

**Todd Creek Village Metropolitan District  
(Adams County, Colorado)**

**FINANCIAL STATEMENTS**

**with Independent Auditors' Report**

**December 31, 2008**

**Todd Creek Village Metropolitan District**

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WAGNER  
BARNES, PC

Certified Public Accountants & Business Consultants

### Independent Auditors' Report

Board of Directors  
Todd Creek Village Metropolitan District  
Adams County, Colorado

We have audited the accompanying basic financial statements of Todd Creek Village Metropolitan District, as of December 31, 2008 and 2007, and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

The District has not presented management's discussion and analysis that the Governmental Accounting Standards Board had determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of Todd Creek Village Metropolitan District, as of December 31, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming opinions on the basic financial statements. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the District. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Wagner Barnes, PC*

February 21, 2011  
Lakewood, Colorado

**Todd Creek Village Metropolitan District**

**STATEMENTS OF NET ASSETS**

December 31, 2008 and 2007

	<u>2008</u>	<u>Restated 2007</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ -	\$ 22,515
Cash and cash equivalents - restricted	2,924,561	5,420,136
Accounts receivable	88,568	163,750
Prepaid expenses	15,594	140,594
<b>Total current assets</b>	<u>3,028,723</u>	<u>5,746,995</u>
<b>Capital assets</b>		
Water rights	5,907,934	5,680,261
Operating system and storage	51,539,901	49,498,009
	<u>57,447,835</u>	<u>55,178,270</u>
Accumulated depreciation	(4,934,595)	(3,647,031)
<b>Total capital assets</b>	<u>52,513,240</u>	<u>51,531,239</u>
<b>Other assets</b>		
Escrow funds	-	200,006
Bond issuance costs (net of accumulated amortization of \$1,526,669 and \$1,145,002, respectively)	1,243,105	1,624,772
Certificates of Participation issuance costs (net of accumulated amortization of \$51,653 and \$31,129, respectively)	193,220	213,744
Certificates of Participation discount (net of accumulated amortization of \$31,968 and \$19,266, respectively)	119,582	132,284
<b>Total other assets</b>	<u>1,555,907</u>	<u>2,170,806</u>
<b>TOTAL ASSETS</b>	<u>57,097,870</u>	<u>59,449,040</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank overdraft	44,178	-
Accounts payable	134,734	81,110
Accrued interest payable	88,260	88,260
Line of credit payable	980,713	1,255,050
<b>Total current liabilities</b>	<u>1,247,885</u>	<u>1,424,420</u>
<b>Long-term liabilities</b>		
Bonds and certificates of participation payable	<u>27,785,000</u>	<u>27,785,000</u>
<b>TOTAL LIABILITIES</b>	<u>29,032,885</u>	<u>29,209,420</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	24,728,240	23,746,239
Restricted	2,924,561	5,420,136
Unrestricted	412,184	1,073,245
<b>TOTAL NET ASSETS</b>	<u>\$ 28,064,985</u>	<u>\$ 30,239,620</u>

*The accompanying Notes to Financial Statements are an integral part of these statements.*

**Todd Creek Village Metropolitan District**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

**For the Years Ended December 31, 2008 and 2007**

	<b>2008</b>	<b>Restated 2007</b>
<b>Operating revenues</b>		
Water revenue	\$ 1,510,407	\$ 1,424,101
(FTC) Failure to connect	774,284	-
Meter fees	15,375	25,150
Inspection fees	1,350	5,600
Penalties and other income	105,116	162,413
<b>Total operating revenues</b>	<b>2,406,532</b>	<b>1,617,264</b>
<b>Operating expenses</b>		
Accounting and audit	9,416	-
Depreciation	1,287,564	1,242,221
Directors fees	3,300	4,225
District management	576,000	576,000
Engineering	18,320	84,907
Insurance	15,278	-
Rental	3,540	-
Legal	214,156	31,450
Miscellaneous	24,234	86,651
MXU system	48,542	105,490
Office expense	79,867	62,607
Public relations	29,888	-
Repairs and maintenance	182,697	201,040
Utilities and water leases	226,634	191,756
Water treatment	68,977	57,688
<b>Total operating expenses</b>	<b>2,788,413</b>	<b>2,644,035</b>
<b>Operating (loss)</b>	<b>(381,881)</b>	<b>(1,026,771)</b>
<b>Nonoperating revenue and (expense)</b>		
Investment earnings	145,159	449,854
Amortization expense	(414,893)	(414,893)
Credit enhancement fee	(125,000)	(171,262)
Interest	(1,148,602)	(1,238,319)
Interest expense - certificates of participation base rental	(521,688)	(521,688)
Issuance costs	-	(418)
Loan fees	(2,792)	-
Paying agent fees	(1,400)	-
<b>Total nonoperating revenue and (expense)</b>	<b>(2,069,216)</b>	<b>(1,896,726)</b>
<b>(Loss) before capital contributions</b>	<b>(2,451,097)</b>	<b>(2,923,497)</b>
<b>Capital contributions</b>		
Tap fees	276,462	3,663,301
Contributed assets	-	-
<b>Total capital contributions</b>	<b>276,462</b>	<b>3,663,301</b>
<b>Change in net assets</b>	<b>(2,174,635)</b>	<b>739,804</b>
<b>Net assets - beginning</b>	<b>30,239,620</b>	<b>29,499,816</b>
<b>Net assets - ending</b>	<b>\$ 28,064,985</b>	<b>\$ 30,239,620</b>

