

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

FINANCIAL STATEMENTS

with Independent Auditors' Report

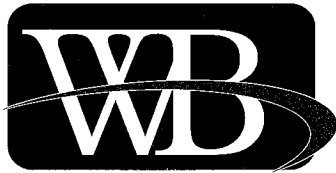
December 31, 2010 and 2009

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 financial statements of Todd Creek Village Metropolitan District (the District) as of and for the years ended December 31, 2010 and 2009, 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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2010 and 2009, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the District's financial statements as a whole. The supplemental 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 financial statements. The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Wagner Barnes, PC

Lakewood, Colorado
July 27, 2012

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Wagner Barnes, PC

Todd Creek Village Metropolitan District
STATEMENTS OF NET ASSETS
December 31, 2010 and 2009

	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 197,939	\$ 6,130
Cash and cash equivalents - restricted	837,828	1,626,374
Accounts receivable	159,901	140,367
Prepaid expenses	15,594	15,594
Total current assets	1,211,262	1,788,465
Capital assets		
Water rights	5,907,934	5,907,934
Operating system and storage	52,394,429	51,989,379
	58,302,363	57,897,313
Accumulated depreciation	(7,539,972)	(6,234,330)
Total capital assets	50,762,391	51,662,983
Other assets		
Bond issuance costs (net of accumulated amortization of \$2,034,415 and \$1,908,336, respectively)	735,359	861,438
Certificates of Participation issuance costs (net of accumulated amortization of \$92,701 and \$72,177, respectively)	152,172	172,696
Certificates of Participation discount (net of accumulated amortization of \$57,372 and \$44,670, respectively)	94,178	106,880
Total other assets	981,709	1,141,014
TOTAL ASSETS	52,955,362	54,592,462
LIABILITIES		
Current liabilities		
Accounts payable	319,132	255,038
Accrued interest payable	349,104	88,260
Line of credit payable	949,400	1,000,000
Current portion of long-term debt	6,205,000	415,000
Total current liabilities	7,822,636	1,758,298
Long-term obligations, net current portion	21,580,000	27,370,000
TOTAL LIABILITIES	29,402,636	29,128,298
NET ASSETS		
Invested in capital assets, net of related debt	29,182,391	24,292,983
Restricted	837,828	1,626,374
Unrestricted	(6,467,493)	(455,193)
TOTAL NET ASSETS	\$ 23,552,726	\$ 25,464,164

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, 2010 and 2009

	2010	2009
Operating revenues		
Water revenue	\$ 1,944,416	\$ 1,689,983
(FTC) Failure to connect fees	711,902	673,246
Availability fees	131,765	-
Meter fees	35,725	17,660
Inspection fees	10,725	3,300
Penalties and other income	61,660	76,194
Total operating revenues	2,896,193	2,460,383
Operating expenses		
Accounting and audit	10,000	7,232
Depreciation	1,305,642	1,299,735
Directors fees	5,300	5,000
District management	618,000	594,000
Engineering	24,568	20,800
Insurance	11,520	14,332
Rental	-	400
Legal	329,755	305,833
Miscellaneous	5,509	8,195
MXU system	74,474	54,756
Office expense	93,443	79,958
Public relations	5,994	10,414
Repairs and maintenance	139,527	188,366
Utilities and water leases	449,813	419,524
Water treatment	54,451	80,250
Total operating expenses	3,127,996	3,088,795
Operating (loss)	(231,803)	(628,412)
Nonoperating revenue and (expense)		
Investment earnings	11,853	56,441
Amortization expense	(159,305)	(414,893)
Interest	(1,144,692)	(1,143,089)
Interest expense - certificates of participation base rental	(521,688)	(521,688)
Loan fees	(53,803)	(30,530)
Paying agent fees	-	(150)
Total nonoperating revenue and (expense)	(1,867,635)	(2,053,909)
(Loss) before capital contributions	(2,099,438)	(2,682,321)
Capital contributions		
Tap fees	188,000	81,500
Total capital contributions	188,000	81,500
Change in net assets	(1,911,438)	(2,600,821)
Net assets - beginning	25,464,164	28,064,985
Net assets - ending	\$ 23,552,726	\$ 25,464,164

