CASTLE OAKS METROPOLITAN DISTRICT

Financial Statements

Year Ended December 31, 2012

With

Independent Auditors' Report

C O N T E N T S

WAGNER BARNES & GRIGGS, PC

Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Castle Oaks Metropolitan District
Douglas County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Castle Oaks Metropolitan District (the 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. These financial statements are the responsibility of the District's management.

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 misstatements, 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 from 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 Castle Oaks Metropolitan District, as of December 31, 2012, and the respective changes in financial position thereof, and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Wagner Barnes & Griggs, PC

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Other Matters

Required Supplementary Information

Management has omitted 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 opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Wagner Barnes & Griggs, PC

Lakewood, Colorado
July 15, 2013

CASTLE OAKS METROPOLITAN DISTRICT

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

	General	Debt Service	Capital Projects	Total	Adjustments	Statement of Net Position
ASSETS						
Cash and investments	$ 37,797	$ -	$ -	$ 37,797	$ -	$ 37,797
Cash and investments - restricted	-	3,596,506	-	3,596,506	-	3,596,506
Receivable county treasurer	199	2,288	-	2,487	-	2,487
Property taxes receivable	37,241	428,266	-	465,507	-	465,507
Development fees receivable	-	145,530	-	145,530	-	145,530
Due from other funds	-	-	14,836	14,836	(14,836)	-
Due from District #2	2,123	-	-	2,123	-	2,123
Total Assets	77,360	4,172,590	14,836	4,264,786	(14,836)	4,249,950
DEFERRED OUTFLOWS OF RESOURCES						
Deferred loss on refunding	-	-	-	-	963,405	963,405
Total Deferred Outflows of Resources	-	-	-	-	963,405	963,405
Total Assets and Deferred Outflows of Resources	$ 77,360	$ 4,172,590	$ 14,836	$ 4,264,786		
LIABILITIES						
Accounts payable	$ 23,935	$ 42,136	$ -	$ 66,071	-	66,071
Deferred development fees	-	145,530	-	145,530	-	145,530
Accrued interest on bonds	-	-	-	-	33,401	33,401
Due to other funds	-	14,836	-	14,836	(14,836)	-
Long-term liabilities:						
Due in more than one year	-	-	-	-	18,558,378	18,558,378
Total Liabilities	23,935	202,502	-	226,437	18,576,943	18,803,380
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	37,241	428,266	-	465,507	-	465,507
Total Deferred Inflows of Resources	37,241	428,266	-	465,507	-	465,507
FUND BALANCE						
Restricted:						
Emergencies	1,736	-	-	1,736	(1,736)	-
Debt service	-	3,541,822	-	3,541,822	(3,541,822)	-
Capital projects	-	-	14,836	14,836	(14,836)	-
Unassigned	14,448	-	-	14,448	(14,448)	-
Total Fund Balances	16,184	3,541,822	14,836	3,572,842	(3,572,842)	-
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 77,360	$ 4,172,590	$ 14,836	$ 4,264,786		
NET POSITION						
Restricted for:						
Emergencies					1,736	1,736
Debt service					3,508,421	3,508,421
Capital projects					14,836	14,836
Unrestricted					(17,580,525)	(17,580,525)
Total Net Position (Deficit)					$ (14,055,532)	$ (14,055,532)

