DANCING WILLOWS METROPOLITAN DISTRICT

Financial Statements

Year Ended December 31, 2012

with

Independent Auditors' Report

CONTENTS

SIMMONS & WHEELER, P.C. Certified Public Accountants
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Board of Directors
Dancing Willows Metropolitan District
Jefferson County, Colorado

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities and each major fund of the Dancing Willows Metropolitan District, as of and for the year ended December 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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 the Dancing Willows Metropolitan District as of December 31, 2012, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Dancing Willows Metropolitan District's financial statements as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplemental 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Simmons & Wheeler P.C.

Centennial, CO
April 12, 2013

DANCING WILLOWS METROPOLITAN DISTRICT

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

	General	Debt Service	Total	Adjustments	Statement of Net Position
ASSETS					
Cash and investments	$ 48,777	$ -	$ 48,777	$ -	$ 48,777
Cash and investments - restricted	-	1,287	1,287	-	1,287
Receivable - county treasurer	681	1,047	1,728	-	1,728
Property taxes receivable	178,872	204,426	383,298	-	383,298
Accounts receivable	7,620	-	7,620	-	7,620
Capital assets, not being depreciated	-	-	-	213,181	213,181
Capital assets, net of depreciation	-	-	-	4,707,787	4,707,787
Total Assets	$ 235,950	$ 206,760	$ 442,710	4,920,968	5,363,678
LIABILITIES					
Accounts payable	$ 13,890	$ -	$ 13,890	-	13,890
Accrued bond interest	-	-	-	27,787	27,787
Promissory note interest payable	-	-	-	7,805	7,805
Bonds payable - due within one year	-	-	-	45,000	45,000
Long-term liabilities:					
Bonds due in greater than one year	-	-	-	3,945,000	3,945,000
Promissory notes payable	-	-	-	136,201	136,201
Total Liabilities	13,890	-	13,890	4,161,793	4,175,683
DEFERRED INFLOWS OF RESOURCES					
Deferred property taxes	178,872	204,426	383,298	-	383,298
Total Deferred Inflows of Resources	178,872	204,426	383,298	-	383,298
FUND BALANCES/NET POSITION					
Fund balances:					
Restricted for:					
Emergencies	6,032	-	6,032	(6,032)	-
Debt service	-	2,334	2,334	(2,334)	-
Assigned	33,347	-	33,347	(33,347)	-
Unassigned	3,809	-	3,809	(3,809)	-
Total Fund Balances	43,188	2,334	45,522	(45,522)	-
Total Liabilities, Deferred Inflows of Resources and Fund Balance	$ 235,950	$ 206,760	$ 442,710		
Net Position:					
Net investment in capital assets				759,175	759,175
Restricted for:					
Emergencies				6,032	6,032
Debt service				2,334	2,334
Unrestricted				37,156	37,156
Total Net Position				$ 804,697	$ 804,697

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

DANCING WILLOWS METROPOLITAN DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	General	Debt Service	Total	Adjustments	Statement of Activities
EXPENDITURES					
Accounting and audit	$ 15,060	$ -	$ 15,060	$ -	$ 15,060
District management	18,279	-	18,279	-	18,279
Clubhouse administration	79	-	79	-	79
Directors' fees	900	-	900	-	900
Election expense	630	-	630	-	630
Insurance/SDA dues	5,576	-	5,576	-	5,576
Legal	12,992	-	12,992	-	12,992
Statutory compliance	275	-	275	-	275
Miscellaneous expenses	2,453	-	2,453	-	2,453
Payroll taxes	101	-	101	-	101
Treasurer's fees	1,811	2,786	4,597	-	4,597
Utilities	48,083	-	48,083	-	48,083
Grounds	4,556	-	4,556	-	4,556
Pool	10,589	-	10,589	-	10,589
Clubhouse	531	-	531	-	531
Snow removal	4,346	-	4,346	-	4,346
Repairs	9,153	-	9,153	-	9,153
Bond payment - Series 2008A	-	135,000	135,000	(105,178)	29,822
Bond interest - Series 2008B-1 and B-2	-	62,000	62,000	98,088	160,088
Promissory note interest	-	-	-	3,448	3,448
Paying agent fees	-	593	593	-	593
Depreciation	-	-	-	254,475	254,475
Total Expenditures	135,414	200,379	335,793	250,833	586,626
GENERAL REVENUES					
Property taxes	120,667	185,641	306,308	-	306,308
Specific ownership taxes	8,584	13,206	21,790	-	21,790
Interest income	200	182	382	-	382
Clubhouse rentals	4,250	-	4,250	-	4,250
Reimbursed expenses	10,509	-	10,509	-	10,509
Miscellaneous income	674	-	674	-	674
Total General Revenues	144,884	199,029	343,913	-	343,913
NET CHANGES IN FUND BALANCE	9,470	(1,350)	8,120	(8,120)	
CHANGE IN NET POSITION				(242,713)	(242,713)
FUND BALANCES/NET POSITION BEGINNING OF YEAR - RESTATED	33,718	3,684	37,402	1,010,008	1,047,410
END OF YEAR	$ 43,188	$ 2,334	$ 45,522	$ 759,175	$ 804,697

