

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Financial Statements

Year Ended December 31, 2011

with

Independent Auditors' Report

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Hiratsuka & Associates, L.L.P.

Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

Board of Directors
RockingHorse Metropolitan District No. 2
Douglas County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of RockingHorse Metropolitan District No. 2, Douglas 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.

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 RockingHorse Metropolitan District No. 2, as of December 31, 2011, and the respective changes in financial position and the respective budgetary comparisons for the general fund and special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has not presented Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basis 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 opinion on the basis financial statements is not affected by the missing information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Debt Service Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual was presented for the purpose of additional analysis and was not a required part of the financial statements. The Debt Service Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual was the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hiratsuka & Associates, LLP

July 25, 2012
Denver, Colorado

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ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

BALANCE SHEET/STATEMENT OF NET ASSETS GOVERNMENTAL FUNDS December 31, 2011

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS					
Investments	\$ 652	\$ -	\$ 652	\$ -	\$ 652
Investments - restricted	-	24,973	24,973	-	24,973
Property taxes receivable - current	300	1,531	1,831	-	1,831
Property taxes receivable - deferred	64,568	322,843	387,411	-	387,411
Bond costs of issuance, net of amortization	-	-	-	4,510	4,510
Total Assets	<u>\$ 65,520</u>	<u>\$ 349,347</u>	<u>\$ 414,867</u>	<u>4,510</u>	<u>419,377</u>
LIABILITIES					
Accounts payable - Regional ARI	\$ -	\$ 5,968	\$ 5,968	-	5,968
Deferred property taxes	64,568	322,843	387,411	-	387,411
Due to District #1	1	-	1	-	1
Accrued interest on bonds	-	-	-	2,180,024	2,180,024
Long-term liabilities:					
Due in more than one year	-	-	-	30,648,000	30,648,000
Total Liabilities	<u>64,569</u>	<u>328,811</u>	<u>393,380</u>	<u>32,828,024</u>	<u>33,221,404</u>
FUND BALANCE/NET ASSETS					
Restricted:					
Emergencies	89	-	89	(89)	-
Debt service	-	20,536	20,536	(20,536)	-
Unassigned	862	-	862	(862)	-
Total Fund Balances	<u>951</u>	<u>20,536</u>	<u>21,487</u>	<u>(21,487)</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 65,520</u>	<u>\$ 349,347</u>	<u>\$ 414,867</u>		
Restricted for:					
Emergencies				89	89
Debt service				(2,159,488)	(2,159,488)
Unrestricted				(30,642,628)	(30,642,628)
Total Net Assets (Deficit)				<u>\$(32,802,027)</u>	<u>\$(32,802,027)</u>

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

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES/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					
Treasurer's fees	\$ 852	\$ 4,344	\$ 5,196	\$ -	\$ 5,196
Insurance	1,687	-	1,687	-	1,687
Authority for ARI	-	5,968	5,968	-	5,968
Bond interest expense	-	379,390	379,390	2,077,864	2,457,254
Amortize bond cost of issuance	-	-	-	119	119
Total Expenditures	<u>2,539</u>	<u>389,702</u>	<u>392,241</u>	<u>2,077,983</u>	<u>2,470,224</u>
GENERAL REVENUES					
Property taxes	56,783	283,917	340,700	-	340,700
Property taxes - Regional ARI	-	5,679	5,679	-	5,679
Specific ownership taxes	3,750	18,753	22,503	-	22,503
Specific ownership taxes - Regional ARI	-	375	375	-	375
Interest income	208	14	222	-	222
Total General Revenues	<u>60,741</u>	<u>308,738</u>	<u>369,479</u>	<u>-</u>	<u>369,479</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
	58,202	(80,964)	(22,762)	(2,077,983)	(2,100,745)
OTHER FINANCING SOURCES (USES)					
Development fees	-	87,500	87,500	-	87,500
Transfer to District #1	(97,510)	-	(97,510)	-	(97,510)
Total Other Financing Source (Uses)	<u>(97,510)</u>	<u>87,500</u>	<u>(10,010)</u>	<u>-</u>	<u>(10,010)</u>
NET CHANGE IN FUND BALANCES					
	(39,308)	6,536	(32,772)	32,772	
CHANGE IN NET ASSETS					
				(2,110,755)	(2,110,755)
FUND BALANCE/NET ASSETS:					
BEGINNING OF YEAR	<u>40,259</u>	<u>14,000</u>	<u>54,259</u>	<u>(97,531)</u>	<u>(30,691,272)</u>
END OF YEAR	<u>\$ 951</u>	<u>\$ 20,536</u>	<u>\$ 21,487</u>	<u>\$ (2,175,514)</u>	<u>\$ (32,802,027)</u>