*The accompanying Notes to Financial Statements are an integral part of these statements.*

**Todd Creek Village Metropolitan District**

**STATEMENTS OF CASH FLOWS**

**For the Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 2,758,176	\$ 5,180,629
Payments to suppliers	<u>(1,278,047)</u>	<u>(1,587,061)</u>
Net cash provided by operating activities	<u>1,480,129</u>	<u>3,593,568</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(2,269,567)	(4,585,115)
Net proceeds (payments) on line of credit	(274,337)	631,000
Escrow (payments) receipts for capital acquisitions	200,006	9,994
Payments received on developer borrowings	-	225,131
Interest paid certificates of participation	(521,688)	(521,688)
Principal paid on revenue bonds	-	(2,310,000)
Interest paid on revenue bonds	(1,059,123)	(1,170,850)
Interest paid on line of credit	(89,477)	(76,613)
Other debt-related expenditures	<u>(129,192)</u>	<u>(171,680)</u>
Net cash (used) by capital and related financing activities	<u>(4,143,378)</u>	<u>(7,969,821)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and dividends received	<u>145,159</u>	<u>449,854</u>
Net cash provided by investing activities	<u>145,159</u>	<u>449,854</u>
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(2,518,090)</u>	<u>(3,926,399)</u>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>5,442,651</u>	<u>9,369,050</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 2,924,561</u>	<u>\$ 5,442,651</u>

(continued)

*The accompanying Notes to Financial Statements are an integral part of these statements.*

**Todd Creek Village Metropolitan District**  
**STATEMENTS OF CASH FLOWS**  
**(continued)**  
**For the Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>Reconciliation of operating (loss) to net cash provided by operating activities:</b>		
Operating loss	\$ (381,881)	\$ (1,026,771)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation expense	1,287,564	1,242,221
Tap fees received from customers	276,462	3,663,301
(Increase) decrease in accounts receivable	75,182	(99,936)
(Increase) decrease in prepaids	125,000	(140,594)
Increase (decrease) in bank overdraft	44,178	-
Increase (decrease) in accounts payable	53,624	(25,392)
Increase (decrease) in retainage payable	-	(3,486)
Increase (decrease) in other payables	-	(15,775)
Total adjustments	<u>1,862,010</u>	<u>4,620,339</u>
Net cash provided by operating activities	<u>\$ 1,480,129</u>	<u>\$ 3,593,568</u>

*The accompanying Notes to Financial Statements are an integral part of these statements.*

**Todd Creek Village Metropolitan District**  
**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

**Note 1 – Definition of reporting entity**

The Todd Creek Village Metropolitan District (the District) is a quasi-municipal corporation organized on November 19, 1996 and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Adams and Weld Counties, Colorado. The District was established to provide water and wastewater services to an area encompassing approximately 6,725 acres in Adams County and 6,000 acres in Weld County.

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

The District follows the Governmental Accounting Standards Board (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 of December 31, 2008, no component unit has been identified as reportable to the District, nor is the District a component unit of any other primary governmental entity.

**Note 2 – Summary of significant accounting policies**

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units accounted for as a proprietary enterprise fund. The enterprise fund is used since the District's powers are related to those operated in a manner similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

The District has elected to follow Governmental Accounting Standards Board pronouncements. Therefore, statements issued by the Financial Accounting Standards Board after November 30, 1989 are not applied.

The more significant accounting policies of the District are described as follows:

**A. Basis of accounting**

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned, and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets and redemption of bonds and certificates of participation is recorded as a reduction in liabilities. Tap fees are recorded as capital contributions when received.

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



**Todd Creek Village Metropolitan District**

**NOTES TO THE FINANCIAL STATEMENTS  
(continued)**

**December 31, 2008**

**B. Operating revenue and expenses**

The District distinguishes between operating revenues and expenses and nonoperating items in the Statement of Revenues, Expenses and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing water and wastewater services to its customers. Operating revenues consist of charges to customers for service provided. Operating expenses include the cost of service, administrative expenses and depreciation of assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

**C. Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires District management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**D. Deposits and investments**

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

Investments for the District are reported at fair value.

**E. Restricted cash**

Certain proceeds of the District's revenue bonds and certificates of participation, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. Restricted cash totaled \$2,924,561 at December 31, 2008 and \$5,420,136 at December 31, 2007.