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, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 3,064,659	\$ 2,490,084
Payments to suppliers	<u>(1,758,260)</u>	<u>(1,712,934)</u>
Net cash provided by operating activities	<u>1,306,399</u>	<u>777,150</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(405,050)	(449,478)
Net proceeds (payments) on line of credit	(50,600)	19,287
Interest paid on certificates of participation	(260,844)	(521,688)
Interest paid on revenue bonds	(1,059,125)	(1,059,125)
Interest paid on line of credit	(85,567)	(83,964)
Other debt-related expenditures	<u>(53,803)</u>	<u>(30,680)</u>
Net cash (used) by capital and related financing activities	<u>(1,914,989)</u>	<u>(2,125,648)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received	<u>11,853</u>	<u>56,441</u>
Net cash provided by investing activities	<u>11,853</u>	<u>56,441</u>
 NET (DECREASE) IN CASH AND CASH EQUIVALENTS	 (596,737)	 (1,292,057)
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	 <u>1,632,504</u>	 <u>2,924,561</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	 <u><u>\$ 1,035,767</u></u>	 <u><u>\$ 1,632,504</u></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, 2010 and 2009

	2010	2009
Reconciliation of operating (loss) to net cash provided by operating activities:		
Operating loss	\$ (231,803)	\$ (628,412)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation expense	1,305,642	1,299,735
Tap fees received from customers	188,000	81,500
(Increase) decrease in accounts receivable	(19,534)	(51,799)
Increase (decrease) in bank overdraft	-	(44,178)
Increase (decrease) in accounts payable	64,094	120,304
Total adjustments	1,538,202	1,405,562
Net cash provided by operating activities	\$ 1,306,399	\$ 777,150

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

Todd Creek Village Metropolitan District

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

December 31, 2010 and 2009

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, 2010, 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, 2010 and 2009

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 \$837,828 at December 31, 2010 and \$1,626,374 at December 31, 2009.

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, 2010 and 2009

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 are 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, 2010 and 2009 totaled \$1,305,642 and \$1,299,735, 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 \$159,305 and \$414,893 for the years ended December 31, 2010 and 2009, 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 2010 total budgeted appropriations from \$8,564,258 to \$8,954,358.

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, 2010 and 2009 are classified in the accompanying financial statements as follows:

	2010	2009
Cash and cash equivalents	\$ 197,939	\$ 6,130
Cash and cash equivalents – restricted	837,828	1,626,374
Total cash and investments	<u>\$ 1,035,767</u>	<u>\$ 1,632,504</u>

Cash and investments in the amount of \$837,828 and \$1,626,374 was restricted at December 31, 2010 and 2009, 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, 2010 and 2009

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, 2010 and 2009, none of the District's bank balance was exposed to custodial credit risk.

The District's cash deposits at December 31, 2010 are as follows:

	Carrying Balance	Bank Balance
Cash deposits	<u>\$ 5,079</u>	<u>\$ 21,811</u>

The District's cash deposits at December 31, 2009 are as follows:

	Carrying Balance	Bank Balance
Cash deposits	<u>\$ -</u>	<u>\$ 42,278</u>

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

Todd Creek Village Metropolitan District

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

December 31, 2010 and 2009

The District's money market accounts with Valley Bank & Trust, US Bank, and Summit Bank and Trust are not rated.

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, 2010, the District had the following investments:

	<u>Maturity</u>	<u>Fair Value</u>
Colorado Surplus Asset Fund Trust	Weighted average under 60 days	\$ 88,792
Non-rated Money Market and Certificates of Deposit	Less than 1 year	<u>941,858</u>
		<u>\$ 1,030,650</u>

As of December 31, 2009, the District had the following investments:

	<u>Maturity</u>	<u>Fair Value</u>
Colorado Surplus Asset Fund Trust	Weighted average under 60 days	\$ 1,093,716
Non-rated Money Market and Certificates of Deposit	Less than 1 year	<u>538,788</u>
		<u>\$ 1,632,504</u>

Colorado Surplus Asset Fund Trust (CSAFE)

During 2010, 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. CSAFE is rated AAAM by Standard & Poor's.

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

Todd Creek Village Metropolitan District

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

December 31, 2010 and 2009

investment policy adopts state statutes regarding custodial credit risk for investments. As of December 31, 2010 and 2009, the District had \$1,030,650 and \$1,632,504, respectively, of investments held by outside parties.

