

**HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO**

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

December 31, 2011

**HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO**

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Hiratsuka & Schmitt, L.L.P.
Certified Public Accountants & Consultants

Steven T. Hiratsuka, CPA
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Headwaters Metropolitan District
Town of Granby, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Headwaters Metropolitan District (the "District") 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 management of the District. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 respective financial position of the governmental activities, the business-type activities, and each major fund of the Headwaters Metropolitan District as of December 31, 2011 and the respective changes in financial position and cash flows, where applicable and the respective budgetary comparison for the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Capital Projects 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 Capital Projects 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 & Schmitt, LLP

May 21, 2012
Denver, Colorado

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Headwaters Metropolitan District

Management's Discussion and Analysis December 31, 2011

As management of Headwaters Metropolitan District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2011.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also includes additional supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, from both a short-term fund perspective and a long-term economic perspective.

The Statement of Net Assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The governmental activity of the District is primarily the construction, operation, and maintenance of the basic public infrastructure that is being performed on behalf of Granby Ranch Metropolitan District, Sol Vista Metropolitan District, and Granby Ranch Metropolitan District Nos. 2-8. The business-type activity of the District is the operation of the District Amenities, which currently includes Ski Granby Ranch and Golf Granby Ranch.

The District's government-wide financial statements can be found on pages 1 & 2 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with legal requirements. The District currently has two governmental funds, the General Fund and the Capital Projects Fund, as well as one proprietary fund, the Enterprise Amenities Fund.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. A reconciliation of the fund balance as reported in the governmental funds to the net assets reported in the government-wide financial statements and a reconciliation of the net change in fund balance to the change in net assets has been provided to facilitate the comparison between governmental funds and governmental activities.

The basic governmental fund financial statements can be found on pages 3 through 6 of this report.

Proprietary funds. The District maintains one proprietary fund, the Amenities Enterprise Fund, which is used to account for Ski Granby Ranch and Golf Granby Ranch, both of which are currently leased by the District from the primary developer within the District.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 7 through 9 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 10 through 23 of this report.

Government-wide Financial Analysis. A condensed comparative summary of the District's government-wide assets, liabilities, net assets, revenues and expenses follows:

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets:						
Current assets	\$ 91,685	\$ 79,481	\$ 707,324	\$ 214,517	\$ 799,009	\$ 293,998
Non-current receivables	1,797,207	1,744,986	-	-	1,797,207	1,744,986
Capital assets	11,544,967	11,782,605	466,122	419,380	12,011,089	12,201,985
Total Assets	13,433,859	13,607,072	1,173,446	633,897	14,607,305	14,240,969
Liabilities:						
Current liabilities	571,954	485,327	1,024,644	479,137	1,596,598	964,464
Long-term debt	1,316,938	1,339,140	7,597,885	6,595,378	8,914,823	7,934,518
Total Liabilities	1,888,892	1,824,467	8,622,529	7,074,515	10,511,421	8,898,982
Net Assets:						
Invested in capital assets, net	11,544,967	11,782,605			11,544,967	11,782,605
Restricted for emergencies	6,731	3,484	-	-	6,731	3,484
Unrestricted (deficit)	(6,731)	(3,484)	(7,449,083)	(6,440,618)	(7,455,814)	(6,444,102)
Total Net Assets (Deficit)	\$ 11,544,967	\$ 11,782,605	\$ (7,449,083)	\$ (6,440,618)	\$ 4,095,884	\$ 5,341,987

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 142,290	\$ -	\$ 5,077,673	\$ 5,179,433	\$ 5,219,963	\$ 5,179,433
Grants and contributions	441,620	732,349	-	-	441,620	732,349
General revenues:						
Interest	405	845	-	-	405	845
Total Revenues	584,315	733,194	5,077,673	5,179,433	5,661,988	5,912,627
Expenses:						
General government	115,291	195,199	-	-	115,291	195,199
Public works	500,807	496,309	-	-	500,807	496,309
Transportation	36,228	34,562	-	-	36,228	34,562
Intergovernmental agreement	71,990	4,758	-	-	71,990	4,758
Interest expense	97,637	326,267	-	-	97,637	326,267
Recreation	-	-	6,086,138	6,473,610	6,086,138	6,473,610
Total Expenses	821,953	1,057,095	6,086,138	6,473,610	6,908,091	7,530,705
Other financing sources (uses):						
Assets conveyed to Town	-	-	-	-	-	-
Total Other Financing (Uses)	-	-	-	-	-	-
Change in Net Assets	(237,638)	(323,901)	(1,008,465)	(1,294,177)	(1,246,103)	(1,618,078)
Net Assets - Beginning	11,782,605	12,106,506	(6,440,618)	(5,146,441)	5,341,987	6,960,065
Net Assets - Ending	\$ 11,544,967	\$ 11,782,605	\$ (7,449,083)	\$ (6,440,618)	\$ 4,095,884	\$ 5,341,987

The District is the “Service District” in a multiple district structure whereby the District constructs, maintains, and operates infrastructure on behalf of Granby Ranch Metropolitan District and Granby Ranch Metropolitan District Nos. 2-8, the “Financing Districts.” The District entered into a District Facilities Construction and Service Agreement by which the District will receive a “capital obligation” from the financing districts in the future for the costs to construct infrastructure on behalf of the Districts, additional information can be found in Note 4 on page 20. The District will also receive a “service obligation” from the financing districts for the costs incurred by the District to operate and maintain the facilities. A majority of the District’s assets consist of the infrastructure constructed to date as well as the capital and service obligations due from the financing districts. The District is also responsible for the operations of Ski Granby Ranch and Golf Granby Ranch, both of which are leased from the District’s developer and are located within the Granby Ranch community.

