paid sooner, the principal and any accrued interest are due December 31, 2015.

Promissory Note – Remington Homes

On December 12, 2011, the District entered into an Agreement with Remington Homes, Inc. (“Developer”) to outline the maintenance and repair responsibilities of each party for the various areas of the District (the “Agreement”). As per the Agreement, the Developer advanced the District \$42,500 for use by the District to make repairs of certain warranty items which would no longer be the responsibility of the Developer to correct. The Agreement also identifies corrective work which will remain the responsibility of the Developer to complete. The Developer also advanced the District \$7,500 to cover the legal costs related to the preparation of the Agreement. A Promissory Note for the \$50,000 (“Remington Note”) was issued concurrent with this Agreement which shall come due December 15, 2031 and will accrue interest at a rate of 4% beginning December 15, 2016.

Per the Agreement, the District is to establish a Capital Reserve Account of \$75,000 overtime for the repair and maintenance of the District’s improvements. Once this account reaches the \$75,000, the District will then establish a Promissory Note Payment Fund whereby on December 15 of each year, the District will deposit in this account funds equal to those deposited in the Capital Reserve Account.

The owners of the Remington Note as well as the owners of the DWH Notes, the McGeady Note and the SDMS Note agree that payments will be made to them on a pro rata basis beginning December 15, 2012 calculated based upon the noteholders’ percentage share of the total outstanding notes and the final payment dates have been extended.

DANCING WILLOWS METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2011

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

- 1) governmental funds report capital outlays as expenditures; however, in the government-wide statements, the costs of those assets are held as construction in process pending transfer to other governmental entities;
- 2) long-term liabilities such as bonds payable, accrued bond interest payable, developer notes payable, and accrued interest on developer notes are not due and payable in the current period and, therefore, are not in the funds; and,
- 3) bond issuance costs are reported as deferred charges or revenues and amortized over the term of the related debt in the government-wide financial statements.

SUPPLEMENTAL INFORMATION

DANCING WILLOWS METROPOLITAN DISTRICT

**SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED**

December 31, 2011

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>	<u>Mills Levied</u>	<u>Total Property Tax</u>		<u>Percent Collected to Levied</u>
			<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%
2011	\$ 4,481,050	61.000	\$ 273,344	\$ 277,754	101.61%
Estimated for year ending December 31, 2012	\$ 4,647,228	66.000	\$ 306,717		

NOTE

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