Note 4 – Capital assets

Capital asset activity for the year ended December 31, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Water rights	\$ 5,907,934	\$ -	\$ -	\$ 5,907,934
Capital assets, being depreciated:				
Water distribution and storage	47,056,527	405,050	-	47,461,577
Sewer system	4,932,852	-	-	4,932,852
Accumulated depreciation	(6,234,330)	-	(1,305,642)	(7,539,972)
Total capital assets, being depreciated, net	45,755,049	405,050	(1,305,642)	44,854,457
Capital assets, net	<u>\$ 51,662,983</u>	<u>\$ 405,050</u>	<u>\$(1,305,642)</u>	<u>\$ 50,762,391</u>

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, 2010:

	Balance 12/31/09	New Issues	Principal Payments	Balance 12/31/10	Due within one year
Series 2004 Bonds	\$19,125,000	\$ -	\$ -	\$19,125,000	\$ 5,350,000
Series 2006 Certificates of Participation	8,660,000	-	-	8,660,000	855,000
Total	<u>\$27,785,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$27,785,000</u>	<u>\$ 6,205,000</u>

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.

Todd Creek Village Metropolitan District

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

December 31, 2010 and 2009

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 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 the Standby Tap Purchase Agreement dated as of December 27, 2004; between the District and Osborne Holding Corporation, owner of The Equinox Group LLC (the Developer), a Colorado limited liability company, whose affiliates owned or controlled, at the date of the agreement, approximately 58% of the property to be served with water services and facilities by the District (the Developer owned approximately 1% of the property served by the District at December 31, 2010), and the 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 in 2010 and 2009 to satisfy the required interest payments.

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:

Todd Creek Village Metropolitan District

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

December 31, 2010 and 2009

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;
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 certain required minimum rental payments in 2010, which is an event of default under the COPS agreement, thereby violating requirement number 4 above. Further, in 2010, the District withdrew \$546,997 from the Bond Reserve Fund to make bond interest payments leaving a balance of \$740,927 in the reserve fund, which is an event of default under the Forbearance Agreement (number 2 above). Subsequently in 2011, the District withdrew an additional \$491,350 from the Bond Reserve to pay 2011 bond interest payments leaving a balance of \$252,114. The balance of the Reserve Fund as of March 31, 2012 was \$252,128. During 2010, 2011, and 2012 the District made deposits of \$160,000, \$570,200, and \$749,500, respectively, from tap fee revenue to the pledged tap fee fund.

The forbearance agreement expired June 1, 2011, and the District, as of the date of the auditors' report, is continuing to communicate with the Bond Trustee to reach closure on 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 or funds of the District, and are payable on a parity basis with other general unsecured capital obligations of the District. The obligations of the District under the lease are subject to a pledge of certain District property constructed with the proceeds of the COPS.

Todd Creek Village Metropolitan District

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

December 31, 2010 and 2009

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 in 2010, \$937,825 in 2011, or \$236,263 in 2012, nor any catch-up payments during those periods. This constitutes an event of default under the COPS agreement. As of the date of the auditors' report, the District is communicating with the Trustee for the COPS holders in order to obtain a Forbearance Agreement.

D. Debt maturities

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

<u>Year ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 6,205,000	\$ 1,563,669	\$ 7,768,669
2012	465,000	1,277,525	1,742,525
2013	490,000	1,250,788	1,740,788
2014	7,895,000	1,222,613	9,117,613
2015	550,000	779,713	1,329,713
2016-2020	9,695,000	2,958,069	12,653,069
2021-2022	<u>2,485,000</u>	<u>256,327</u>	<u>2,741,327</u>
Total	<u>\$ 27,785,000</u>	<u>\$ 9,308,704</u>	<u>\$ 37,093,074</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

During 2010 and 2009, the District had a \$1,000,000 line of credit agreement with Valley Bank & Trust which matured November 3, 2010 and was extended to August 3, 2011. No further extension was signed. The credit agreement provided 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 individual principal of the Developer. At December 31, 2010 and 2009, respectively, the outstanding balance was \$949,400 and \$1,000,000.