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

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

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

For the Year Ended December 31, 2011

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES				
Property taxes	\$ 56,779	\$ 56,779	\$ 56,783	\$ 4
Specific ownership taxes	4,163	4,163	3,750	(413)
Interest income	<u>-</u>	<u>-</u>	<u>208</u>	<u>208</u>
 Total Revenues	 <u>60,942</u>	 <u>60,942</u>	 <u>60,741</u>	 <u>(201)</u>
 EXPENDITURES				
Treasurer's fees	852	852	852	-
Insurance	2,002	2,002	1,687	315
Emergency reserve	<u>86</u>	<u>86</u>	<u>-</u>	<u>86</u>
 Total Expenditures	 <u>2,940</u>	 <u>2,940</u>	 <u>2,539</u>	 <u>401</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	58,002	58,002	58,202	200
 OTHER FINANCING SOURCES (USES)				
Transfer to District #1	<u>(58,002)</u>	<u>(102,060)</u>	<u>(97,510)</u>	<u>4,550</u>
 Total Other Financing Sources (Uses)	 <u>(58,002)</u>	 <u>(102,060)</u>	 <u>(97,510)</u>	 <u>4,550</u>
 CHANGE IN FUND BALANCE				
	-	(44,058)	(39,308)	4,750
 FUND BALANCE - BEGINNING OF YEAR				
	<u>-</u>	<u>44,058</u>	<u>40,259</u>	<u>(3,799)</u>
 FUND BALANCE - END OF YEAR				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 951</u>	<u>\$ 951</u>

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

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2011

Note 1: Summary of Significant Accounting Policies

The accounting policies of the RockingHorse Metropolitan District No. 2 (“the District”), located in Douglas County, Colorado, within the City of Aurora (“City”), 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 March 4, 2002, as a quasi-municipal organization established under the State of Colorado Special District Act, concurrently with RockingHorse Metropolitan District No. 1 (“District No. 1”). The District was organized to provide financing to District #1 for water, sewer and street improvements, safety protection, park and recreational improvements, mosquito control services, and television relay and translator facilities. By agreement, upon completion, District #1 dedicates and transfers certain facilities to the City or other appropriate jurisdiction, for maintenance and operation (see Note 1). When the facilities are complete and all bonds issued by the District are paid or defeased, the District intends to dissolve. 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.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2011

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 assets 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 assets reports all financial and capital resources of the District. The difference between the assets and liabilities of the District is reported as net assets. 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. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

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.

The District amended its total appropriations in the General Fund from \$60,942 to \$105,000 due to the transfer of funds to District #1 for operating costs.

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.

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.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2011

Internal 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.

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.

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.

Bond Issue Costs

Bond issue costs from the Series 2010 Bonds are being amortized over the respective terms of the bonds using the straight line method. At December 31, 2011, accumulated amortization of bond issue costs was \$124.

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 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.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2011

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 \$89 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$20,536 is reserved for the payment of the Taxable Subordinate Limited Tax General Obligation Bond Series 2010 (see Note 3).

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

For 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.

