WATERFALL METROPOLITAN DISTRICT NO. 1

BASIC FINANCIAL STATEMENTS

December 31, 2011

TABLE OF CONTENTS

	PAGE
INTRODUCTORY SECTION	
Title Page	
Table of Contents	
FINANCIAL SECTION	
Independent Auditors' Report	
Basic Financial Statements	
Government–Wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Balance Sheet – Governmental Funds	3
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	4
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	5
Notes to the Financial Statements	6 – 15
Required Supplemental Information	
General Fund – Budgetary Comparison Schedule	16
Individual Fund Schedules	
Debt Service Fund – Budgetary Comparison Schedule	17
Capital Projects Fund – Budgetary Comparison Schedule	18

FINANCIAL SECTION

JOHN CUTLER & ASSOCIATES

Board of Directors
Waterfall Metropolitan District No. 1
Loveland, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of Waterfall Metropolitan District No. 1, as of and for the year ended December 31, 2011, which collectively comprise the basic financial statements of the District, as listed in the table of contents. These financial statements are the responsibility of Waterfall Metropolitan District No. 1's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Waterfall Metropolitan District No. 1, as of December 31, 2011, 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.

Management has not presented the management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 16 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Waterfall Metropolitan District No. 1's financial statements. The individual fund schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates 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 to 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 individual fund schedules are fairly stated in all material respects in relation to the financial statements as a whole.

John Cutler & Associates, LLC

July 30, 2012

BASIC FINANCIAL STATEMENTS

WATERFALL METROPOLITAN DISTRICT NO. 1

STATEMENT OF NET ASSETS
As of December 31, 2011

	Governmental Activities
ASSETS	
Cash and Investments	$ 47,744
Restricted Cash and Investments	60,047
Accounts Receivable	170
Property Taxes Receivable	137,776
Due from Other Governments	6,644
Loan Issuance Costs, net of related amortization	102,332
Capital Assets, depreciated net of accumulated depreciation	362,363
TOTAL ASSETS	717,076
LIABILITIES	
Accounts Payable	7,534
Deferred Property Taxes	137,776
Accrued Interest	71,980
Noncurrent Liabilities	
Due within One Year	51,000
Due in more than One Year	1,679,000
TOTAL LIABILITIES	1,947,290
NET ASSETS	
Invested in Capital Assets, net of Related Debt	(1,367,637)
Reserved for Emergencies	4,600
Unrestricted, Unreserved	(2,353,648)
TOTAL NET ASSETS	$ (3,716,685)

The accompanying notes are an integral part of the financial statements.

WATERFALL METROPOLITAN DISTRICT NO. 1

STATEMENT OF ACTIVITIES
Year Ended December 31, 2011

FUNCTIONS/PROGRAMS	Expenses	Program Revenues Charges for Services	Net (Expense) Revenues and Changes in Net Assets Governmental Activities
PRIMARY GOVERNMENT			
Governmental Activities			
General Government	$ 99,558	$ 80,500	$ (19,058)
Interest on Long-Term Debt	193,202	-	(193,202)
Total Governmental Activities	$ 292,760	$ 80,500	(212,260)
GENERAL REVENUES			
Taxes			57,122
Interest			189
TOTAL GENERAL REVENUES			57,311
CHANGE IN NET ASSETS			(154,949)
NET ASSETS, Beginning			(3,561,736)
NET ASSETS, Ending			$ (3,716,685)

The accompanying notes are an integral part of the financial statements.

WATERFALL METROPOLITAN DISTRICT NO. 1

BALANCE SHEET
GOVERNMENTAL FUNDS
As of December 31, 2011

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and Investments	$ 16,567	$ 28,821	$ 2,356	$ 47,744
Restricted Cash and Investments	-	60,047	-	60,047
Property Taxes Receivable	-	137,776	-	137,776
Due from Other Governments	6,355	289		6,644
Prepaid Expenses	170	-	-	170
TOTAL ASSETS	$ 23,092	$ 226,933	$ 2,356	$ 252,381
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts Payable	$ 7,534	$ -	$ -	$ 7,534
Deferred Property Taxes	-	137,776	-	137,776
TOTAL LIABILITIES	7,534	137,776	-	145,310
FUND EQUITY				
Fund Balance				
Nonspendable	170	-	-	170
Restricted for Emergencies	4,600	-	-	4,600
Restricted for Debt Service	-	89,157	-	89,157
Restricted for Capital Projects	-	-	2,356	2,356
Unassigned	10,788	-	-	10,788
TOTAL FUND EQUITY	15,558	89,157	2,356	107,071
TOTAL LIABILITIES AND FUND EQUITY	$ 23,092	$ 226,933	$ 2,356	

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.	362,363
Loan issuance costs and loan discounts are not resources in the current period and therefore, are not reported in the funds.	102,332
Long-term liabilities are not due and payable in the current period and are not reported in the funds. These include loan payable ($1,730,000), developer advances ($2,486,471), and accrued interest ($71,980).	(4,288,451)
Net assets of governmental activities	$ (3,716,685)

The accompanying notes are an integral part of the financial statements.