**F. Accounts receivable, allowance for doubtful accounts**

Use fees and tap fees constitute a perpetual lien on or against property served until paid. Such liens may be foreclosed upon as provided by the State of Colorado. Therefore, no provision for uncollectible receivables has been made in the financial statements.

**G. Capital assets**

Capital assets, which include water rights, water wells, storage and treatment facilities and delivery systems, are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation or at the developer's cost. Capital assets are defined by the District as those assets with a cost or value of \$1,000 or greater. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

**Todd Creek Village Metropolitan District**

**NOTES TO THE FINANCIAL STATEMENTS  
(continued)**

**December 31, 2008**

Major outlays for capital assets and improvements for which the District retains title are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the District is depreciated using the straight line method over the estimated useful lives (40 years for water system infrastructure). The cost of water rights includes acquisition cost, legal, and engineering costs related to the development and augmentation of those rights. Since the rights have a perpetual life, they are not amortized. Depreciation expense for the years ended December 31, 2008 and 2007 totaled \$1,287,564 and \$1,242,221, respectively.

**H. Amortization of bond and loan costs**

Bond and loan issue costs and discounts are being amortized over the respective terms of the bonds or loan using the straight-line method. Amortization expense for bond, loan, and discounts amounted to \$414,893 and \$414,893 for the years ended December 31, 2008 and 2007, respectively.

**I. Budgetary information**

In accordance with State Budget Law, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year-end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The total appropriation can only be modified upon completion of notification and publication requirements.

On January 13, 2011, the District's Board of Directors amended the 2008 budgeted appropriations from \$5,484,554 to \$7,984,554.

**J. Contributed capital**

Tap fees and water resource fees are generally recorded as capital contributions when received. Lines contributed to the District by developers are recorded as capital contributions and additions to the systems at the developer's cost or at the estimated fair value at the date of contribution.

**Note 3 – Cash and investments**

Cash and investments as of December 31, 2008 and 2007 are classified in the accompanying financial statements as follows:

	2008	2007
Cash and cash equivalents	\$ -	\$ 22,515
Cash and cash equivalents – restricted	<u>2,924,561</u>	<u>5,420,136</u>
Total cash and investments	<u>\$ 2,924,561</u>	<u>\$ 5,442,651</u>

Cash and investments in the amount of \$1,118,772 and \$3,078,021 was restricted at December 31, 2008 and 2007, respectively, for use in the construction, installation, and completion of improvements in the water system and completion of a wastewater transmission system. Cash and investments in the amount of \$1,805,789 and \$2,342,115 was restricted at December 31, 2008 and 2007, respectively, for the payment of bond and certificate of participation interest and principal.

**Todd Creek Village Metropolitan District**

**NOTES TO THE FINANCIAL STATEMENTS  
(continued)  
December 31, 2008**

**A. Cash deposits**

Colorado statutes require that the District use eligible public depositories as defined by the Colorado Public Deposit Protection Act (the Act). Under the Act, amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the Act and 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 the aggregate uninsured deposits. The State Regulatory Commissions 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.

Custodial credit risk – deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash deposit and investment policy adopts State statutes regarding custodial credit risk for deposits. As of December 31, 2008 and 2007, none of the District's bank balance was exposed to custodial credit risk.

The District's cash deposits at December 31, 2008 are as follows:

	Carrying Balance	Bank Balance
Cash deposits	\$ -	\$ 25,428

The District's cash deposits at December 31, 2007 are as follows:

	Carrying Balance	Bank Balance
Cash deposits	\$ 14,493	\$ 36,593

**B. Investments**

Credit risk

The District's cash deposit and investment policy adopts State statutes regarding credit risk for investments.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest, which include:

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

The District's money market account with Valley Bank & Trust is not rated.

**Todd Creek Village Metropolitan District**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**December 31, 2008**

Interest rate risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

As of December 31, 2008, the District had the following investments:

	<u>Maturity</u>	<u>Fair Value</u>
Colorado Surplus Asset Fund Trust	Weighted average under 60 days	\$ 1,284,363
Aim Trust Treasury Portfolio (Zion)	Less than 1 year	123,929
Non-rated Money Market and Certificates of Deposit	Less than 1 year	1,516,269
		<u>\$ 2,924,561</u>

As of December 31, 2007, the District had the following investments:

	<u>Maturity</u>	<u>Fair Value</u>
U.S. Treasury money market fund (ANB)	Less than 1 year	\$ 2,342,115
Aim Trust Treasury Portfolio (Zion)	Less than 1 year	3,078,021
Non-rated Money Market	Less than 1 year	8,022
		<u>\$ 5,428,158</u>

Colorado Surplus Asset Fund Trust (CSAFE)

During 2008, the District invested in the Colorado Surplus Asset Fund Trust (CSAFE), which 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 and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. 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 custodian's internal records segregate investments owned by CSAFE.

Concentration of credit risk

The District's cash deposit and investment policy adopts state statutes regarding concentration of credit risk for investments. The District invests primarily in money markets and/or U.S. securities, U.S. agency securities, or U.S. sponsored corporate securities, which are not subject to concentration of credit risk.