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

DANCING WILLOWS METROPOLITAN DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
GENERAL FUND
For the Year Ended December 31, 2012

	Original & Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	$ 120,828	$ 120,667	$ (161)
Specific ownership taxes	7,612	8,584	972
Interest income	50	200	150
Clubhouse rentals	2,500	4,250	1,750
Reimbursed expenses	-	10,509	10,509
Miscellaneous income	-	674	674
Total Revenues	130,990	144,884	13,894
EXPENDITURES			
Accounting and audit	17,400	15,060	2,340
District management	13,000	18,279	(5,279)
Clubhouse administration	1,000	79	921
Directors' fees	1,000	900	100
Election expense	5,000	630	4,370
Insurance/SDA dues	4,600	5,576	(976)
Legal	12,500	12,992	(492)
Statutory compliance	750	275	475
Miscellaneous expenses	2,200	2,453	(253)
Payroll taxes	77	101	(24)
Treasurer's fees	1,812	1,811	1
Utilities	35,000	48,083	(13,083)
Grounds	5,600	4,556	1,044
Pool	11,000	10,589	411
Clubhouse	1,500	531	969
Snow removal	4,000	4,346	(346)
Repairs	39,311	9,153	30,158
Maintenance	4,096	-	4,096
Promissory note interest	5,448	-	5,448
Contingency	-	-	-
Emergency reserve	4,959	-	4,959
Total Expenditures	170,253	135,414	34,839
NET CHANGE IN FUND BALANCE	(39,263)	9,470	48,733
FUND BALANCE:			
BEGINNING OF YEAR - RESTATED	39,263	33,718	(5,545)
END OF YEAR	$ -	$ 43,188	$ 43,188

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

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Dancing Willows Metropolitan District (the "District"), located in Jefferson County, Colorado, conform to the accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The 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 the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized on January 17, 2006 as a quasi-municipal organization established under the State of Colorado Special District Act. The District was established to finance and construct public infrastructure improvements that benefit the citizens of the District. The District's primary revenues are property taxes. The District is governed by an elected Board of Directors.

The District follows the GASB accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District has no component units as defined by the GASB, Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units.*

The District has no employees and all operations and administrative functions are contracted.

The District is not financially accountable for any other organization.

Recently Issued and Adopted Accounting Pronouncements

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

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

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

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

<u>Basis of Presentation</u>
The accompanying financial statements are presented per GASB Statement No. 34 - Special Purpose Governments.

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The District reports the following major governmental funds:

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

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

Budgetary Accounting

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

During December 2012, the District modified its appropriation in the Debt Service Fund from $200,842 to $206,000, primarily due to the restructuring of the Series 2008B Bonds (see Note 4).

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2012, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a minimum number of bank accounts. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

Estimates

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

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify for reporting in this category.

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

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns 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 two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets and reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated. Depreciation expense has been computed using the straight-line method over the following estimated economic useful lives:

Streets and street improvements	20 years
Safety protection	20 years
Pool and equipment	20 years

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the District.

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

Fund Equity

Beginning with the fiscal year ending December 31, 2011, the District implemented GASB Statement 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent.

Restricted Fund Balance

The restricted fund balance includes amounts restricted for a specific purpose by external parties such as grantors, bondholders, constitutional provisions or enabling legislation.

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of $6,032 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of $2,334 is restricted for the payment of the debt service costs associated with the District's Series 2008B General Obligation Bonds (see Note 4).

Assigned Fund Balance

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

The assigned fund balance in the General Fund in the amount of $33,347 represents funds intended for use for capital repairs per a promissory note (See Note 4.)