Government-wide Financial Analysis. For the Governmental Activities, the District’s primary revenue sources were from cash received from developer contributions for general operations and increases in capital and service obligations due from the financing districts. The primary expenses of the District were operating expenses. Capital outlay during the year was largely funded through capital facility fees collected, with the remaining amounts funded through developer advances, which are reported as increases in long-term debt.

For Business-Type Activities, the District continued leasing and operating the Ski Granby Ranch and the Golf Granby Ranch. During the year, both the ski and golf operations experienced substantial losses. Per the management agreement between the District and the Developer, the Developer provided net advances of \$623,142 in 2011 and \$969,840 in 2010 to cover these losses. Such losses are expected to decrease in the future as additional homes are constructed within the District and corresponding use of the facilities increase.

Financial Analysis of the District's Funds

As mentioned earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the District's financing requirements. In particular, assigned and unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported a combined ending fund balance of \$25,088 which reflects an increase of \$14,574. This increase is the result of the District receiving a capital facility fee for development within the community but outside the boundaries of Granby Ranch Metropolitan District.

The District adopts budgets for each fund on an annual basis. Budgetary comparisons have been provided on page 6 for the General Fund and on page 24 for the Capital Projects Fund.

Proprietary funds. The District's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net assets for the proprietary fund totaled (\$7,449,083) at December 31, 2011, as the manager is owed \$7,465,631 for current and prior year losses funded through advances from the Developer.

Capital assets. The District constructed or purchased a total of \$352,243 in capital assets. Additional information can be found in the Notes to the Financial Statements on page 16 of this report.

Long-term debts. The majority of the funding for infrastructure and other costs were funded by developer advances, which increases the long-term liability due to the developer. During the year, the governmental funds increased the amount of debt outstanding by \$30,448 which is the amount advanced by the developer for capital improvements. The business-type activities received net advances from the manager of \$623,142 which increased the principal balance due to the manager at the end of 2011 to \$6,723,145. Additional information can be found in the Notes to the Financial Statement starting on page 16 of this report.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Robertson & Marchetti, P.C., 28 Second Street, Suite 213, Edwards, CO 81632 or you may call (970) 926-6060.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

HEADWATERS METROPOLITAN DISTRICT
Statement of Net Assets
December 31, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and cash equivalents - investments and credit card receivables	\$ 18,943	\$ 509,922	\$ 528,865
Receivables:			
Trade accounts receivable	-	110,509	110,509
Due from Granby Ranch Metropolitan District #2	544	-	544
Due from Silver Creek Master HOA	22,547	-	22,547
Due from HOAs	25,867	-	25,867
Due from Village Homes	5,020	-	5,020
Inventory	-	79,429	79,429
Prepaid expenses	18,764	7,315	26,079
Other current assets	-	149	149
Capital obligation from financing districts, non-current	1,419,743	-	1,419,743
Service obligation from financing districts, non-current	377,464	-	377,464
Capital assets, net	11,544,967	466,122	12,011,089
Total assets	\$ 13,433,859	\$ 1,173,446	\$ 14,607,305
Liabilities:			
Accounts payable	\$ 9,051	\$ 215,751	\$ 224,802
Accrued liabilities	-	331,133	331,133
Accrued interest payable	453,322	1,113,236	1,566,558
Deferred revenue	30,224	68,913	99,137
Due to manager	-	336,832	336,832
Internal balances	27,322	(27,322)	-
Long-term debt due within one year:			
Capital leases	52,035	99,337	151,372
Long-term debt due in excess of one year:			
Capital leases	84,770	132,254	217,024
Notes payable to developer	1,232,168	-	1,232,168
Due to manager	-	6,352,395	6,352,395
Total liabilities	1,888,892	8,622,529	10,511,421
Net assets (Deficit):			
Invested in capital assets, net of related debt	11,544,967	-	11,544,967
Restricted for emergencies	6,731	-	6,731
Unrestricted	(6,731)	(7,449,083)	(7,455,814)
Total net assets (Deficit)	\$ 11,544,967	\$ (7,449,083)	\$ 4,095,884

The accompanying notes are an integral part of this financial statement.

HEADWATERS METROPOLITAN DISTRICT
Statement of Activities
For the Year Ended December 31, 2011

	Program Revenues				Net (expense) revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Functions/Programs:							
Governmental activities:							
General government	\$ 115,291	\$ -	\$ 5,000	\$ -	\$ (110,291)		\$ (110,291)
Public works	500,807	-	42,857	-	(457,950)		(457,950)
Transportation	36,228	-	41,738	-	5,510		5,510
Intergovernmental agreements	71,990	-	4,772	121,208	53,990		53,990
Debt Service	97,637	142,290	4,040	-	48,693		48,693
Total governmental activities	821,953	142,290	98,407	121,208	(460,048)		(460,048)
Business-type activities:							
Recreation	6,086,138	5,077,673	-	-		(1,008,465)	(1,008,465)
Total business-type activities	6,086,138	5,077,673	-	-		(1,008,465)	(1,008,465)
Total Primary Government	\$ 6,908,091	\$ 5,219,963	\$ 98,407	\$ -	(460,048)	(1,008,465)	(1,468,513)
General revenues:							
Developer contributions					222,005	-	222,005
Investment earnings					405	-	405
Total general revenues					222,410	-	222,410
Change in net assets					(237,638)	(1,008,465)	(1,246,103)
Net assets beginning of the year					11,782,605	(6,440,618)	5,341,987
Net assets end of the year					\$ 11,544,967	\$ (7,449,083)	\$ 4,095,884

The accompanying notes are an integral part of this financial statement.