Custodial credit risk – investments

For investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's cash deposit and investment policy adopts state statutes regarding custodial credit risk for investments. As of December 31, 2008 and 2007, the District had \$2,924,561 and \$5,442,651, respectively, of investments held by outside parties.

**Todd Creek Village Metropolitan District**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**(continued)**  
**December 31, 2008**

**Note 4 – Capital assets**

Capital asset activity for the year ended December 31, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Water rights	\$ 5,680,261	\$ 227,673	\$ -	\$ 5,907,934
Capital assets, being depreciated:				
Water distribution and storage	44,794,537	1,812,512	-	46,607,049
Sewer system	4,703,472	229,380	-	4,932,852
Accumulated depreciation	(3,647,032)	-	(1,287,563)	(4,934,595)
Total capital assets, being depreciated, net	45,850,978	2,041,892	(1,287,563)	46,605,307
Capital assets, net	\$ 51,531,239	\$ 2,269,565	\$(1,287,563)	\$ 52,513,241

**Note 5 – Long-term debt and related subsequent events**

**A. Changes in long-term debt**

The following is an analysis of changes in bonds and loans payable for the year ended December 31, 2008:

	Balance 12/31/07	New Issues	Principal Payments	Balance 12/31/08	Due within one year
Series 2004 Bonds	\$19,125,000	\$ -	\$ -	\$19,125,000	-
Series 2006 Certificates of Participation	8,660,000	-	-	8,660,000	-
Total	\$27,785,000	\$ -	\$ -	\$27,785,000	-

**B. Bonds payable**

**\$25,575,000 Water Revenue Refunding and Improvement Bonds, Series 2004, dated December 27, 2004**

The bonds are term bonds in the amount of \$25,575,000 maturing through December 2019. The bonds were issued to finance the construction, installation and completion of improvements to the water supply, purification, transmission and distributions system, wastewater lift station, force main and interceptor trunk line, and to refund and discharge the outstanding District revenue bonds as well as other District obligations. The bonds bear interest from 4.75% to 6.125% per annum payable semi-annually on June 1 and December 1. The bonds are subject to redemption prior to maturity, at the option of the District, as allowed under a "Special Mandatory Redemption" provision whereby the District, from sources other than borrowed funds or funds derived from refunding or refinancing of the Series 2004 Bonds, may redeem certain bonds at a price equal to the principal amount plus accrued interest. Accordingly, bonds with an original maturity date of December 1, 2009 may be redeemed no

**Todd Creek Village Metropolitan District**

**NOTES TO THE FINANCIAL STATEMENTS  
(continued)  
December 31, 2008**

earlier than December 1, 2005, bonds maturing on December 1, 2014 may be redeemed no earlier than June 1, 2008, and bonds maturing on December 1, 2019 may be redeemed no earlier than June 1, 2010.

Alternatively, the bonds are subject to redemption prior to maturity, at the option of the District, redeemed with borrowed funds beginning on December 1, 2012, and on any date thereafter, upon payment of par and accrued interest, with a redemption premium through November 30, 2014, and without a redemption premium thereafter.

The bonds are payable solely from and secured by an irrevocable pledge of and first lien upon the "pledged revenue" as defined in the bond indenture. Additional security for the bonds is provided by a "debt service reserve fund" and by guaranty agreements dated as of December 27, 2004; one between the District and The Equinox Group LLC (the Developer), a Colorado limited liability company, whose affiliates own or control approximately 58% of the property to be served with water services and facilities by the District, and the other between the District and an individual principal of the Developer.

With respect to "pledged revenue" that may be derived by the District's water system, the Developer and its principal have entered into a Standby Tap Purchase Agreement whereby the Developer and its principal have guaranteed the payment of principal and interest on the bonds in the event that "pledged revenues" are insufficient in any year. The Developer and its principal agree, jointly and severally, to purchase water and wastewater taps from time to time in the amount necessary to pay when due the scheduled amounts of principal and interest with respect to the Series 2004 bonds. The Trustee issued a demand letter on November 9, 2009 calling on the Developer and its principal to fulfill its obligation under the Standby Tap Purchase Agreement to assist the District in making bond interest and principal payments. Due to economic conditions, neither the Developer nor its principal was able to purchase taps to provide funds for payment of bond interest and principal on December 1, 2009. Consequently, the District withdrew funds from the Bond Reserve Fund to satisfy the required interest payment.