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

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

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

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

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

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

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

Net Assets (Position), beginning of year, as previously stated:	$ 1,125,170
Decrease due to the change in accounting for bond issuance costs	(77,760)
Net Position, beginning of year, as restated	$ 1,047,410

Note 2: Cash and Investments

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

Statement of Net Position:		
Cash and investments	$	48,777
Cash and investments – Restricted		1,287
Total	$	50,064

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

Deposits with financial institutions	$	1,973
Investments – COLOTRUST		48,091
	$	50,064

Deposits

Custodial Credit Risk

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 least equal to 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

The District follows state statutes for deposits. None of the District's deposits were exposed to custodial credit risk.

Investments

Credit Risk

The District investment policy requires that the District follow state statutes for investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

Custodial and Concentration of Credit Risk

None of the District's investments are subject to custodial or concentration of credit risk.

Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

As of December 31, 2012, the District had the following investments:

Investment	Maturity	Fair Value
COLOTRUST	Weighted average Under 60 days	$ 48,091

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust ("COLOTRUST") is rated AAAm by Standard & Poor's. COLOTRUST is an investment trust/joint ventures established for local government entities in Colorado to pool surplus funds. The trusts operate similarly to a money market fund with each share maintaining a value of $1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. Designated custodian banks provide safekeeping and depository services to the trusts. Substantially all securities owned by the trusts are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians' internal records identify the investments owned by COLOTRUST. At December 31, 2012, the District had $48,091 invested in COLOTRUST.

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2012 follows:

Governmental Activities:	Balance 01-01-12	Additions	Transfers/ Deletions	Balance 12-31-12
Capital assets not being depreciated:				
Parks and recreation	$ 213,181	$ -	$ -	$ 213,181
Total capital assets not being depreciated	213,181	-	-	213,181
Capital assets being depreciated:				
Streets and street improvements	4,074,187	-	-	4,074,187
Safety protection	147,281	-	-	147,281
Pool and equipment	868,032	-	-	868,032
Total capital assets being depreciated	5,089,500	-	-	5,089,500
Accumulated depreciation:				
Streets and street improvements	(101,855)	(203,709)	-	(305,564)
Safety protection	(3,682)	(7,364)	-	(11,046)
Pool and equipment	(21,701)	(43,402)	-	(65,103)
Total accumulated depreciation	(127,238)	(254,475)	-	(381,713)
Net capital assets being depreciated	4,962,262	(254,475)	-	4,707,787
Governmental assets, net	$ 5,175,443	$ (254,475)	$ -	$ 4,920,968

During 2008, the District acquired $6,654,217 of capital assets (see Note 4). A portion of these assets have been conveyed to other governments.

Note 4: Long Term Debt

A description of the long-term obligations as of December 31, 2012 is as follows:

Series 2008A and Series 2008B
On March 11, 2008, the District issued $610,904 of General Obligation (Limited Tax Convertible to Unlimited Tax) Capital Appreciation Bonds Series 2008A ("Series 2008A Bonds") and $3,108,609 of General Obligation (Limited Tax Convertible to Unlimited Tax) Convertible Capital Appreciation Bonds Series 2008B ("Series 2008B Bonds"). The Series 2008A Bonds matured on June 1, 2012. The Series 2008B Bonds mature on December 1, 2033.

The Series 2008A Bonds paid no current interest and accreted at the rate of 6% per annum compounding semi-annually on June 1 and December 1, commencing June 1, 2008. The Series 2008A Bonds were not subject to optional redemption prior to maturity.

The bonds were issued for the purpose of paying project costs. The bond costs of issuance were to be paid from non-bond related funds. By letter agreement dated March 11, 2008, Dancing Willows by Remington Homes, Inc. ("Developer") agreed to provide the District with an advance for the $91,900 to cover the bond costs of issuance. The District repaid the advance in August 2008 using property taxes received from the debt service mill levy.

During 2012, the District made the final payment on the Series 2008A Bonds.

Prior to the conversion date on June 1, 2012, the Series 2008B Bonds paid no current interest and accreted at the rate of 6% per annum compounding semi-annually on June 1 and December 1, commencing June 1, 2008. On the conversion date, the Series 2008B Bonds would cease to be capital appreciation bonds and automatically convert to current interest bonds in the amount of $3,990,000. The Series 2008B Bonds would then bear interest at 6% per annum payable semi-annually on June 1 and December 1, commencing June 1, 2012. The Series 2008B Bonds were subject to redemption prior to maturity on June 1, 2018 and on any date thereafter, upon payment of the principal amount plus accrued interest without redemption premium.

The Series 2008B Bonds are payable from pledged revenue which includes ad valorem taxes, specific ownership taxes, and any legally available monies which the District determines to be applied. The ad valorem taxes and specific ownership taxes are pledged proportionate to the mills certified to the Debt Service Fund.