WATERFALL METROPOLITAN DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended December 31, 2011

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Charges for Services	$ 80,500	$ -	$ -	$ 80,500
Property Taxes	-	53,765	-	53,765
Specific Ownership Taxes	-	3,357	-	3,357
Developer Advances	-	-	12,631	12,631
Interest	16	173	-	189
TOTAL REVENUES	80,516	57,295	12,631	150,442
EXPENDITURES				
Current				
General Government	68,843	3,075	-	71,918
Capital Outlay	-	-	10,275	10,275
Bond Issuance Costs	-	104,100	-	104,100
Debt Service				
Principal	-	1,563,900	-	1,563,900
Interest	-	27,063	-	27,063
TOTAL EXPENDITURES	68,843	1,698,138	10,275	1,777,256
EXCESS OF REVENUES OVER (UNDER) EXPENSES	11,673	(1,640,843)	2,356	(1,626,814)
OTHER FINANCING SOURCES (USES)				
Proceeds from the Issuance of Debt	-	1,730,000	-	1,730,000
TOTAL OTHER FINANCING SOURCES (USES)	-	1,730,000	-	1,730,000
NET CHANGE IN FUND BALANCES	11,673	89,157	2,356	103,186
FUND BALANCES, Beginning	3,885	-	-	3,885
FUND BALANCES, Ending	$ 15,558	$ 89,157	$ 2,356	$ 107,071

The accompanying notes are an integral part of the financial statements.

WATERFALL METROPOLITAN DISTRICT NO. 1

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2011

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Net Changes in Fund Balances - Total Governmental Funds	$	103,186
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 and reported as depreciation expense. This amount is depreciation expense for the current period.		(15,597)
Debt proceeds are reported as financing sources in the governmental funds and increase fund balance. In the government-wide financial statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not effect the statement of activities. This includes loan proceeds of ($1,730,000), developer advances ($12,631), loan issue costs of $104,100, and related amortization of ($1,768) for the current period.		(1,640,299)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This amount includes developer advances $1,563,900 and change in accrued interest in the amount of ($166,139).		1,397,761
Change in Net Assets of Governmental Activities	$	(154,949)

The accompanying notes are an integral part of the financial statements.

NOTE 1: ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

The Waterfall Metropolitan District No. 1 was established to provide financing for the construction, acquisition, and operation and maintenance of water, wastewater, streets, and other public improvements. The District is governed by a five-member Board of Directors elected by the eligible electors.

The accounting policies of the Waterfall Metropolitan District No. 1 (the "District") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Reporting Entity

In accordance with governmental accounting standards, the Waterfall Metropolitan District No. 1 has considered the possibility of inclusion of additional entities in its financial statements.

The definition of the reporting entity is based primarily on financial accountability. The District is financially accountable for organizations that make up its legal entity. It is also financially accountable for legally separate organizations if District officials appoint a voting majority of the organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. The District may also be financially accountable for organizations that are fiscally dependent upon it.

Based on the application of these criteria, the District does not include additional organizations in its reporting entity.

Government-Wide and Fund Financial Statements

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. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of the 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.*

NOTE 1: ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*** (Continued)

Government-Wide and Fund Financial Statements (Continued)

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 the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 collected 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.

Service fees and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

In the fund financial statements, the District reports the following major governmental funds:

The *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.

The *Capital Projects Fund* accounts for the acquisition and construction of capital assets.

The *Debt Service Fund* accounts for the accumulation of resources to service the debt of the District.

NOTE 1: ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*** (Continued)

Cash and Investments

Cash equivalents include investments with original maturities of three months or less.

Investments are recorded at fair value.

Prepaid Expenses

Payments made to vendors for services that will benefit future periods are recorded as prepaid expenses. An expenditure is reported in the year in which the services are consumed.

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net assets in the government-wide financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method, landscaping and signage 25 years.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities fund type statement of net assets. Bond issue costs are reported as deferred charges and amortized over the term of the related debt.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 1: ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*** (Continued)

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable – This classification includes amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.

- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies. The District has also classified the balance of the *Debt Service Fund* and restricted as its use is restricted for the repayment of long-term debt.

- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District did not have any committed resources as of December 31, 2011.

- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The District would typically use restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned fund balance.