**Forbearance Agreement / Event of Default**

Due to insufficient pledged tap fee revenue, a portion of bond principal payments for maturities that were originally due on December 1, 2009 were not paid on that date, and have not been paid as of the date of the auditors' report (event of default). The District entered into a Forbearance Agreement (the Forbearance) with the bond Trustee on December 1, 2009, whereby 100% of the bondholders of the 2009 maturities agreed to defer redemption of the bond principal to June 1, 2011. Under the terms of the Forbearance, the District, among other requirements, must:

1. continue to pay interest in a timely manner to all holders of the Series 2004 Bonds;
2. maintain the Bond Reserve Fund at a minimum of \$1,000,000 on and after December 1, 2009;
3. maintain the COPS Reserve Fund after December 1, 2009 at or below \$351,000;
4. not cause a condition of default under the COPS Indenture;
5. impose an Availability of Service Fee and deposit the proceeds with the Trustee;
6. impose a Failure to Connect Fee and deposit with the Trustee amounts in excess of those necessary for operations;
7. not make capital expenditures in excess of \$250,000;
8. not expend more than \$2,483,901, \$2,733,433, and \$2,958,724 for the years ending December 31, 2009, 2010, and 2011, respectively;

**Todd Creek Village Metropolitan District**

**NOTES TO THE FINANCIAL STATEMENTS  
(continued)  
December 31, 2008**

9. not incur any additional indebtedness;
10. not dispose of any assets other than in the ordinary course of business, and certain water rights.

The District did not make required minimum rental payments of \$675,845 on December 1, 2010, which is an event of default under the COPS agreement, thereby violating requirement number 4 above. Further, the District withdrew \$529,561 from the Bond Reserve Fund to make bond interest payments on June 1, 2010, leaving a balance of \$769,488 in the reserve fund, which is an event of default under the Forbearance Agreement (number 2 above).

The District, as of the date of the auditors' report, is negotiating a new forbearance agreement with the bond trustee and bondholders.

**C. Certificates of participation (COPS)**

The District entered into a lease purchase agreement for a principal amount of \$8,660,000, dated May 18, 2006, with Todd Creek Farms Metropolitan District No.1 Water Activity Enterprise Leasing Trust 2006 (the Trust). The Trust acts as lessor, and the District acts as lessee. The Trust was created by the trustee (Zions First National Bank, Denver, Colorado) pursuant to a trust indenture and laws of the State of Colorado. The proceeds of the issuance of the COPS are used to fund the acquisition of water rights and the acquisition, construction and installation of various water and non-potable water facilities. The Trust leases such water rights and facilities to the District pursuant to a 16.5-year lease agreement. Base rentals under the lease agreement are sufficient to cover the payments of principal and interest on the certificates, and all trustee costs. The District may elect at any time to purchase the property from the Trust in an amount sufficient to redeem, pay, and defease all outstanding COPS. At the termination of the lease, ownership of all assets reverts to the District. The obligations of the District under the lease are not secured by a pledge or lien on any revenues, funds, or property of the District, and are payable on a parity basis with other general unsecured capital obligations of the District.

The COPS bear interest at rates ranging from 5.75% to 6.125%. They are subject to optional redemption on December 1, 2012 and thereafter at prices ranging from par to par plus a 2% premium. Certain certificates are subject to a mandatory sinking fund beginning on December 1, 2010.

The District accounts for proceeds of the issuance of the COPS as debt proceeds, and reports all assets of the trust and all outstanding COPS on its financial statements. Rental payments to the Trust are reported as interest expense and principal reductions by the District.

The District did not make required minimum rental payments of \$675,845 on December 1, 2010, which is an event of default under the COPS agreement. As of the date of the auditors' report, the District is in negotiation with the Trustee for the COPS holders to obtain a Forbearance Agreement similar to the Forbearance with bondholders of the Series 2004 bonds.

**D. Debt maturities**

Debt maturities for the next five years and to maturity, based on the above agreements with trustees, are as follows:

**Todd Creek Village Metropolitan District**

**NOTES TO THE FINANCIAL STATEMENTS  
(continued)  
December 31, 2008**

<u>Year ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ -	\$ 1,796,701	\$ 7,146,701
2010	415,000	1,326,688	1,741,688
2011	5,790,000	1,302,825	1,742,825
2012	465,000	1,277,525	1,742,525
2013	490,000	1,250,788	1,740,788
2014-2018	10,305,000	4,130,764	14,435,764
2019-2022	10,320,000	1,085,958	11,405,958
Total	<u>\$ 27,785,000</u>	<u>\$ 12,171,249</u>	<u>\$ 39,956,249</u>

**E. Refunding**

On December 27, 2004, the District advance refunded and defeased (debt legally satisfied) \$12,500,000 of its Water Revenue Refunding and Improvement Bonds dated November 1, 2001 by portions of the proceeds from the issuance of \$25,575,000 Water Revenue Refunding and Improvement Bonds, dated December 27, 2004 with an interest rate ranging from 4.75% to 6.125%. \$6,200,000 of the bonds were redeemed outright and \$6,300,000 were defeased. The defeased bonds are not considered a liability of the District since sufficient funds (\$6,751,058) were deposited with a trustee and invested in U.S. government securities for the purpose of paying the principal and interest of the defeased bonds when due.