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

CASTLE OAKS METROPOLITAN DISTRICT

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

	General	Debt Service	Capital Project	Total	Adjustments	Statement of Activities
EXPENDITURES						
Accounting and audit	$ 13,265	$ -	$ -	$ 13,265	$ -	$ 13,265
Insurance	2,927	-	-	2,927	-	2,927
Legal	25,198	-	-	25,198	-	25,198
Miscellaneous expenses	940	-	-	940	-	940
Treasurer's fees	530	6,099	-	6,629	-	6,629
Bond principal	-	85,000	-	85,000	(85,000)	-
Bond interest expense	-	356,288	-	356,288	21,269	377,557
Paying agent fees	-	3,000	-	3,000	-	3,000
Repay developer advances	-	7,466,622	-	7,466,622	(7,466,622)	-
Total Expenditures	42,860	7,917,009	-	7,959,869	(7,530,353)	429,516
GENERAL REVENUES						
Property taxes	35,352	406,546	-	441,898	-	441,898
Specific ownership taxes	2,708	31,144	-	33,852	-	33,852
Interest income	14	2,722	7	2,743	-	2,743
Total General Revenues	38,074	440,412	7	478,493	-	478,493
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,786)	(7,476,597)	7	(7,481,376)	7,530,353	48,977
OTHER FINANCING SOURCES (USES)						
Bond proceeds	-	17,025,000	-	17,025,000	(17,025,000)	-
Bond cost of issuance	-	(595,197)	-	(595,197)		(595,197)
Payment to refunding agent	-	(6,755,964)	-	(6,755,964)	6,755,964	-
Developer contributions	-	-	-	-	1,430,137	1,430,137
Total Other Financing Sources (Uses)	-	9,673,839	-	9,673,839	(8,838,899)	834,940
NET CHANGE IN FUND BALANCES	(4,786)	2,197,242	7	2,192,463	(2,192,463)	
CHANGE IN NET POSITION					883,917	883,917
FUND BALANCE/NET POSITION BEGINNING OF YEAR-RESTATED	20,970	1,344,580	14,829	1,380,379	(16,319,828)	(14,939,449)
END OF YEAR	$ 16,184	$ 3,541,822	$ 14,836	$ 3,572,842	$ (17,628,374)	$ (14,055,532)

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

CASTLE OAKS 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	$ 35,344	$ 35,352	$ 8
Specific ownership taxes	2,474	2,708	234
Interest income	-	14	14
Total Revenues	37,818	38,074	256
EXPENDITURES			
Accounting and audit	14,000	13,265	735
Insurance	2,500	2,927	(427)
Legal	40,000	25,198	14,802
Miscellaneous expenses	847	940	(93)
Treasurers fees	530	530	-
Contingency	5,387	-	5,387
Emergency reserve	1,736	-	1,736
Total Expenditures	65,000	42,860	22,140
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(27,182)	(4,786)	(21,884)
OTHER FINANCING SOURCES (USES)			
Developer advance	283	-	(283)
Total Other Financing Sources (Uses)	283	-	(283)
NET CHANGE IN FUND BALANCE	(26,899)	(4,786)	22,113
FUND BALANCE			
BEGINNING OF YEAR	$ 26,899	$ 20,970	$ (5,929)
END OF YEAR	$ -	$ 16,184	$ 16,184

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

Note 1: Summary of Significant Accounting Policies

The accounting policies of Castle Oaks Metropolitan District ("the District"), located in Douglas 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. 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 in November 2001, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was established to provide street improvements, water and sanitation, parks and recreation, safety protection, transportation services, mosquito control and television relay and translation. 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.

Recently Issued Accounting Pronouncements

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

Basis of Presentation

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

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.

<u>Measurement Focus, Basis of Accounting and Financial Statement Presentation</u>
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:

> *<u>General Fund</u>* - 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.
>
> *<u>Debt Service Fund</u>* – 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.
>
> *<u>Capital Projects Fund</u>* – The Capital Projects Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other assets.

Budgetary Accounting

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

The District amended its total appropriations in the Debt Service Fund from $453,393 to $15,275,000 primarily due to refunding Bond Series 2005 and repayment on the developer notes.

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.

Internal Balances

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". These amounts are eliminated in the Statement of Net Position.

Estimates

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred loss on refunding reported in the government-wide statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

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.

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.

Fund Equity

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

Restricted Fund Balance

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

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of $1,736 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 $3,541,822 is restricted for the payment of the debt service costs associated with the Limited Tax General Obligation bonds (see Note 4).

The restricted fund balance in the Capital Projects Fund in the amount of $14,836 is restricted for the payment of the costs for capital improvements within the District.