FUND FINANCIAL STATEMENTS

HEADWATERS METROPOLITAN DISTRICT
Balance Sheet
Governmental Funds
December 31, 2011

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Assets:			
Cash and cash equivalents	\$ 9,568	\$ 9,375	\$ 18,943
Accounts receivable:			
Due from Granby Ranch Metropolitan District #2	544	-	544
Due from Silver Creek Master HOA	22,547	-	22,547
Due from HOAs	25,867	-	25,867
Due from Village Homes	5,020	-	5,020
Prepays	18,764	-	18,764
Total assets	<u>\$ 82,310</u>	<u>\$ 9,375</u>	<u>\$ 91,685</u>
Liabilities:			
Accounts payable	\$ 6,552	\$ 2,499	\$ 9,051
Due to Amenities Fund	27,322	-	27,322
Deferred revenue	30,224	-	30,224
Total liabilities	<u>64,098</u>	<u>2,499</u>	<u>66,597</u>
Fund balance:			
Nonspendable for prepaids	18,764	-	18,764
Restricted for emergencies	6,731	-	6,731
Assigned for capital and debt service	-	6,876	6,876
Unassigned	(7,283)	-	(7,283)
Total fund balance	<u>\$ 18,212</u>	<u>\$ 6,876</u>	25,088

**Amounts reported for governmental activities in the Statement
of Net Assets are different because:**

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	11,544,967
Other long-term assets are not available to pay current period expenditures, and therefore, are not reported in the funds. These assets include capital and service obligation receivables from the financing districts.	1,797,207
Long-term liabilities, including capital leases, accrued interest and developer advances payable are not due and payable in the current period and, therefore are not reported in the funds.	<u>(1,822,295)</u>
Net Assets of Governmental Activities	<u>\$ 11,544,967</u>

The accompanying notes are an integral part of this financial statement.

HEADWATERS METROPOLITAN DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2011

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues:			
Intergovernmental agreements			
Granby Ranch Metropolitan District No. 2	\$ 4,772	\$ -	\$ 4,772
Interest income	271	134	405
Reimbursement of expenditures	84,595	-	84,595
Capital facility fee	-	142,290	142,290
Other revenues	5,000	-	5,000
Total revenues	94,638	142,424	237,062
Expenditures:			
Functions:			
General government	115,291	-	115,291
Public works	151,238	-	151,238
Transportation	39,413	-	39,413
Intergovernmental	3,003	-	3,003
Capital outlay	-	165,996	165,996
Total expenditures	308,945	165,996	474,941
Excess of revenues over (under) expenditures	(214,307)	(23,572)	(237,879)
Other Financing Sources (Uses)			
Developer advances	-	30,448	30,448
Developer contributions	222,005	-	222,005
Total Other Financing Sources (Uses)	222,005	30,448	252,453
Net change in fund balance	7,698	6,876	14,574
Fund balance, beginning of year	10,514	-	10,514
Fund balance, end of year	\$ 18,212	\$ 6,876	\$ 25,088

The accompanying notes are an integral part of this financial statement.

HEADWATERS METROPOLITAN DISTRICT
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund
Balances of the Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2011

Net Change in Fund Balances of the Governmental Funds \$ 14,574

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In addition, a significant portion of capital assets are ultimately conveyed to the Town of Granby. This amount is the net effect of these differences in the treatment of capital assets. (237,638)

Changes in the capital and service obligations receivable (payable) from the Granby Ranch Financing Districts are only reported in the Statement of Activities because they do not generate or use currently available resources. This difference represents the net change in these receivable (payable) balances during the year. 52,221

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount represents principal payments made during the year. 57,250

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents accrued interest. (93,597)

Developer advances provide current financial resources to the governmental funds, however the transaction has no effect on net assets. (30,448)

Change in Net Assets of Governmental Activities \$ (237,638)

The accompanying notes are an integral part of this financial statement.

HEADWATERS METROPOLITAN DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance
- Budget and Actual
General Fund
For the Year Ended December 31, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Intergovernmental agreement				
Granby Ranch Metropolitan District (GRMD)	\$ -	\$ -	\$ -	\$ -
Granby Ranch Metropolitan District No. 2	4,351	4,351	4,772	421
Interest income	1,000	1,000	271	(729)
Reimbursement of expenditures	85,069	85,069	84,595	(474)
Other revenues	-	5,000	5,000	-
Total Revenues	<u>90,420</u>	<u>95,420</u>	<u>94,638</u>	<u>(782)</u>
Expenditures:				
General government:				
Accounting and admin	50,000	50,000	43,741	6,259
Audit	11,000	11,000	11,539	(539)
Website development & maintenance	-	5,000	6,434	(1,434)
Elections	-	-	-	-
Insurance	12,500	12,500	11,823	677
Legal	30,000	30,000	32,118	(2,118)
Other	500	500	441	59
Special projects	-	10,000	9,195	805
Public works:				
Facilities management fee	7,168	7,168	7,168	-
Mosquito control	9,000	9,000	9,000	-
Road maintenance and plowing	87,964	82,964	77,555	5,409
Equipment leases	55,389	55,389	55,357	32
Electricity	4,500	4,500	2,158	2,342
Transportation:				
Equipment leases	13,043	13,043	11,918	1,125
Operations	29,044	29,044	27,495	1,549
Intergovernmental	1,650	3,003	3,003	-
Total Expenditures	<u>311,758</u>	<u>323,111</u>	<u>308,945</u>	<u>14,166</u>
Excess of revenues over (under) expenditures	(221,338)	(227,691)	(214,307)	13,384
Other Financing Sources (Uses):				
Developer advance	132,000	-	-	-
Developer contributions	-	232,000	222,005	(9,995)
Total Other Financing Sources	<u>132,000</u>	<u>232,000</u>	<u>222,005</u>	<u>(9,995)</u>
Net Change in Fund Balance	(89,338)	4,309	7,698	3,389
Fund balance - beginning of year	103,753	10,514	10,514	-
Fund balance - end of year	<u>\$ 14,415</u>	<u>\$ 14,823</u>	<u>\$ 18,212</u>	<u>\$ 3,389</u>

The accompanying notes are an integral part of this financial statement.