**Note 6 – Line of credit**

The District has a \$1,000,000 line of credit agreement with Valley Bank & Trust which matured November 3, 2008 and has been extended to May 3, 2011. The credit agreement provides for monthly interest payments at 8.5%. Borrowings under this note agreement are secured by a deed of trust on the District's water rights and storage facilities. Additional security for this agreement is provided by a guarantee from the Developer and an individual principal of the Developer. At December 31, 2008 and 2007, respectively, the outstanding balance was \$980,713 and \$1,255,050.

**Note 7 – Net assets**

The District has net assets consisting of three components – invested in capital assets, net of related debt; restricted; and unrestricted.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, loans, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those net assets. As of December 31, 2008 and 2007, the District has invested in capital assets, net of related debt of \$24,793,240 and \$23,746,239. The District had \$2,924,561 restricted by contractual obligation for payment of debt service and capital projects as of December 31, 2008.

Beginning net assets of the District at the December 31, 2007 were reduced by \$845,341 (Note 15).



**Todd Creek Village Metropolitan District**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**(continued)**  
**December 31, 2008**

**Note 8 – Related parties**

The majority of the District's Board of Directors are either stockholders or employees of a company partially owned by the individual principal of the primary developer of land (the Developer) within and around the District.

The District entered into an agreement with a management company (the Company) partially owned by the individual principal of the Developer to perform administrative duties, maintain and administer operations, and handle the financial affairs of the District. The contract is renewable annually. Under the terms of the agreement, the Company received a monthly fee for these services in an amount not to exceed \$25,000 for January through July 2005, \$32,000 from August, 2005 through January, 2006, and \$48,000 thereafter. During the years ended December 31, 2008 and 2007, the District paid \$576,000 per year to the Company under this agreement.

Effective January 1, 2009, the individual principal of the Developer sold his interest in the Company to the remaining stockholder.

The District is assessed an additional 10% by a construction company, affiliated with the Developer, on all construction costs as a construction management fee. Total amounts paid to the construction company in construction management fees for the years ended December 31, 2008 and 2007 were \$46,420 and \$282,684.

In 2008 and 2007, the District paid credit enhancement fees of \$125,000 and \$171,262, respectively, to the principal of the developer for assisting in obtaining, and guaranteeing, financing agreements for the District.

**Note 9 – Water agreements**

**Water Lease Agreements**

On January 1, 2004, the District entered into two Water Lease Agreements with Coors Brewing Company (Coors), both renewable annually until December 31, 2006. Under the terms of the agreements, the District received the water rights for a minimum of 250 acre feet of water at a rate of \$175 per acre foot in 2005 and \$200 per acre foot in 2006, with minimum annual payments of \$45,500 and \$52,000, respectively, payable on January 1 each year.

Effective January 1, 2007, the District renewed its two Water Lease Agreements with Coors, both now terminating on December 31, 2011 (initial term). Both Agreements may be renewed for an additional five year term after the initial term.

Under the terms of the first Agreement, the District will receive the right to 100 acre feet of Leased Water at the following per acre foot rates: 2008, \$250; 2009, \$275; 2010, \$300; and 2011, \$325. The minimal annual payments are as follows: 2008, \$25,000; 2009, \$27,500; 2010, \$30,000; and 2011, \$32,500, payable on January 1 each year.

Under the terms of the second Agreement, the District will receive the right to 250 acre feet of Leased Water at the following per acre foot rates: 2008, \$250; 2009, \$275; 2010, \$300; and 2011, \$325. The District agrees to pay a minimum amount each year equal to the cost of 160 acre feet of Leased Water. The minimal annual payments are as follow: 2008, \$40,000; 2009, \$44,000; 2010, \$48,000; and 2011, \$52,000, payable on January 1 each year.

**Todd Creek Village Metropolitan District**

**NOTES TO THE FINANCIAL STATEMENTS  
(continued)  
December 31, 2008**

**Note 10 – Commitments and contingencies and related subsequent events**

Commitments

The District had active construction projects as of December 31, 2008 and 2007. Commitments under these projects totaled \$218,972 and \$154,337 at December 31, 2008 and 2007.

Effective March 1, 2009, the District entered into an operating lease ending February 28, 2014 for its administrative offices. The lessor is an entity related to the Developer. The rental rate is \$3,080 per month, on a triple-net basis whereby the District pays taxes, maintenance and repairs, and insurance. Minimum base rental payments, including expected property taxes, due for the next five years and in total are as follows:

<u>Year ended December 31,</u>	
2009	\$ 34,730
2010	41,676
2011	41,676
2012	41,676
2013	41,676
2014	6,946
Total	<u>\$ 208,380</u>

Contingencies

Subsequent to December 31, 2008, the District is party to lawsuits or pursuing three banks in which the District asserts that it is owed \$6,849,267 in unpaid tap fees, arising from the transfer of title for lots within the District's boundaries to the banks. In the event the District is not successful on an open records act issue in one of the bank litigation matters, it may incur attorneys' fees in an amount to be awarded by the court, likely less than \$10,000. The outcome of these legal actions is undeterminable as of the date of the auditors' report.

