

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Financial Statements

Year Ended December 31, 2012

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the RockingHorse Metropolitan District No. 2, Douglas County, Colorado, as of and for the year ended December 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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 RockingHorse Metropolitan District No. 2, Douglas County, Colorado, as of December 31, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Report on Other Legal and Regulatory Requirements

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 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service Fund was presented for the purpose of additional analysis and was not a required part of the financial statements. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service Fund 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

September 18, 2013
Denver, Colorado

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

BALANCE SHEET/STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS					
Cash and investments	\$ 4,242	\$ -	\$ 4,242	\$ -	\$ 4,242
Cash and investments - restricted	-	17,829	17,829	-	17,829
Receivable - County Treasurer	363	1,854	2,217	-	2,217
Property taxes receivable	<u>49,888</u>	<u>249,439</u>	<u>299,327</u>	-	<u>299,327</u>
Total Assets	<u>\$ 54,493</u>	<u>\$ 269,122</u>	<u>\$ 323,615</u>	-	<u>323,615</u>
LIABILITIES					
Accounts payable	\$ -	\$ 12,234	\$ 12,234	-	12,234
Accrued interest on bonds	-	-	-	4,399,465	4,399,465
Long-term liabilities:					
Due in more than one year	-	-	-	<u>30,648,000</u>	<u>30,648,000</u>
Total Liabilities	-	<u>12,234</u>	<u>12,234</u>	<u>35,047,465</u>	<u>35,059,699</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred property taxes	<u>49,888</u>	<u>249,439</u>	<u>299,327</u>	-	<u>299,327</u>
Total Deferred Inflows of Resources	<u>49,888</u>	<u>249,439</u>	<u>299,327</u>	-	<u>299,327</u>
FUND BALANCES					
Fund Balances:					
Restricted:					
Emergencies	97	-	97	(97)	-
Debt service	-	7,449	7,449	(7,449)	-
Assigned:					
Subsequent years expenditures	<u>4,508</u>	-	<u>4,508</u>	<u>(4,508)</u>	-
Total Fund Balances	<u>4,605</u>	<u>7,449</u>	<u>12,054</u>	<u>(12,054)</u>	-
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 54,493</u>	<u>\$ 269,122</u>	<u>\$ 323,615</u>		
NET POSITION					
Restricted for:					
Emergencies				97	97
Unrestricted				<u>(35,035,508)</u>	<u>(35,035,508)</u>
Total Net Position				<u>\$(35,035,411)</u>	<u>\$(35,035,411)</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, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES					
Treasurer's fees	\$ 878	\$ 4,481	\$ 5,359	\$ -	\$ 5,359
Insurance	2,460	-	2,460	-	2,460
Miscellaneous expense	796	3,550	4,346	-	4,346
Authority for ARI	-	6,265	6,265	-	6,265
Bond interest expense	-	<u>407,363</u>	<u>407,363</u>	<u>2,219,441</u>	<u>2,626,804</u>
Total Expenditures	<u>4,134</u>	<u>421,659</u>	<u>425,793</u>	<u>2,219,441</u>	<u>2,645,234</u>
GENERAL REVENUES					
Property taxes	59,380	296,902	356,282	-	356,282
Property taxes - Regional ARI	-	5,938	5,938	-	5,938
Specific ownership taxes	4,947	24,737	29,684	-	29,684
Specific ownership taxes - Regional ARI	-	<u>495</u>	<u>495</u>	-	<u>495</u>
Total General Revenues	<u>64,327</u>	<u>328,072</u>	<u>392,399</u>	-	<u>392,399</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	60,193	(93,587)	(33,394)	(2,219,441)	(2,252,835)
OTHER FINANCING SOURCES (USES)					
Development fees	-	80,500	80,500	-	80,500
Transfer to District #1	<u>(56,539)</u>	-	<u>(56,539)</u>	-	<u>(56,539)</u>
Total Other Financing Source (Uses)	<u>(56,539)</u>	<u>80,500</u>	<u>23,961</u>	-	<u>23,961</u>
NET CHANGE IN FUND BALANCES	3,654	(13,087)	(9,433)	9,433	
CHANGE IN NET POSITION				(2,228,874)	(2,228,874)
FUND BALANCE/NET POSITION:					
BEGINNING OF YEAR RESTATED	<u>951</u>	<u>20,536</u>	<u>21,487</u>	<u>(2,180,024)</u>	<u>(32,806,537)</u>
END OF YEAR	<u>\$ 4,605</u>	<u>\$ 7,449</u>	<u>\$ 12,054</u>	<u>\$ (4,399,465)</u>	<u>\$ (35,035,411)</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, 2012