HEADWATERS METROPOLITAN DISTRICT
Statement of Net Assets
Proprietary Fund
Amenities Fund
December 31, 2011

Assets:

Current assets:	
Cash and cash equivalents - investments and credit card receivables	\$ 509,922
Accounts receivable, trade	137,831
Inventory	79,429
Prepaid expenses	7,315
Other current assets	149
Total current assets	<u>734,646</u>
Non-current assets:	
Capital assets, net	<u>466,122</u>
Total assets	<u>1,200,768</u>

Liabilities:

Current liabilities:	
Accounts payable	215,751
Accrued liabilities	331,133
Due to manager	336,832
Deferred revenue	68,913
Current portion, capital leases payable	99,337
Total current liabilities	<u>1,051,966</u>
Non-current liabilities:	
Capital lease payable	132,254
Due to manager	7,465,631
Total non-current liabilities	<u>7,597,885</u>
Total liabilities	<u>8,649,851</u>

Net assets:

Unrestricted	<u>(7,449,083)</u>
Total net assets	<u>\$ (7,449,083)</u>

The accompanying notes are an integral part of this financial statement.

HEADWATERS METROPOLITAN DISTRICT
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
Amenities Fund
For the Year Ended December 31, 2011

Operating revenues:

Ski, bike, food and beverage, and mountain activities	\$ 4,237,617
Golf fees	427,586
Interest revenue	2,470
Amenity fees	410,000
	<hr/>
Total operating revenues	5,077,673

Operating expenses:

Ski, bike, food and beverage, and mountain activities:	
Salaries, wages, and benefits	2,179,878
Cost of sales	396,924
Operating and maintenance	1,263,463
Golf operations:	
Salaries, wages, and benefits	350,395
Cost of sales	45,648
Operating and maintenance	244,219
Accounting and management fees	600,000
Facilities lease	410,000
Interest expense	463,129
Depreciation	132,482
	<hr/>
Total operating expenses	6,086,138

Operating income (loss)	(1,008,465)
	<hr/>
Net assets (deficit) - beginning	(6,440,618)
	<hr/>
Net assets (deficit) - ending	\$ (7,449,083)

The accompanying notes are an integral part of this financial statement.

HEADWATERS METROPOLITAN DISTRICT
Statement of Cash Flows
Proprietary Fund
Amenities Fund
For the Year Ended December 31, 2011

Cash flows from operating activities:

Cash received from customers and others	\$ 4,682,826
Cash received from Amenities Fee	410,000
Cash paid to employees	(2,509,167)
Cash paid for goods and services	<u>(3,027,320)</u>

Net cash provided (used) by operating activities (443,661)

Cash flows from financing activities:

Principal paid on debt	28,449
Developer advances	1,073,395
Proceeds from sale of assets	<u>(19,413)</u>

Net cash provided by financing activities: 1,082,431

Cash flows from investing activities:

Asset additions	(208,474)
Disposal of assets	<u>48,666</u>

Net cash provided (used) by investing activities: (159,808)

Increase in cash and cash equivalents 478,962

Cash and cash equivalents - beginning 30,960

Cash and cash equivalents - ending \$ 509,922

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Operating income (loss)	<u>\$ (1,008,465)</u>
-------------------------	-----------------------

Adjustments:

Depreciation	132,482
Increase in accounts receivable	(31,262)
Decrease in inventory	16,774
Increase in prepaid expenses	(1,154)
Increase in accounts payable	30,081
Increase in accrued liabilities	46,003
Increase in due to/from manager	325,462
Increase in deferred revenue	<u>46,418</u>

Total Adjustments 564,804

Net cash provided (used) by operating activities \$ (443,661)

The accompanying notes are an integral part of this financial statement.

NOTES TO THE FINANCIAL STATEMENTS

**HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2011**

1. Summary of significant accounting policies

The accounting policies of the Headwaters Metropolitan District (the District) conform to accounting principles generally accepted in the United States of America as applicable to governments (US GAAP). The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of such significant policies consistently applied in the preparation of the financial statements.

Reporting entity

The Headwaters Metropolitan District (the "District") was organized November 4, 2003 as a quasi-municipal corporation and a political subdivision of the State of Colorado and is governed by an elected Board of Directors. The District was originally named SolVista Metropolitan District No. 1 and was renamed Headwaters Metropolitan District effective October 23, 2004. The District was formed contemporaneously with SolVista Metropolitan District No. 2, which on October 23, 2004, became Granby Ranch Metropolitan District (GRMD). The Districts were organized to provide services, programs and facilities, including the financing of construction, completion, maintenance and operation of public infrastructure within and around the Districts' boundaries. Pursuant to the Service Plan, which was approved on July 22, 2003, the District serves as the "Service District" while GRMD serves as the "Taxing District". Granby Ranch Metropolitan Districts 2 through 8 were established on September 25, 2007 as additional taxing districts. See Note 4 for a detailed description of the Service Plan and other significant agreements.

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*.

Basis of Presentation

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the District.

Both of the government-wide financial statements are designed to distinguish functions of the District that are principally supported by intergovernmental revenues and operating grants (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through their user fees and charges (business-type activities).