Unassigned Fund Balance

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

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

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District can report 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. As of December 31, 2012, the District had no investment in capital 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:	$(14,782,444)
Decrease due to the change in accounting for bond issuance costs	157,005
Net Position, beginning of year, as restated	$(14,939,449)

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	$ 37,797
Cash and investments – Restricted	3,596,506
Total	$ 3,634,303

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

Deposits with financial institutions	$ 5,665
Investments – CSAFE	3,627,266
Investments – COLOTRUST	1,372
	$ 3,634,303

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 to102% 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 does not have a formal deposit policy. None of the District's deposits were exposed to custodial credit risk.

Investments:

Credit Risk

The District has not adopted a formal investment policy; however, the District follows state statutes regarding investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

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 $1,372 invested in COLOTRUST.

The local government investment pool Colorado Surplus Asset Fund Trust ("CSAFE"), is rated AAAm by Standard and Poor's. CSAFE is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at $1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds, and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to custodian agreements. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodians' internal records identify the investments owned by CSAFE. At December 31, 2012, the District had $3,627,266 invested in CSAFE.

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	$ 1,372
CSAFE	Weighted average Under 60 days	3,627,266
Total investments		$ 3,628,638

Note 3: Capital Assets

Upon completion and acceptance, all fixed assets will be conveyed by the District to other local governments. The District will not be responsible for maintenance. All fixed assets have been conveyed to the Town of Castle Rock in prior years.

Note 4: Long Term Debt

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

In 2005, the District issued $16,000,000 of General Obligation Bonds Series 2005 dated September 26, 2005. The bonds were issued to finance capital improvements and retire outstanding 2002 Bond Anticipation Notes in the amount of $3,000,000. The bonds are term bonds. $6,000,000 in principal, bearing interest at 6.0% is due on December 1, 2025. $10,000,000 in principal, bearing interest at 6.125%, is due on December 1, 2035. The interest is payable semiannually on each June 1 and December 1. The bonds were subject to an early redemption prior to their respective maturities at the option of the District, at a redemption price equal to the principal amount plus accrued interest to the redemption date, without a redemption premium, on December 1, 2015 or any date thereafter. The bonds were subject to a mandatory redemption if the conditions of the use of the restricted construction funds are not met by October 15, 2009. As a result, on December 1, 2009 an extraordinary redemption of $9,965,000 was made.

On December 18, 2012, $17,025,000 of General Obligation Refunding Bonds Series 2012 were issued to refund the General Obligation Bonds Series 2005. The Series 2012 bonds mature on December 1, 2022 and bear interest at 5.50%. The interest is payable semiannually on each June 1 and December 1. The bonds were subject to an early redemption prior to their respective maturities at the option of the District, at a redemption price equal to the principal amount plus accrued interest to the redemption date, without a redemption premium, on December 1, 2017 or any date thereafter.

The bonds are payable from pledged revenue consisting of the required mill levy; capital fees, if any; the portion of the Specific Ownership Tax which is collected as a result of the imposition of the Required Mill Levy and any other legally available moneys which the District determines, in its sole discretion, to transfer to the Trustee for application as Pledged Revenue. Until such a time that the District's outstanding debt is less than 50% of the assessed valuation of all taxable property of the District, the mill levy cannot be in excess of 61.181 mills adjusted for change in assessed value calculation, and for so long as the Surplus Fund is less than the Maximum Surplus Amount, such mill levy cannot be less than 46.0 mills. The bonds are also secured by a partial Debt Service Guaranty and a Reserve Fund of $1,702,500.

Facility Acquisition Agreement

On September 24, 2004 the District entered into a Facilities Acquisition Agreement with the Former Developer, whereby the Former Developer agreed to pay for construction of public improvements and the District agreed to reimburse the Former Developer from bond issues, plus interest at 8% per annum from the date of each advance until repayment. The District's obligation to pay amounts due under the agreement is subject to annual appropriation and the debt is not construed as multiple fiscal year debt.