NOTE 2: ***STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY***

Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- On or before October 15, District Management submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to December 31, the budget is legally enacted through passage of a resolution.
- District Management is authorized to transfer budgeted amounts between departments within any fund. However, any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.
- Budgets are legally adopted for all funds of the District on a basis consistent with generally accepted accounting principles (GAAP).
- Budgeted amounts in the financial statements are as originally adopted or as amended by the Board of Directors. All appropriations lapse at year end.

NOTE 3: ***CASH AND INVESTMENTS***

A summary of deposits and investments as of December 31, 2011 follows:

Deposits	$ 19,044
Investments	88,747
Total	**$ 107,791**

Cash and investments are reported in the financial statements as follows:

General Fund -Unrestricted	$ 16,567
Debt Service Fund – Unrestricted	28,821
Debt Service Fund – Restricted	60,047
Capital Projects Fund – Unrestricted	2,356
Total	**$ 107,791**

NOTE 3: ***CASH AND INVESTMENTS*** (Continued)

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At December 31, 2009, State regulatory commissioners have indicated that all financial institutions holding deposits for the District are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. 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 least equal to 102% of the uninsured deposits. The District has no policy regarding custodial credit risk for deposits.

At December 31, 2011, the District had deposits with financial institutions with a carrying amount of $19,044. The bank balances with the financial institutions were $32,215. All of this balance was covered by federal depository insurance.

Restricted Cash

At December 31, 2011, the District had $60,047 in a loan fund and a reserve fund as a requirement of the 2011 Limited General Tax obligation note signed on June 28, 2011. These funds were deposited in money market accounts which are rated AAAm by Standard & Poor's.

Investments

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Colorado statutes specify in which instruments the units of local government may invest which include:

- Obligations of the United States and certain U.S. government agency securities
- General obligation and revenue bonds of U.S. local government entities
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

NOTE 3: ***CASH AND INVESTMENTS*** (Continued)

Investments (Continued)

The above investments are authorized for all funds and fund types used by Colorado municipalities.

The District had invested $28,700 in the Colorado Government Liquid Asset Trust (Colotrust); an investment vehicle established for local government entities in Colorado to pool surplus funds and is registered with the State Securities Commissioner. Colotrust operates similarly to a money market fund and each share is equal in value to $1.00. Investments consist of U.S. Treasury and U.S. Agency securities and repurchase agreements collateralized by U.S. Treasury and U.S. Agency securities. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the entities. Colotrust is rated AAAm by Standard and Poor's.

NOTE 4: ***CAPITAL ASSETS***

Capital assets activity for the year ended December 31, 2011, is summarized below:

	Balances 12/31/10	Additions	Deletions	Balances 12/31/11
Governmental Activities				
Capital Assets, depreciated				
Landscaping and Signage	$ 398,527	$ -	$ -	$ 398,527
Total	398,527	-	-	398,527
Accumulated Depreciation				
Landscaping and Signage	20,567	15,597	-	36,164
Capital Assets, net of depreciation	377,960	15,597	-	362,363
Total Capital Assets	**$ 377,960**	**$ 15,597**	**$ -**	**$ 362,363**

Depreciation expense was charged to the General Government activity.

NOTE 5: *LONG-TERM DEBT*

Following is a summary of long-term debt transactions for the governmental activities for the year ended December 31, 2011.

	Balance 12/31/10	Additions	Payments	Balance 12/31/11	Due In One Year
Loan Payable	$ -	$ 1,730,000	$ -	$ 1,730,000	$ 51,000
Notes Payable – MBL34, LLC	3,677,320	12,631	1,203,480	2,486,471	-
Notes Payable – JMC, LLP	-	12,904	12,904	-	-
Accrued Interest on Notes	253,357	160,944	347,516	66,785	66,785
Total	**$ 3,930,677**	**$ 1,916,479**	**$ 1,563,900**	**$ 4,283,256**	**$ 117,785**

Notes Payable – MBL34, LLC

On September 30, 2010 the District agreed to reassign the amended and restated reimbursement agreement for developer advances that was dated January 1, 2010 to another developer, MBL 34, LLC. The original note with Boyd Lake Village, LLC (the "Developer") was for the purpose of advancing funds to the District for construction and operations and maintenance costs of facilities constructed by the District and for other budgeted General Fund expenditures. Upon execution of the agreement, the District issued a promissory note to each developer. These notes will then continue to "fill-up" by the accumulation of additional loan advances in accordance with the terms of the agreement. All rights and interests in this note have been assigned to MBL 34, LLC.

The interest rate of this reassigned note is at the Prime Rate plus two percentage points. At December 31, 2011, this rate was 5.25%. This note matures in 2051.