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by general and program revenues. Direct expenses are those that are clearly identifiable within a specific function or program. Program revenues include 1) fees or charges to citizens and other governmental entities that receive or directly benefit from services provided by a given function or program, and 2) grants, contributions and other revenues that are restricted to use in the operational or capital requirements of a specific function or program. Other revenues not directly related to a particular function or program, if any, are reported separately as general revenues.

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 flow.

1. **Summary of significant accounting policies (continued)**

Measurement focus, basis of accounting and financial statement presentation (continued)

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 *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 available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The exceptions to this general rule are that principal and interest on general long-term debt are recognized when due.

The District reports the following governmental funds:

General Fund – is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Capital Projects Fund –accounts for the acquisition and construction of major capital facilities.

The District reports the following proprietary fund:

Amenities Fund – accounts for revenues and expenses associated with the operation of Golf Granby Ranch, Ski Granby Ranch and other recreational amenities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Amenities Fund are charges for services and sales. Operating expenses for the Amenities Fund include salaries, cost of sales and the other costs to perform the services. All revenues and expenses not meeting this definition are reported as non-operating revenue and expenses.

Assets, liabilities, and net assets or equity

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

Receivables

The District considered all receivables collectible as of December 31, 2011.

Inventory

All inventories are valued at cost using the first-in/first-out (FIFO) method.

**HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2011**

1. Summary of significant accounting policies (continued)

Assets, liabilities, and net assets or equity (continued)

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure – road, storm sewer, traffic and safety control	30
Improvements	15
Vehicles	10
Equipment	2-15

Capital and Service Obligations from Financing Districts

Granby Ranch Metropolitan District and Granby Ranch Metropolitan District No. 2 through No. 8 (the “Financing Districts”) are obligated (see Note 4) to reimburse the District over time for the cost of the infrastructure constructed (capital obligation) as well as the operations and maintenance of such infrastructure (service obligation) by the District. These items represent the portions of the obligations that have not yet been paid by the Financing Districts to the District as of December 31, 2011.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets.

Intergovernmental revenues

For governmental funds, intergovernmental revenues, such as contributions awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available.

**HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2011**

1. Summary of significant accounting policies (continued)

Assets, liabilities, and net assets or equity (continued)

Fund equity

Beginning with the fiscal year ending December 31, 2010, 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 \$6,731 of the General Fund balance has been restricted in compliance with this requirement.

The nonspendable fund balance in the General Fund in the amount of \$18,764 represents prepaid expenditures.

The assigned amount in the Capital Projects Fund is assigned for capital outlay purposes.

For clarification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first, when more than one classification is available.

Internal balances

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are reported in the funds as "internal balances."

Fair value of financial instruments

The District's financial instruments include cash and investments, accounts receivable, accounts payable and accrued expenses. 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.

Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Stewardship, compliance, and accountability

Budgetary information

The District conforms to the following procedures, in compliance with Colorado Revised Statutes, in establishing the budgetary data reflected in the financial statements:

In the fall of each year, the District Board of Directors prepares a proposed budget for the fiscal year commencing the following January 1. The budget for the funds includes proposed expenses and the means of financing them.

A public hearing is held at a Board of Directors meeting to obtain taxpayer input. Prior to December 15, the budget is legally enacted through passage of a budget resolution. The 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 General and Capital Projects Funds are budgeted in accordance with GAAP.

3. Detailed notes on the funds

Deposits and investments

The Colorado Public Deposit Protection Act, (PDPA) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at a minimum of 102% of the aggregate uninsured deposits.

As of December 31, 2011, all of the District deposits were either insured by the Federal Deposit Insurance Corporation or held in eligible public depositories as required by PDPA.

Investments

Colorado Revised Statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest. The allowed investments may include:

- Obligations of the U.S. and certain U.S. government agencies securities
- Certain money market funds
- Certain certificates of deposit
- Local government investment pools

As of December 31, 2011, the District invested in the Colorado Surplus Asset Fund Trust (C-Safe) local investment pool. As an investment pool, this fund operates under the Colorado Revised Statutes (24-75-701) and is overseen by the Colorado Securities Commissioner. It invests in securities that are specified by CRS 24-75-701. It operates similar to a money market mutual fund with a share value equal to \$1.00.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. CSAFE held \$6,543 of the District's funds at December 31, 2011.

HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2011

3. Detailed notes on the funds (continued)

Deposits and investments (continued)

The following is a summary of deposits and investments held by the District at December 31, 2011:

Type	Ratings	Fair Value as of December 31, 2011
<i>Deposits:</i>		
Cash in Drawers		\$ 12,100
Checking		330,585
<i>Investments:</i>		
CSAFE	AAAm	6,543
Total		\$ 349,228

**HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2011**

3. Detailed notes on the funds (continued)

Capital assets

Capital asset activity for the year ended December 31, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Conveyances/ Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 2,137,777	\$ 126,094	\$ -	\$ 2,263,871
Total capital assets not being depreciated	<u>2,137,777</u>	<u>126,094</u>	<u>-</u>	<u>2,263,871</u>
Capital assets being depreciated:				
Infrastructure	10,422,769	17,675	-	10,440,444
Vehicles and equipment	336,024	-	-	336,024
Total capital assets being depreciated	<u>10,758,793</u>	<u>17,675</u>	<u>-</u>	<u>10,776,468</u>
Less accumulated depreciation for:				
Infrastructure	(1,038,620)	(347,805)	-	(1,386,425)
Vehicles and equipment	(75,345)	(33,602)	-	(108,947)
Total accumulated depreciation	<u>(1,113,965)</u>	<u>(381,407)</u>	<u>-</u>	<u>(1,495,372)</u>
Total capital assets being depreciated, net	<u>9,644,828</u>	<u>(363,732)</u>	<u>-</u>	<u>9,281,096</u>
Total Governmental activities capital assets, net	<u>\$ 11,782,605</u>	<u>\$ (237,638)</u>	<u>\$ -</u>	<u>\$ 11,544,967</u>
Business-type activities:				
Capital assets being depreciated				
Buildings and improvements	\$ 31,009	\$ -	\$ (24,515)	\$ 6,494
Equipment	704,812	208,474	(97,610)	815,676
Total capital assets being depreciated	<u>735,821</u>	<u>208,474</u>	<u>(122,125)</u>	<u>822,170</u>
Less accumulated depreciation for:				
Buildings and improvements	(13,543)	(2,186)	13,719	(2,010)
Equipment	(302,898)	(130,296)	79,156	(354,038)
Total accumulated depreciation	<u>(316,441)</u>	<u>(132,482)</u>	<u>92,875</u>	<u>(356,048)</u>
Total Business-type activities capital assets, net	<u>\$ 419,380</u>	<u>\$ 75,992</u>	<u>\$ (29,252)</u>	<u>\$ 466,122</u>

Depreciation expense was charged to functions of the District as follows:

Governmental activities:	
Public works, including infrastructure	\$ 376,213
Transportation	5,194
Total Governmental activities	<u>\$ 381,407</u>
Business-type activities:	
Recreation	<u>\$ 132,482</u>

**HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2011**

3. Detailed notes on the funds (continued)

Long-term obligations

Changes in long-term obligations for the year ended December 31, 2011 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Due to Developer:					
Operating	\$ 616	\$ -	\$ (616)	\$ -	\$ -
Capital	1,201,720	30,448	-	1,232,168	-
Capital leases	194,055	-	(57,250)	136,805	52,035
Governmental activities long-term obligations	\$ 1,396,391	\$ 30,448	\$ (57,866)	\$ 1,368,973	\$ 52,035
Business-type activities:					
Due to Manager	\$ 5,729,253	\$ 623,142	\$ -	\$ 6,352,395	\$ -
Capital leases	203,142	114,419	(85,970)	231,591	99,337
Business-type activities long-term obligations	\$ 5,932,395	\$ 737,561	\$ (85,970)	\$ 6,583,986	\$ 99,337

Governmental Activities:

Due to Developer – The District has an obligation to the District’s developer, Granby Realty Holdings LLC (“GRH”), for developer advances made to the District. In 2006, the District entered into a Funding and Reimbursement Agreement whereby the developer agreed to loan the District one or more sums of money for operating and maintenance expenses of the District. In 2006, the District entered into a Construction Funding and Reimbursement Agreement whereby the developer agreed to loan the District one or more sums of money not to exceed \$2,700,000 for capital costs. In January 2008, a new Construction Funding and Reimbursement Agreement was entered into which eliminated the maximum loan amount for capital costs. For both the operating and capital agreements, the funds shall be loaned to the District in one or a series of installments. The loan advances shall bear simple interest at a rate of 8% per annum from the date any advance is made to the date of repayment of such amount. In 2010, the District was able to convert \$11,119,000 of the outstanding principal and accrued interest balance to become General Obligation Bonds of Granby Ranch Metropolitan District, which were also issued to the Developer. As of December 31, 2011, accrued interest on the advances amounted to \$453,322 and the principal balance totaled \$1,232,168.

Business-type activities:

Capital leases

The District has entered into various lease agreements to finance the acquisition of vehicles and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

**HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2011**

3. Detailed notes on the funds (continued)

Capital leases (continued)

The assets acquired through capital leases are as follows:

Asset:	Governmental Activities	Business-type Activities
Vehicles and equipment	\$ 266,915	\$ 468,531
Less: accumulated depreciation	(72,698)	(179,377)
Total	<u>\$ 194,217</u>	<u>\$ 289,154</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2011, are as follows:

Year ending, December 31,	Governmental Activities	Business-type Activities
2012	\$ 58,750	\$ 109,800
2013	45,011	86,572
2014	45,011	22,425
2015	-	22,425
2016	-	10,226
Total minimum lease payments	<u>148,772</u>	<u>251,448</u>
Less: amount representing interest	(11,967)	(19,857)
Present value of minimum lease payments	<u>\$ 136,805</u>	<u>\$ 231,591</u>

Operating Leases – Business-type activities:

The District leases equipment under non-cancelable operating leases which are subject to annual appropriation. Total costs for such leases were \$66,208 for the year ended December 31, 2011. The future minimum lease payments for these leases are as follows:

Year ending, December 31,	Amount
2012	\$ 42,563
Total	<u>\$ 42,563</u>

4. **Significant agreements**

Service Plan - The service plan dated May 2003 was approved by the Town of Granby on July 22, 2003. The service plan contemplated the creation of two separate districts designating Granby Ranch Metropolitan District (GRMD) as the “taxing” district and Headwaters Metropolitan District (HMD) as the “service” district. Under the plan, HMD is to construct, manage and operate public facilities and services throughout the development. GRMD is to produce property taxes and other revenue sufficient to pay the costs of operations and debt service expenditures incurred for the improvement of public infrastructure. The use of a dual district structure provides for the issuance of bonds in a timely manner that is consistent with the construction of development improvements when needed. The service plan also outlined a financial plan for the districts entitling HMD to all taxing district revenues in order to pay all costs associated with the operations and management of the development. On September 25, 2007, a consolidated service plan to create additional financing districts (Granby Ranch Metropolitan Districts Nos. 2 through 8) was also approved by the Town of Granby in an effort to distribute the Financing Obligation over more area-specific districts.