Subsequent to December 31, 2008, the District was named as defendant in a lawsuit seeking injunctive relief requiring the District to repair a reservoir within the District's boundaries. The outcome of the case and any potential liability is undeterminable as of the date of the auditors' report.

**Note 11 – Risk management**

The District is exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God. The District maintains commercial insurance for all risks of loss. Settled claims have not exceeded the commercial insurance coverage limits in any of the past three years.

**Note 12 – Tax, spending and debt limitations**

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

**Todd Creek Village Metropolitan District**

**NOTES TO THE FINANCIAL STATEMENTS**

**(continued)**

**December 31, 2008**

The District's management believes it qualifies under the Water Activity Enterprise definition of TABOR and therefore is not subject to the requirements of TABOR. However, TABOR is complex and subject to interpretation.

**Note 13 – Noncompliance with Colorado Revised Statute**

Colorado Revised Statutes require that local governments submit audited financial statements for calendar year-end by July 31 of the following year. The District was not in compliance with the statutory requirement.

**Note 14 – Net assets and notes receivable restatement**

In December of 2004 and January of 2005, the District entered into notes receivable from the Developer in the amounts of \$725,000 and \$100,000, respectively. An analysis by management subsequently determined that the District had erroneously recorded capital assets as contributed by the Developer, which should have been paid for by the District. On January 13, 2011, the Board of Directors deemed the two notes, with a combined balance of \$845,341 at December 31, 2007, had been satisfied by the Developer through the previous contribution of capital assets in amounts in excess of the note amounts. The District and the Developer agree that this Board action precludes either party from future claims against the other party. To reflect this action by the Board of Directors, beginning net assets at December 31, 2007 have been reduced by \$845,341, and the notes receivable previously recorded, with a combined balance of \$845,341, have been reduced to \$0.

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**SUPPLEMENTAL INFORMATION**

**Todd Creek Village Metropolitan District**  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUNDS**  
**AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)**

For the Year Ended December 31, 2008

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b>ENTERPRISE:</b>				
<b>Revenues</b>				
Water revenue	\$ 1,623,000	\$ 1,623,000	\$ 1,510,407	\$ (112,593)
(FTC) Failure to connect	-	-	774,284	774,284
Meters	25,000	25,000	15,375	(9,625)
Inspection fees	6,500	6,500	1,350	(5,150)
Tap fees	662,000	662,000	8,000	(654,000)
Investment earnings	1,000	1,000	54,217	53,217
Penalties and other income	-	-	105,116	105,116
<b>Total revenues</b>	<u>2,317,500</u>	<u>2,317,500</u>	<u>2,468,749</u>	<u>151,249</u>
<b>Expenditures</b>				
Accounting and audit	9,350	9,350	9,416	(66)
Administration	74,000	74,000	79,867	(5,867)
Credit enhancement fee	153,938	153,938	125,000	28,938
Directors fees	4,500	4,500	3,300	1,200
District management	576,000	576,000	576,000	-
Engineering	45,000	45,000	18,320	26,680
Insurance	7,000	7,000	15,278	(8,278)
Interest	75,000	75,000	89,477	(14,477)
Lease payment	481,000	481,000	521,688	(40,688)
Legal	20,000	20,000	214,156	(194,156)
Loan fees	-	-	2,792	(2,792)
Miscellaneous	-	-	24,234	(24,234)
MXU system	120,000	120,000	48,542	71,458
Public relations	-	-	29,888	(29,888)
Raw water acquisition	210,000	210,000	65,000	145,000
Repairs and maintenance	190,000	190,000	182,697	7,303
Rental	-	-	3,540	(3,540)
Utilities	200,000	200,000	161,634	38,366
Water treatment	70,000	70,000	68,977	1,023
<b>Total expenditures</b>	<u>2,235,788</u>	<u>2,235,788</u>	<u>2,239,806</u>	<u>(4,018)</u>
<b>Excess of enterprise revenues over (under) enterprise expenditures</b>	81,712	81,712	228,943	147,231
<b>Funds available (deficit) - beginning enterprise fund</b>	<u>(1,281,543)</u>	<u>(1,281,543)</u>	<u>(753,846)</u>	<u>527,697</u>
<b>Funds available (deficit) - ending enterprise fund</b>	<u>\$ (1,199,831)</u>	<u>\$ (1,199,831)</u>	<u>\$ (524,903)</u>	<u>\$ 674,928</u>

Todd Creek Village Metropolitan District

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUNDS  
AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)  
(continued)