During 2010, the Castle Oaks Estates, LLC and Autumn Sage Development LTD relationship with the District ended and the Former Developer forgave $3,180,375 of note principal and $3,174,154 of note interest and transferred the remaining principal balance of $9,000,000 to a Taxable Promissory Note between the District and Autumn Sage Development, LTD.

In May 2011 a Termsheet for Settlement of the $9,000,000 Promissory Note Dispute was signed by Autumn Sage Development, Ltd. and Starwood Land Ventures ("Termsheet"). In the Termsheet the parties agree that the $9,000,000 note was invalid and the obligation to repay has reverted back to the obligation under the Facility Acquisition Agreement with 1/9 owed to Autumn Sage Development, Ltd. and 8/9 owed to Starwood Land Ventures.

On November 13, 2012, Autumn Sage Development, Ltd. and SLV Castle Oaks, LLC executed a Settlement Agreement which provides for the extinguishment of the Autumn Sage Development Promissory Note and assignment of all rights and reimbursements to SLV Castle Oaks, LLC contingent upon the issuance of the Series 2012 Bonds and payment to Autumn Sage Development, LLC of amounts due under the Settlement Agreement. In December 2012, the Bonds were issued and Autumn Sage Development, LLC was paid a principal repayment of $7,466,622 and $1,430,137 of interest was forgiven leaving a note principal balance of $1,533,378 payable to SLV Castle Oaks, LLC.

Funding and Reimbursement Agreement

On October 14, 2010, the District, Castle Oaks Metropolitan District No.2 and Castle Oaks Metropolitan District No. 3 entered into a Funding and reimbursement Agreement with SLV Castle Oaks, LLC ("the Developer") whereby, the Developer agrees to pay costs for permitted District purposes, including but not limited to: capital costs and costs in the nature of general operating, administrative and maintenance costs and other costs necessary to continue good standing under applicable law. Under this agreement, the Developer agrees to loan to the Districts one or more sums of money, not to exceed the aggregate of $450,000, bearing simple interest at 7.0% per annum, and shall be available to the Districts through December 31, 2012. Thereafter, the Developer may agree to renew its obligations on an annual basis.

The following is a summary of the annual long-term debt principal and interest requirements for the Series 2012 bonds:

	Principal	Interest	Total
2013	$ -	$ 889,556	$ 889,556
2014	-	936,375	936,375
2015	-	936,375	936,375
2016	-	936,375	936,375
2017	-	936,375	936,375
2018 - 2022	17,025,000	4,596,625	21,621,625
	$ 17,025,000	$ 9,231,681	$ 26,256,681

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

	Balance 01-01-12	Additions	Deletions	Balance 12-31-12	Current Portion
General Obligation Limited					
Bond Series 2005	$ 5,860,000	$ -	$ 5,860,000	$ -	$ -
Bond Series 2012	-	17,025,000	-	17,025,000	-
Facilities Agreement					
Principal	9,000,000	-	7,466,622	1,533,378	-
Interest	1,430,137	-	1,430,137	-	-
Total	$ 16,290,137	$ 17,025,000	$ 14,756,759	$ 18,558,378	$ -

Debt Authorization

In 2000, District voters authorized the District to issue $250,750,000 of general obligation bonds or other financial obligations for the infrastructure development, parks and recreation, performance of intergovernmental agreements, formation of a regional water authority, refinancing of district debt, and other uses. At December 31, 2012 the District had $230,725,000 in remaining authorization. However, the District's Service Plan limits its general obligation debt to $25,000,000.

Note 5: Related Party

Multiple members of the Board of Directors are employees, owners or are otherwise associated with the Developer and may have conflicts of interest with respect to certain transactions which come before the Board.

Note 6: Agreements

Development Fee Agreement

The District entered into a Development Fee Agreement with the Former Developer. The Former Developer guaranteed to fund any shortfall in Facility Development Fees received by the District with respect to property within the District owned by the Former Developer. The shortfall amounts are to be calculated semiannually as of April 15th and October 15th and are to be paid each May 1st and November 1st. The following schedule lists the payments that remain outstanding at December 31, 2012:

May 1, 2009	$ 72,265
November 1, 2009	72,265
Total	$ 144,530

The Resolution of the Castle Oaks Metropolitan District Regarding the Imposition of Facilities / Development Fees, as amended, imposes a lien on the property in the District for the collection of the fees at the time of building permit.