Intergovernmental Agreement with the Town of Granby - On December 9, 2003, Granby Ranch and Headwaters Metropolitan Districts (acting jointly) entered into an agreement with the Town of Granby in an effort to promote the coordinated development of the Districts. The agreement was amended May 20, 2005 to increase the aggregate bonded debt limit to \$64,000,000. The agreement was further amended April 11, 2006 to outline the street maintenance and transportation mill levy. On February 26, 2008, the Intergovernmental Agreement between the Town of Granby and GRMD, HMD, and Granby Ranch Nos. 2-8 was executed. This IGA superseded and replaced the prior IGA and amendments in their entirety. The agreement states that all infrastructure and improvements will be designated and constructed in accordance with Town standards. As defined by the service plan, HMD has the primary responsibility for meeting the Town’s standards. All streets, roadways, traffic and safety protection, transportation, parks and recreation, storm-water drainage, mosquito control and non-potable water facilities are to be owned, maintained, and operated by HMD. The sanitary sewer and potable water systems will be conveyed to the Town of Granby or Granby Sanitation District, upon acceptance.

If the Town determines the Districts are not operating or maintaining any Street Improvement in conformity with this agreement, the Town may cure the nonconforming condition and receive reimbursement for related costs from the District.

The agreement limits the aggregate bonded debt amount to \$94,250,000 for the Districts. It also limits the maximum mill levy to 50.000 mills, adjusted for the change in the ratio of actual valuation to assessed valuation from 2003 to the current year.

Master Intergovernmental Agreements with Granby Ranch Metropolitan District – On June 1, 2006, the District entered into the District Facilities Construction and Service Agreement with HMD as the “Operating” district and GRMD as the “Taxing” district. This agreement terminated and replaced the Master Intergovernmental Agreement entered into by GRMD and HMD on December 10, 2003. The agreement is to coordinate the financing, processing of construction, and operation and maintenance of the development of public infrastructure in Granby Ranch. The districts are empowered to enter into contracts and agreements with one another to provide intergovernmental services and facilities and the agreement basically provides that HMD will construct the public infrastructure in the Districts and that GRMD and the other taxing districts will ultimately pay the cost of constructing those improvements.

4. Significant agreements (continued)

Master Intergovernmental Agreements with Granby Ranch Metropolitan District (continued)

Certain improvements such as water and sanitary sewer improvements will be conveyed to the Town of Granby and other improvements such as roads, roadway landscaping and drainage improvements will be operated and maintained by HMD. The cost of operation and maintenance of the improvements owned by HMD will ultimately be paid by the taxing districts in Granby Ranch. As the taxing districts have the financial ability to issue bonds, they have an obligation to issue bonds, the proceeds of which will be used to pay the cost of constructing the infrastructure.

The consolidated service plan for the additional taxing districts (Granby Ranch Metropolitan Districts Nos. 2 through 8) was approved by the Town of Granby on September 25, 2007. On September 17, 2008, the First Amended and Restated District Facilities Construction and Service Agreement was entered into. It superseded and replaced the prior agreement in its entirety. This new agreement included the additional taxing districts (Granby Ranch Metropolitan Districts Nos. 2 through 8). However, the District entered into an Exclusion Agreement with GRMD as of April 21, 2010 to document how GRMD would exclude property from its boundaries and provide for future maintenance and operations of the community. The agreement sets forth a number of items, including the understanding that upon the issuance of the Series 2010 Bonds, GRMD will have fulfilled all current reimbursement obligations to Headwaters Metropolitan District (HMD).

In accordance with the Operations Fee Resolution, GRMD will impose an Operations Fee in the event of a deficiency in the Improvement Operations Budget and Cure Amounts, as defined in the agreement.

The agreement also states the 2008 Master IGA will be repudiated and therefore HMD and GRMD will revert to the terms of the 2006 Master IGA with HMD, except the 2006 Master IGA will become subject to annual budgeting and appropriation and can be terminated for the ensuing year. HMD will continue to provide all general administrative services, operation and maintenance services, and facilities for GRMD. GRMD will impose property taxes or fees, rates, tolls, or charges to fund the O&M costs which will allow HMD to provide, operate, and maintain the facilities.

The combined amounts due to HMD by the Granby Ranch Metropolitan Districts Nos. 2 through 8 (GRMD Nos. 2 through 8) are \$1,419,743 for capital costs and \$377,464 for service costs. The amount owed to the District by the taxing districts has been recorded in the Statement of Net Assets. During the year ended December 31, 2011, the District received service obligation payments from GRMD No. 2 totaling \$4,772.

Amenities Lease Purchase Agreement – On June 1, 2005 (and subsequently amended and restated on June 1, 2006, with addendum dated January 1, 2007, January 16, 2007, January 16, 2008, March 19, 2008, and May 20, 2009), the District entered into a lease purchase agreement with the District developer to lease the ski area and golf course premises (the “amenities”). The initial term of the lease was through December 31, 2005 and the District has the option to renew the lease for twenty-four additional one-year terms coinciding with the District’s fiscal year. The fourth addendum, signed March 19, 2008, modified the terms so that the agreement will automatically renew each year on January 1 unless otherwise terminated.

4. **Significant agreements (continued)**

Amenities Lease Purchase Agreement (continued) - Under this agreement, the District leases the ski area and golf course premises for an annual rental payment of \$600,000, beginning in 2005, payable solely from amenities fees and any other available revenues as determined at the sole discretion of the District. The agreement defines amenities fees as fees imposed by the District related to the use of the ski area and golf course premises but excluding any fee imposed solely for the purposes of funding operational costs. If the District is not able to make the full annual rental payment due in any year, such shortfall will be added to the amount due in the subsequent year and the District will not be construed as being in default under the agreement. In the event amenities fees are received in excess of the annual rental payment in any year, such excess shall be applied as a prepayment of rental payments due in future years. The annual rental payments are defined as current financial obligations and shall not be construed to be indebtedness of the District. The District has the option to purchase the amenities at any time for a price as defined in the agreement. The fees received in 2011 totaled \$410,000.