Note 2: Investments

As of December 31, 2011, investments are classified in the accompanying financial statements as follows:

Statement of net assets:	
Investments	\$ 652
Investments – restricted	<u>24,973</u>
	\$ <u>25,625</u>

Cash and investments as of December 31, 2011 consist of the following:

Investments – COLOTRUST	\$ <u>25,625</u>
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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.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2011

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 \$25,625 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>\$ 25,625</u>

Note 3: Long Term Debt

Taxable Subordinate Limited Tax General Obligation Bond Series 2010 – On December 15, 2010, the District issued \$30,648,000 of Taxable Subordinate Limited Tax General Obligation Bond Series 2010. Interest payable on the bond commences December 15, 2011 and thereafter on each December 15 at the rate of 8.0% per annum, until the principal amount is paid at maturity or upon prior redemption. Principal is payable upon the maturity date of December 15, 2049 or prior redemptions.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2011

The principal and interest on this bond are payable only out of pledged revenue which consists of 1) the required mill levy of 50 mills; 2) development fees and; 3) any other legally available moneys which the District determines to credit to the bond fund. In accordance with the service plan, the District shall not be permitted to impose the required mill levy for payment of this bond after December 15, 2051, for collection in calendar year 2052.

The following is an analysis of the changes in the District's long-term obligations for the year ended December 31, 2011:

	<u>Balance</u> <u>01-01-11</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12-31-11</u>	<u>Due</u> <u>Within</u> <u>One year</u>
G.O. Bonds Series 2010	\$ 30,648,000	\$ -	\$ -	\$ 30,648,000	\$ -

The District's service plan, as approved by the City, allows for a total debt amount (through elections held in 2004), combined with District No. 1, of \$119,700,000. As of December 31, 2011, the total amount of debt issued was \$30,648,000.

The following is a summary of the annual long-term debt principal and interest requirements.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ -	\$ 2,451,840	\$ 2,451,840
2013	-	2,451,840	2,451,840
2014	-	2,451,840	2,451,840
2015	-	2,451,840	2,451,840
2016	-	2,451,840	2,451,840
2017 - 2021	-	12,259,200	12,259,200
2022 - 2026	-	12,259,200	12,259,200
2027 - 2031	-	12,259,200	12,259,200
2032 - 2036	-	12,259,200	12,259,200
2037 - 2041	-	12,259,200	12,259,200
2042 - 2046	-	12,259,200	12,259,200
2047 - 2049	<u>30,648,000</u>	<u>7,355,520</u>	<u>38,003,520</u>
	<u>\$ 30,648,000</u>	<u>\$ 93,169,920</u>	<u>\$ 123,817,920</u>

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2011

Note 4: Amended and Restated Fee Resolution

On November 16, 2007, the Board of Directors of the Districts adopted an Amended and Restated Resolution Concerning the Imposition of District Fees, and on December 23, 2010, the Board of Directors of the Districts adopted a Second Amended and Restated Resolution Concerning the Imposition of District Fees (“the Resolution”).

As a result of this Resolution, single-family attached or detached residences, cluster homes and multi-family residences pay a one-time Residential Development Fee in the amount of \$3,500, due no later than the time a building permit is issued.

The Resolution established the Operations Fees to pay for the costs associated with the operation and maintenance of public facilities built within the boundaries of the Districts and other costs of the Districts, including but not limited to operations and maintenance of landscaping and common areas of the District. The Operations Fees become due and owing to the District on the first day of each month at the rate of \$48.00 per month beginning 30 days after conveyance of each lot from the Developer to a builder.

On July 16, 2010, the Board of Directors of the Districts adopted a Joint Resolution Concerning District Fees for the Use of District Recreational Facilities by Non-Residents and Non-Property Owners. Persons not residing or owning property within the legal boundaries of the District, as may be amended from time to time (the “Outside Users”), shall be entitled to utilize the RockingHorse tennis courts (the “Recreation Amenities”) in accordance with, and to the extent set forth within the resolution and the rules and regulations of the Districts. The annual Outside User Fee is \$1,260 per year.

In addition, there exists a Working Capital Fee of \$500 per completed dwelling unit within the Districts. The Working Capital Fee is due and payable to the District at the time of sale or resale of any single or multiple family dwelling unit that has a certificate of occupancy.