Cost Sharing Agreement

The District entered into a Development and Cost Sharing Agreement with MDC Land Corporation ("MDC") on July 10, 2006. The District has agreed to share in costs of installing certain potable water mains and streets with MDC. As of December 31, 2012, no payments have been made under this agreement.

Intergovernmental Agreement

On October 28, 2002, as amended September 2, 2003, the District entered into an agreement with the Town of Castle Rock (the Town) whereby the District will finance and construct public improvements which are necessary to provide municipal services within the District's Boundaries as set forth in the Service Plan. Upon completion of the improvements, the District is required to convey the improvements to the Town. Upon acceptance, the Town is responsible for operation, maintenance, and repair of such improvements. The District imposes a development fee on property within its boundaries which equals the water and sewer fee of the Town plus a facility fee (Development Fee) to the District. Pursuant to the Agreement, the District retains the Town's water and sewer fee. The District is also permitted to impose ad valorem property taxes, rates, fees, or other revenue as set forth in the Service Plan.

Note 7: Tax, Spending and Debt Limitations

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

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

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

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

On November 7, 2000, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

Note 8: Risk Management

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

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 9: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

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

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

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

1) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities.

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

SUPPLEMENTAL INFORMATION

CASTLE OAKS 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	$ 406,457	$ 406,457	$ 406,546	$ 89
Specific ownership taxes	28,452	28,452	31,144	2,692
Interest income	598	598	2,722	2,124
Total Revenues	435,507	435,507	440,412	4,905
EXPENDITURES				
Bond interest	356,288	356,288	356,288	-
Bond principal	85,000	85,000	85,000	-
Paying agent fees	6,000	6,000	3,000	3,000
Treasurers' fees	6,097	6,097	6,099	(2)
Miscellaneous	8	8	-	8
Total Expenditures	453,393	453,393	450,387	3,006
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(17,886)	(17,886)	(9,975)	7,911
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	14,821,607	17,025,000	2,203,393
Bond issuance costs	-	(565,607)	(595,197)	(29,590)
Repay developer note	-	(7,500,000)	(7,466,622)	33,378
Payment to refunding agent	-	(6,756,000)	(6,755,964)	36
Total Other Financing Sources (Uses)	-	-	2,207,217	2,207,217
NET CHANGE IN FUND BALANCE	(17,886)	(17,886)	2,197,242	2,215,128
FUND BALANCE				
BEGINNING OF YEAR	1,345,439	1,345,439	1,344,580	(859)
END OF YEAR	$ 1,327,553	$ 1,327,553	$ 3,541,822	$ 2,214,269

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

CASTLE OAKS METROPOLITAN DISTRICT

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

	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Interest income	$ -	$ 7	$ 7
Total Revenues	-	7	7
EXPENDITURES			
Construction	14,829	-	14,829
Total Expenditures	14,829	-	14,829
NET CHANGE IN FUND BALANCE	(14,829)	7	14,836
FUND BALANCE			
BEGINNING OF YEAR	14,829	14,829	-
END OF YEAR	$ -	$ 14,836	$ 14,836

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

CASTLE OAKS METROPLITAN DISTRICT

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2012

$17,025,000 General Obligation Refunding Bonds Series 2012
Interest Payable June 1 and December 1
Principal Due December 1

Year Ended December 31,	Principal	Interest	Total
2013	$ -	$ 889,556	$ 889,556
2014	-	936,375	936,375
2015	-	936,375	936,375
2016	-	936,375	936,375
2017	-	936,375	936,375
2018	95,000	936,375	1,031,375
2019	165,000	931,150	1,096,150
2020	220,000	922,075	1,142,075
2021	235,000	909,975	1,144,975
2022	16,310,000	897,050	17,207,050
	$ 17,025,000	$ 9,231,681	$ 26,256,681