Amenities Management Agreement – On June 1, 2005 (and subsequently amended and restated on June 1, 2006) the District entered into an amenities management agreement with the District Developer (the “manager”) pursuant to which the Developer will manage the recreational amenity facilities which are the subject of the Amenities Lease Purchase Agreement. The initial term of the amenities management agreement was effective through the District’s fiscal year with an annual option to renew on January 1 for successive annual periods. The agreement may be terminated by either party with 30 days notice. As of December 31, 2010, the agreement has been extended through December 31, 2011 and shall automatically renew on January 1st of each year for an additional one year term unless terminated, pursuant to the second amendment.

Under the agreement, in the event the amenities facilities operate at a deficit, the manager is obligated to advance funds to the District to fund such deficits. Any advances made by the manager after May 1, 2006 are to be recorded as increases to long-term debt in the Amenities Fund, with simple interest accrued at a rate of 8% per annum. Such advances and accrued interest are repayable solely from the operating profits, if any, of the Amenities Fund. The manager’s obligation to advance funds to cover operating deficits will terminate when the District has received and applied amenities fees to the rental payments under the Amenities Lease Purchase Agreement equal to at least one-half of the amenities purchase price as defined in the Amenities Lease Purchase Agreement.

Based on an agreement entered into in 2006, management fees in the amount of \$600,000 have been recognized for 2011. \$172,805 of this amount has not been paid and is included in amounts due to manager.

5. **Other information**

Commitments and contingencies

During the normal course of business, the District may incur claims and other assertions against it from various agencies and individuals. Management of the District and its legal representatives have disclosed that there are no material outstanding claims against the District at December 31, 2011.

5. Other information (continued)

Risk management

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets, errors or omissions, injuries to employees, or acts of God.

The District has elected to participate in the Colorado Special Districts Property and Liability Pool (the Pool) which is sponsored by the Special District Association of Colorado. The Pool is an organization created by intergovernmental agreement to provide property, liability, public official liability, and boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for property, general liability and public official's liability, coverage. Members of the Pool may be required to make additional surplus contributions in the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool. 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. No distributions were made during the year ended December 31, 2011.

In addition, the District is named as insured along with the Developer or additionally insured on several of the Developer's policies including general liability, excess liability, crime and employment. The general liability coverage is in excess of \$28,000,000.

Related parties

All the members of the Board of Directors of the District are employees or have substantial business interest with the developer.

Tax, spending and debt limitations

Article X, Section 20, of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR) contains, tax, spending, and 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 increase 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 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 requirements of the amendment. However, the District has made certain interpretations of the amendment's language in order to determine its compliance.

**HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2011**

6. Reconciliation of government-wide and fund financial statements

Explanation of differences between the Governmental Funds Balance Sheet and the government-wide Statement of Net Assets

The Governmental Funds Balance Sheet and the government-wide Statement of Net Assets includes a reconciling section. Explanation of the adjustments included in the reconciling section is as follows:

Capital assets of \$13,040,339 less accumulated depreciation of \$1,495,372 or a net book value of \$11,544,967 are not financial resources and therefore are not reported in the funds.

Other long-term assets are not available to pay current period expenditures, and therefore are not reported in the funds.

Capital obligation from financing districts	\$ 1,419,743
Service obligation from financing districts	377,464
Net adjustment	<u>\$ 1,797,207</u>

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Accrued interest payable	\$ 453,322
Capital leases:	
Due within one year	52,035
Due in more than one year	84,770
Notes payable to developer:	
Due in more than one year	1,232,168
Net adjustment	<u>\$ 1,822,295</u>

Explanation of differences between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the government-wide Statement of Activities

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Depreciation expense	\$ (381,407)
Capital outlay	143,769
Net adjustment	<u>\$ (237,638)</u>

Changes in capital and service obligations receivable from Granby Ranch Metropolitan Districts #'s 2-8 are only reported in the Statement of Activities because they do not generate currently available resources. This difference represents the net change in these receivable balances during the year.

Intergovernmental contribution – operating	\$ (68,987)
Intergovernmental contribution – capital	121,208
Net adjustment	<u>\$ 52,221</u>

Other Supplementary Information

HEADWATERS METROPOLITAN DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund Balance
- Budget and Actual
Capital Projects Fund
For the Year ended December 31, 2011

	Original & Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Intergovernmental agreement	\$ -	\$ -	\$ -
Capital facility fee	-	142,290	142,290
Interest income	-	134	134
Total revenues	-	142,424	142,424
Expenditures:			
Capital outlay:			
Construction management fee	4,244	2,453	1,791
Construction projects	282,943	163,543	119,400
Total expenditures	287,187	165,996	121,191
Excess of revenues over (under) expenditures	(287,187)	(23,572)	263,615
Other Financing Sources:			
Bond issue costs	-	-	-
Developer advances	287,187	30,448	(256,739)
Repayment of developer advances, see Note 3	-	-	-
Interest on capital advances, see Note 3	-	-	-
Transfer of bond proceeds from GRMD, see Note 3	-	-	-
Total Other Financing Sources	287,187	30,448	(256,739)
Net Change in Fund Balance	-	6,876	6,876
Fund balance - beginning of year	-	-	-
Fund balance - end of year	\$ -	\$ 6,876	\$ 6,876