Notes Payable – JMC, LLP

On June 22, 2011 the District entered into a Limited revenue and tax obligation subordinate promissory note with JMC, LLP in exchange for the conveyance of some capital improvements in the amount of $12,904 with a maturity date of December 31, 2011. The note was paid in full as of December 31, 2011.

Loan Payable

On June 28, 2011 the District signed a loan agreement with US Bank, NA. for purposes of issuing a Limited Tax General Obligation Note in the amount of $1,730,000 to refund a portion of the Developer Note with MBL34, LLC and fully pay the note with JMC, LLP. Payments are due on June 1 and December 1 of each year with a balloon payment on June 28, 2016. The interest rate on the note is 3.61% annually.

NOTE 3: ***CASH AND INVESTMENTS*** (Continued)

The bonds are to be repaid via the pledged revenues of the District which are the required Mill Levies net of costs of collection and specific ownership taxes collected by the District as a result of the imposed Mill Levy.

Authorized Debt

Per the Consolidated Service Plan dated March 10, 2008, the maximum amount of debt that Waterfall Metropolitan District No. 1 and 2 may have outstanding at any one time is $18,000,000.

NOTE 6: ***RELATED PARTIES***

The members of the Board of Directors are employees, owners or are otherwise associated with the developers, MBL34, LLC, individually, and may have conflicts of interest in dealing with the District. The above named developers are the current developers of the property within the District and are the current holders of the Funding and Reimbursement Agreement between the District and the Developers dated January 1, 2010.

NOTE 7: ***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 is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2011. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery, and workers compensation coverage to its members. Settled claims have not exceeded this coverage in the past three years.

The District pays annual premiums to the Pool for liability, property, and public officials' coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from Pool 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 8: ***COMMITMENTS AND CONTINGENCIES***

TABOR Amendment

TABOR Amendment - Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local government. The Amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the Amendment.

The District has established an emergency reserve, representing 3% of fiscal year spending (excluding debt service), as required by the Amendment. At December 31, 2011, the emergency reserve of $4,600 was recorded in the General Fund.

REQUIRED SUPPLEMENTAL INFORMATION

WATERFALL METROPOLITAN DISTRICT NO. 1

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2011

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES			
O & M Fee	$ 80,492	$ 80,500	$ 8
Interest	8	16	8
TOTAL REVENUES	80,500	80,516	16
EXPENDITURES			
Current			
General Government			
Accounting and Administration	5,000	5,432	(432)
District Management	17,000	17,361	(361)
Insurance	3,000	1,776	1,224
Landscape Maintenance	31,100	33,288	(2,188)
Legal Expenses	10,000	8,462	1,538
Office, Dues and Other	1,400	508	892
Utilities	3,000	2,016	984
Contingency	10,000	-	10,000
TOTAL EXPENDITURES	80,500	68,843	11,657
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	11,673	11,673
FUND BALANCE, Beginning	3,024	3,885	861
FUND BALANCE, Ending	$ 3,024	$ 15,558	$ 12,534

See the accompanying independent auditors' report.

INDIVIDUAL FUND SCHEDULES

WATERFALL METROPOLITAN DISTRICT NO. 1

DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2011

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Property Taxes	$ 53,765	$ 53,765	$ 53,765	$ -
Specific Ownership Taxes	3,226	3,226	3,357	(131)
Charges for Services	7,294	-	-	-
Interest Income	-	192	173	19
TOTAL REVENUES	64,285	57,183	57,295	(112)
EXPENDITURES				
Current				
General Government				
Fees	1,075	3,075	3,075	-
Bond Issuance Costs		104,100	104,100	
Debt Service				
Principal	-	1,563,900	1,563,900	-
Interest	63,210	27,063	27,063	-
				-
TOTAL EXPENDITURES	64,285	1,698,138	1,698,138	-
OTHER FINANCING SOURCES (USES)				
Bond Proceeds	-	1,730,000	1,730,000	-
				-
TOTAL OTHER FINANCING SOURCES AND (USES)		1,730,000	1,730,000	
NET CHANGE IN FUND BALANCE	-	89,045	89,157	(112)
FUND BALANCE, Beginning	-	-	-	-
FUND BALANCE, Ending	$ -	$ 89,045	$ 89,157	$ (112)

See the accompanying independent auditors' report.

WATERFALL METROPOLITAN DISTRICT NO. 1

CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2011

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Developer Advances	$ -	$ 12,631	$ 12,631	$ -
TOTAL REVENUES	-	12,631	12,631	-
EXPENDITURES				
Current				
Capital Outlay	-	10,816	10,275	541
TOTAL EXPENDITURES	-	10,816	10,275	541
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	1,815	2,356	541
FUND BALANCE, Beginning	-	-	-	-
FUND BALANCE, Ending	$ -	$ 1,815	$ 2,356	$ 541

See the accompanying independent auditors' report.