For the Year Ended December 31, 2008

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance with Final Budget - Favorable (Unfavorable)
<b>GENERAL GOVERNMENT:</b>				
<b>Revenues</b>				
Tap fees	\$ 3,608,766	\$ 3,608,766	\$ 268,462	\$ (3,340,304)
Investment earnings	80,000	80,000	90,942	10,942
<b>Total revenues</b>	<u>3,688,766</u>	<u>3,688,766</u>	<u>359,404</u>	<u>(3,329,362)</u>
<b>Expenditures</b>				
Debt service:				
Interest	1,175,000	1,175,000	1,059,125	115,875
Principal	2,073,766	2,073,766	-	2,073,766
Paying agent fees	-	-	1,400	(1,400)
Capital Outlay:				
Water rights	-	-	227,673	(227,673)
Operating system and storage	-	2,500,000	2,041,892	458,108
<b>Total expenditures</b>	<u>3,248,766</u>	<u>5,748,766</u>	<u>3,330,090</u>	<u>2,418,676</u>
<b>Excess of general government revenues over (under) general government expenditures</b>	440,000	(2,060,000)	(2,970,686)	(910,686)
<b>Funds available (deficit) - beginning general government</b>	<u>841,424</u>	<u>841,424</u>	<u>(2,200,155)</u>	<u>(3,041,579)</u>
<b>Funds available (deficit) - ending general government</b>	<u>\$ 1,281,424</u>	<u>\$ (1,218,576)</u>	<u>\$ (5,170,841)</u>	<u>\$ (3,952,265)</u>
<b>Total district revenues</b>	\$ 6,006,266	\$ 6,006,266	\$ 2,828,153	(3,178,113)
<b>Total district expenditures</b>	<u>5,484,554</u>	<u>7,984,554</u>	<u>5,569,896</u>	<u>2,414,658</u>
<b>Total excess of revenue over (under) expenditures</b>	521,712	(1,978,288)	(2,741,743)	(763,455)
<b>Funds available (deficit) - beginning</b>	<u>4,036,851</u>	<u>4,036,851</u>	<u>(2,954,001)</u>	<u>(6,990,852)</u>
<b>Funds available (deficit) - ending</b>	<u>\$ 4,558,563</u>	<u>\$ 2,058,563</u>	<u>\$ (5,695,744)</u>	<u>\$ (7,754,307)</u>

Todd Creek Village Metropolitan District

RECONCILIATION OF ACTUAL (BUDGETARY BASIS) TO STATEMENT  
OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2008

<b>REVENUE (BUDGETARY BASIS)</b>	<b>\$ 2,828,153</b>
Total revenue (GAAP basis)	<u>2,828,153</u>
<b>EXPENDITURES (BUDGETARY BASIS)</b>	<b>5,569,896</b>
Add:	
Depreciation	1,287,564
Amortization	414,893
Less:	
Capital outlay	<u>(2,269,565)</u>
Total expenses (GAAP basis)	<u>5,002,788</u>
<b>CHANGE IN NET ASSETS PER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS</b>	<b>\$ (2,174,635)</b>

**Todd Creek Village Metropolitan District**  
**DEBT SERVICE REQUIREMENTS TO MATURITY**

December 31, 2008

Bonds and Certificates and Interest Maturing in the Year Ending December 31,	\$25,575,000 Revenue Refunding and Improvement Bonds Dated December 27, 2004 Interest Payable June 1 and December 1 Principal Payable December 1			\$8,660,000 Certificates of Participation Dated May 25, 2006 Base rentals are due May 15 and November 15 Principal Payable on June 1 and December 1			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2009	\$ -	\$ 1,059,125	\$ 6,409,125	\$ -	\$ 521,688	\$ 521,688	\$ -	\$ 1,580,813	\$ 1,580,813
2010	-	1,059,125	1,059,125	415,000	521,688	936,688	415,000	1,580,813	1,995,813
2011	5,350,000	805,000	6,155,000	440,000	497,825	937,825	5,790,000	1,302,825	7,092,825
2012	-	805,000	805,000	465,000	472,525	937,525	465,000	1,277,525	1,742,525
2013	-	805,000	805,000	490,000	445,788	935,788	490,000	1,250,788	1,740,788
2014	7,375,000	805,000	8,180,000	520,000	417,613	937,613	7,895,000	1,222,613	9,117,613
2015	-	392,000	392,000	550,000	387,713	937,713	550,000	779,713	1,329,713
2016	-	392,000	392,000	585,000	354,025	939,025	585,000	746,025	1,331,025
2017	-	392,000	392,000	620,000	318,194	938,194	620,000	710,194	1,330,194
2018	-	392,000	392,000	655,000	280,219	935,219	655,000	672,219	1,327,219
2019	6,400,000	392,000	6,792,000	695,000	240,100	935,100	7,095,000	632,100	7,727,100
2020	-	-	-	740,000	197,531	937,531	740,000	197,531	937,531
2021	-	-	-	785,000	152,206	937,206	785,000	152,206	937,206
2022	-	-	-	1,700,000	104,121	1,804,121	1,700,000	104,121	1,804,121
	<u>\$19,125,000</u>	<u>\$7,298,250</u>	<u>\$31,773,250</u>	<u>\$8,660,000</u>	<u>\$4,911,236</u>	<u>\$13,571,236</u>	<u>\$27,785,000</u>	<u>\$12,209,486</u>	<u>\$39,994,486</u>