	Original/Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 64,568	\$ 59,380	\$ (5,188)
Specific ownership taxes	<u>5,304</u>	<u>4,947</u>	<u>(357)</u>
 Total Revenues	 <u>69,872</u>	 <u>64,327</u>	 <u>(5,545)</u>
 EXPENDITURES			
Treasurer's fees	969	878	91
Insurance	2,000	2,460	(460)
Miscellaneous	-	796	(796)
Emergency reserve	<u>89</u>	<u>-</u>	<u>89</u>
 Total Expenditures	 <u>3,058</u>	 <u>4,134</u>	 <u>(1,076)</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 66,814	 60,193	 (6,621)
 OTHER FINANCING SOURCES (USES)			
Transfer to District #1	<u>(67,705)</u>	<u>(56,539)</u>	<u>11,166</u>
 Total Other Financing Sources (Uses)	 <u>(67,705)</u>	 <u>(56,539)</u>	 <u>11,166</u>
 CHANGE IN FUND BALANCE	 (891)	 3,654	 4,545
 FUND BALANCE:			
BEGINNING OF YEAR	<u>891</u>	<u>951</u>	<u>60</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 4,605</u>	<u>\$ 4,605</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, 2012

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 Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principals. 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 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 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, 2012

Recently Issued and Adopted Accounting Pronouncements

In May 2009, the GASB issued Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 required the use of new fund balance classifications and clarifies existing governmental fund type definitions. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. The District adopted GASB 54 in fiscal year 2011.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components, which are, assets, deferred outflows of resources, liabilities and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The District adopted GASB Statement 63 in fiscal year 2012.

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognize, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The statements also limits the use of the term deferred to items reported as deferred outflows of resources or deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 although the District elected to early implement GASB Statement 65 in fiscal year 2012.

Recently Issued Accounting Pronouncements

In November 2010, the GASB issued Statement 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. GASB 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This statement is effective for periods beginning after June 15, 2012. The District has not adopted Statement 61.

Basis of Presentation

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

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2012

The government-wide financial statements (i.e. the governmental funds balance sheet/statement of net position and the governmental funds statement of revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District. The statement of net position reports all financial and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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, 2012

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 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 Position

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2012, 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, 2012

Estimates

The preparation of these financial statements in conformity with GAAP requires the District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District did not have any items that qualified for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Deferred property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

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.

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 inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2012

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.

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 \$97 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 \$7,449 is reserved for the payment of the Taxable Subordinate Limited Tax General Obligation Bond Series 2010 (see Note 3).

Assigned Fund Balance

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

The assigned fund balance in the General Fund represents the amount appropriated for use in the budget for the year ending December 31, 2013.

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.

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District reports three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2012

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District will use the most restrictive net position first.

Due to the implementation of GASB 65, the following discloses the restatement of net position as of the beginning of the fiscal year:

Net Assets (Position), beginning of year, as previously stated:	\$(32,802,027)
Decrease due to the change in accounting for bond issuance costs	<u>(4,510)</u>
Net Position, beginning of year, as restated	<u><u>\$(32,806,537)</u></u>

Note 2: Investments

As of December 31, 2012, investments are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Investments	\$ 4,242
Investments – restricted	<u>17,829</u>
	\$ <u>22,071</u>

Cash and investments as of December 31, 2012 consist of the following:

Investments – COLOTRUST	\$ <u>22,071</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, 2012

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, 2012, the District had \$22,071 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, 2012, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
COLOTRUST	Weighted average Under 60 days	<u>\$ 22,071</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, 2012

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	-	2,451,840	2,451,840
2018 - 2022	-	12,259,200	12,259,200
2023 - 2027	-	12,259,200	12,259,200
2028 - 2032	-	12,259,200	12,259,200
2033 - 2037	-	12,259,200	12,259,200
2038 - 2042	-	12,259,200	12,259,200
2043 - 2047	-	12,259,200	12,259,200
2048 - 2049	<u>30,648,000</u>	<u>4,903,680</u>	<u>35,551,680</u>
	<u>\$ 30,648,000</u>	<u>\$ 90,718,080</u>	<u>\$ 121,366,080</u>

The following is an analysis of the changes in the District's long-term obligations for the year ended December 31, 2012:

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

Debt Authorization

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, 2012, the total amount of debt issued was \$30,648,000.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2012

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 October 19, 2012, an Extension of the Funding and Reimbursement Agreement to December 31, 2013 was approved. The balance due to the Developer under this agreement at December 31, 2012 was \$597,977.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2012

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 2012 no costs were presented for reimbursement and at December 31, 2012, 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, 2012, 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, 2012

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, 2012

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 Position 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, 2012

	Original/Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 322,843	\$ 296,902	\$ (25,941)
Property taxes - Regional ARI	6,457	5,938	(519)
Specific ownership taxes	22,599	24,737	2,138
Specific ownership taxes - Regional ARI	452	495	43
Development fees	75,000	80,500	5,500
Other income	<u>861</u>	<u>-</u>	<u>(861)</u>
 Total Revenues	 <u>428,212</u>	 <u>408,572</u>	 <u>(19,640)</u>
 EXPENDITURES			
Bond interest expense	416,460	407,363	9,097
Authority for ARI	6,812	6,265	547
Treasurer fees	4,940	4,481	459
Miscellaneous	<u>-</u>	<u>3,550</u>	<u>(3,550)</u>
 Total Expenditures	 <u>428,212</u>	 <u>421,659</u>	 <u>6,553</u>
 CHANGE IN FUND BALANCE	 -	 (13,087)	 (13,087)
 FUND BALANCE:			
BEGINNING OF YEAR	<u>-</u>	<u>20,536</u>	<u>20,536</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 7,449</u>	<u>\$ 7,449</u>

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