Note 5: Developer Agreements

During 2005, District No. 1 and RockingHorse Partners, LLC (“the Developer”) entered into the Funding and Reimbursement Agreement and the Loan Agreement. Under the terms of the agreements, the Developer agreed to advance amounts up to \$500,000 for operations, maintenance, and administrative costs, and \$20,000,000 for construction. The total note amount was increased to \$25,000,000 in January 2008. District No. 1 was to repay principal, plus accrued interest at 7%, on December 31, 2008. On November 11, 2010, an Extension of the Funding and Reimbursement Agreement to December 31, 2011 was approved. The balance due to the Developer under this agreement at December 31, 2011 was \$412,381.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2011

On January 15, 2010, the District, District No. 1, and the Developer entered into an Infrastructure Acquisition and Reimbursement Agreement, whereby the Districts agreed to reimburse the Developer for public infrastructure constructed by the Developer upon the satisfaction of certain requirements as outlined in the agreement plus accrued interest at 8.5% per annum. During 2011 no costs were presented for reimbursement and at December 31, 2011, the amount due to the developer under this agreement was \$0.

Note 6: Intergovernmental Agreements

District Facilities Construction and Service Agreement – During 2005, the District and District No.1 entered into the District Facilities Construction and Services Agreement (“Master IGA”). The agreement states that District No. 1 is the operating district, and District No. 2 is the taxing district in contemplation of the fulfillment of the Districts’ service plan. District No. 1 is responsible for managing the financing, construction, operation and maintenance of facilities for the benefit of both districts. District No. 2 will contain the majority of assessed valuation for collection of property taxes, and as such will use tax proceeds to support the issuance of various general obligation or revenue bonds for construction and operation of the district facilities. District No. 1 is entitled to receive bond proceeds from District No. 2 up to amounts agreed upon for total capital costs. As of December 31, 2011, District No. 2 issued Bond Series 2010 and transferred \$30,648,000 to the District No.1.

City of Aurora – On August 6, 2004, the District, along with the District No. 1, entered into an Amended and Restated Intergovernmental Agreement with the City of Aurora, as required by the Amended and Restated Consolidated Service Plan. Under this agreement, the District must obtain the approval of the Aurora City Council prior to any inclusion of property into the boundaries of the District, or any consolidation with any other special district. Prior to issuance of any privately placed debt, the District shall obtain a certificate from an External Financial Advisor certifying the reasonableness of the interest rate and the structure. Pursuant to the agreement and the Amended and Restated Consolidated Service Plan, the Taxing District is required to levy a regional mill levy and to remit it to an Aurora Regional Improvement (“ARI”) Authority or to the City under certain circumstances.

The Amended and Restated Consolidated Service Plan requires the District to dedicate the public improvements to the City of Aurora for ownership and maintenance. The District is authorized, but not obligated to, operate and maintain the park and recreation improvements.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2011

Note 7: Related Party

All of the Board of Directors are employees, owners or are otherwise associated with the Developer and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board.

Note 8: Tax, Spending and Debt Limitations

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer Bill of Rights (“TABOR”) contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments. Spending and revenue limits are determined based on the prior year’s Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

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

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

On November 2, 2004 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 9: 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 (“the 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.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2011

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 10: 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) long-term liabilities are not due and payable in the current period and, therefore, are not included 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) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities.
- 2) governmental funds report long-term debt payments as expenditures, however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long-term liabilities.

SUPPLEMENTAL INFORMATION

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
DEBT SERVICE FUND

For the Year Ended December 31, 2011

	Original/Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 283,894	\$ 283,917	\$ 23
Property taxes - Regional ARI	5,678	5,679	1
Specific ownership taxes	28,389	18,753	(9,636)
Specific ownership taxes - Regional ARI	568	375	(193)
Development fees	75,000	87,500	12,500
Interest income	<u>992</u>	<u>14</u>	<u>(978)</u>
 Total Revenues	 <u>394,521</u>	 <u>396,238</u>	 <u>1,717</u>
 EXPENDITURES			
Bond interest expense	384,017	379,390	4,627
Authority for ARI	6,161	5,968	193
Treasurer fees	<u>4,343</u>	<u>4,344</u>	<u>(1)</u>
 Total Expenditures	 <u>394,521</u>	 <u>389,702</u>	 <u>4,819</u>
 CHANGE IN FUND BALANCE	 -	 6,536	 6,536
 FUND BALANCE - BEGINNING OF YEAR	 <u>-</u>	 <u>14,000</u>	 <u>14,000</u>
 FUND BALANCE - END OF YEAR	 <u>\$ -</u>	 <u>\$ 20,536</u>	 <u>\$ 20,536</u>

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