Series 2008B-1 and Series 2008B-2 Bonds

On December 12, 2011, the District approved a resolution which Amended and Restated its original Resolution Authorizing the Issuance of the Series 2008A and Series 2008B General Obligation Bonds ("Amended and Restated Resolution"). The purpose of the Amended and Restated Resolution was to allow the District to restructure its outstanding bonds on terms that the District finds favorable to allow it to meet its debt and operations obligations.

On January 13, 2012, the District completed the restructuring of the Series 2008B Bonds. After the restructuring, the bonds are known as Series 2008B-1 and Series 2008B-2 Bonds. The Series 2008B-1 Bonds are the portion of the Series 2008B Bonds constituting an accreted value as of June 1, 2012 of $3,490,000. The Series 2008B-2 Bonds are the portion of the Series 2008B Bonds constituting an accreted value as of June 1, 2012 of $500,000. After June 1, 2012, both the Series 2008B-1 Bonds and the Series 2008B-2 Bonds convert to current interest bonds. Effective June 1, 2012, the Series 2008B-1 Bonds will carry a stepped coupon rate of 3.30% payable semi-annually. The rate increases to 7.00% on June 1, 2019 through maturity of December 1, 2039. The Series 2008B-2 Bonds will carry a stepped coupon rate of 7.75% effective June 1, 2012 and 6.00% effective June 1, 2018 through maturity of December 1, 2041. All of the costs of the restructuring were paid by the bondholder.

The District underpaid its bond interest payment due on December 1, 2012 by $14,960. In March 2013, the District made the payment using property tax receipts. This underpayment was anticipated as part of cash flow analysis related to the bond restructuring.

The following is a summary of the annual long-term debt principal and interest requirements to maturity for the Series 2008B-1 and Series 2008B-2 Bonds after the restructuring:

Year	Principal	Interest	Total
2013	$ 45,000	$ 168,880	$ 213,880
2014	85,000	152,435	237,435
2015	110,000	149,630	259,630
2016	120,000	146,000	266,000
2017	120,000	142,040	262,040
2018 - 2022	385,000	976,818	1,361,818
2023 - 2027	430,000	1,015,200	1,445,200
2028 - 2032	700,000	829,700	1,529,700
2033 - 2037	1,065,000	537,450	1,602,450
2038 - 2041	930,000	126,800	1,056,800
	$ 3,990,000	$ 4,244,953	$ 8,234,953

Debt Authorization

As of December 31, 2012, the District has authorized but unissued indebtedness of $487. The District has not budgeted to issue any new debt during 2013.

Operations Funding Agreement

The District entered into an Operations Funding Agreement ("OFA") with the Developer on December 17, 2007, whereby the Developer agreed to provide advances to fund any annual operations and maintenance shortfall. As part of the OFA, the Developer also waived any claim for reimbursement from the District. Therefore, any advances against the OFA have been recognized as developer contributions. The Developer has provided a total of $120,400 per the OFA. The OFA was terminated concurrent with the approval of the Agreement with Remington Homes, Inc. discussed in this footnote.

Promissory Note – McGeady Sisneros, P.C.

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

Promissory Note – Special District Management Services, Inc.

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

Promissory Notes – DWH Investments LLC

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

Promissory Note – Remington Homes

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

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

The owners of the Remington Note as well as the owners of the DWH Notes, the McGeady Note and the SDMS Note agree that payments will be made to them on a pro rata basis beginning December 15, 2012 calculated based upon the noteholders' percentage share of the total outstanding notes and the final payment dates have been extended. No payments were made during 2012 as the Capital Reserve Account had not been fully funded.

The following is an analysis of changes in long-term debt for the period ending December 31, 2012:

	Balance 12-31-11	Additions	Deletions	Balance 12-31-12	Current Portion
Series 2008A	$ 131,067	$ 3,933	$ 135,000	$ -	$ -
Series 2008B	3,873,787	116,213	3,990,000	-	-
Series 2008B-1	-	3,490,000	-	3,490,000	45,000
Series 2008B-2	-	500,000	-	500,000	-
Promissory notes - principal	136,201	-	-	136,201	-
Promissory notes - interest	4,357	3,448	-	7,805	-
	$ 4,145,412	$ 4,113,594	$ 4,125,000	$ 4,134,006	$ 45,000

Note 5: <u>Tax, Spending and Debt Limitations</u>

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer Bill of Rights ("TABOR") contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

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

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

Note 6: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The District has elected to participate in the Colorado Special Districts Property and Liability Pool ("Pool") which is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for auto, public officials' liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

Note 7: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

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

1) governmental funds report capital outlays as expenditures; however, in the government-wide statements, the costs of those assets are held as construction in process pending transfer to other governmental entities or depreciated over their useful lives; and,

2) long-term liabilities such as bonds payable, accrued bond interest payable, promissory notes payable, and accrued interest on promissory notes are not due and payable in the current period and, therefore, are not in the funds.

The Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities includes an adjustments column. The adjustments have the following elements:

1) governmental funds report capital outlays as expenditures; however, in the statement of activities, the costs of those assets are depreciated over their useful lives;

2) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the statement of activities; and,

3) governmental funds report bond principal payments as expenditures; however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long-term liabilities.

Note 8: Prior Period Adjustment

During 2012, it was determined that two of the promissory notes described in Note 4, that were previously recorded as liabilities in the General Fund, need to be reflected as long term liabilities instead of current liabilities. This change has no effect on total net position but does increase the beginning fund balance in the General Fund.

Beginning fund balance 1/1/2012	$	23,708
Change due to reclassification		10,010
Restated beginning fund balance	$	33,718

SUPPLEMENTAL INFORMATION

DANCING WILLOWS METROPOLITAN DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
DEBT SERVICE FUND
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Property taxes	$ 185,889	$ 185,889	$ 185,641	$ (248)
Specific ownership taxes	11,400	13,400	13,206	(194)
Interest income	150	150	182	32
Miscellaneous income	-	2,877	-	(2,877)
Total Revenues	197,439	202,316	199,029	(3,287)
EXPENDITURES				
Treasurer's fees	2,788	2,788	2,786	2
Bond payment - Series 2008A	135,000	135,000	135,000	-
Bond interest - Series 2008B-1 and B-2	62,654	67,612	62,000	5,612
Paying agent fees	400	600	593	7
Total Expenditures	200,842	206,000	200,379	5,621
NET CHANGE IN FUND BALANCE	(3,403)	(3,684)	(1,350)	2,334
FUND BALANCE:				
BEGINNING OF YEAR	3,403	3,684	3,684	-
END OF YEAR	$ -	$ -	$ 2,334	$ 2,334

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

DANCING WILLOWS METROPOLITAN DISTRICT

SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED
December 31, 2012

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied	Total Property Tax Levied	Total Property Tax Collected [1]	Percent Collected to Levied
2007	$ 517,500	61.000	$ 31,568	$ 31,567	100.00%
2008	$ 2,377,100	61.000	$ 145,003	$ 145,003	100.00%
2009	$ 3,221,370	61.000	$ 196,504	$ 196,502	100.00%
2010	$ 3,875,030	61.000	$ 236,377	$ 232,132	98.20%
2011	$ 4,481,050	61.000	$ 273,344	$ 277,754	101.61%
2012	$ 4,647,228	66.000	$ 306,717	$ 306,308	99.87%
Estimated for year ending December 31, 2013	$ 5,110,641	75.000	$ 383,298		

NOTE

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

DANCING WILLOWS METROPOLITAN DISTRICT

Schedule of Debt Service Requirements to Maturity
December 31, 2012

$3,990,000
General Obligation Convertible Capital Appreciation Bonds
Series 2008B-1 and 2008B-2
Restructure Date January 13, 2012
Interest Rate Varies 3.30-7.75%
Interest Payable June 1, December 1; Principal Due December 1

Year	Principal	Interest	Total
2013	$ 45,000	$ 168,880	$ 213,880
2014	85,000	152,435	237,435
2015	110,000	149,630	259,630
2016	120,000	146,000	266,000
2017	120,000	142,040	262,040
2018	135,000	133,705	268,705
2019	90,000	178,063	268,063
2020	45,000	224,950	269,950
2021	50,000	221,800	271,800
2022	65,000	218,300	283,300
2023	65,000	213,750	278,750
2024	80,000	209,200	289,200
2025	85,000	203,600	288,600
2026	95,000	197,650	292,650
2027	105,000	191,000	296,000
2028	115,000	183,650	298,650
2029	125,000	175,600	300,600
2030	140,000	166,850	306,850
2031	150,000	157,050	307,050
2032	170,000	146,550	316,550
2033	175,000	134,650	309,650
2034	195,000	122,400	317,400
2035	210,000	108,750	318,750
2036	235,000	94,050	329,050
2037	250,000	77,600	327,600
2038	270,000	60,100	330,100
2039	290,000	41,200	331,200
2040	315,000	22,200	337,200
2041	55,000	3,300	58,300
	$ 3,990,000	$ 4,244,953	$ 8,234,953