Todd Creek Village Metropolitan District

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

December 31, 2010 and 2009

On August 29, 2011, the District filed a complaint against Valley Bank and Trust Company (“the Bank”) seeking a declaratory judgment from the Adams County District Court that the line of credit and collateral pledge were void as a matter of law under Article XI, Section 6 of the Constitution of the State of Colorado. Following a trial on the merits on January 13, 2012, and submission by the parties of proposed conclusions of law on February 6, 2012, the Court, on March 19, 2012 entered its Findings of Fact, Conclusions of Law and Order and Judgment in the District’s favor, declaring, as a matter of law, that the line of credit and security pledges were void and unenforceable. The Bank has filed a notice of appeal regarding the Court’s decision.

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, 2010 and 2009, the District has invested in capital assets, net of related debt of \$22,977,391 and \$23,877,983. The District had \$837,828 and \$1,626,374 restricted by contractual obligation for payment of debt service as of December 31, 2010 and December 31, 2009, respectively.

Note 8 – Related parties

The majority of the District’s Board of Directors are either stockholders or employees of The Equinox Land Group, Inc. (the Parent Company). The Parent Company owns Village Water Management, LLC (the Company), with which the District entered into an agreement to perform administrative duties, maintain and administer operations, and handle the financial affairs of the District. The contract expires in 2014, but is subject to the District’s annual budget and appropriation. During the years ended December 31, 2010 and 2009, the District paid \$618,000 and \$594,000, respectively, to the Company under this agreement.

The individual principal of the Developer owned 50% of the Parent Company through December 31, 2009. Effective January 1, 2010, the individual principal of the Developer sold his interest in the Parent Company to the remaining stockholder, who is on the Board of Directors of the District.

The District is assessed a 10% construction management fee by a construction company, owned by the Parent Company, on all construction costs. Total amounts paid to the construction company in construction management fees for the years ended December 31, 2010 and 2009 were \$0 and \$21,072.

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 right for a minimum of 250 acre feet of Leased 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.

Todd Creek Village Metropolitan District

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

December 31, 2010 and 2009

Effective January 1, 2008, the District renewed its two Water Lease Agreements with Coors, both now terminating on December 31, 2011 (initial term). Both Agreements were renewed for an additional five year term ending December 31, 2016.

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: 2009, \$275; 2010, \$300; and 2011, \$325. The minimal annual payments are as follows: 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: 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: 2009, \$44,000; 2010, \$48,000; and 2011, \$52,000, payable on January 1 each year.

Note 10 – Commitments and contingencies and related subsequent events

Commitments

The District had active construction projects as of December 31, 2010 and 2009. Commitments under these projects totaled \$0 and \$74,350 at December 31, 2010 and 2009.

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>	
2011	\$ 41,676
2012	41,676
2013	41,676
2014	<u>6,946</u>
Total	<u>\$ 131,974</u>

Contingencies

During, and subsequent to, December 31, 2010, the District was a party to two lawsuits with two banks, and demanded payment of tap fees from a third bank. In total, the District asserted that it was owed \$6,849,267 in unpaid tap fees, arising from the transfer of title for lots within the District's boundaries to the banks.

The District was unsuccessful in District Court in February 2011 with respect to one case involving approximately \$5,400,000 in unpaid taps. Regarding that case, the District appealed the order and judgment of the District Court to the Colorado Court of Appeals. The case was settled and the appeal was dismissed on joint motion of the District and Guaranty Bank and Trust in 2011 in connection with a Tap Purchase Agreement by and between the District and 165HOWE, LP through which 165HOWE agreed to purchase the taps for the 301 lots at issue in the litigation, in phases over five years. No further action is required of the District and the Tap Purchase Agreement settled all issues between the parties.

Todd Creek Village Metropolitan District

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

December 31, 2010 and 2009

The District lost the second case on appeal in 2011.

During 2010, the District was named as defendant in a lawsuit seeking injunctive relief requiring the District to repair a reservoir within the District's boundaries. On May 25, 2012, the District Court entered an order awarding interim costs in the case. The interim costs awarded to the plaintiff were in the amount of \$59,638. The District filed a motion for reconsideration in the matter and the District Court agreed to reconsider the cost award on July 2, 2012. The District has filed a notice of appeal.

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.

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, or September 30 if granted an extension, of the following year. The District was not in compliance with the statutory requirement.

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, 2010

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget Favorable (Unfavorable)
ENTERPRISE:			
Revenues			
Water revenue	\$ 1,724,500	\$ 1,944,416	\$ 219,916
(FTC) Failure to connect	600,000	711,902	111,902
Availability fee revenue	123,025	131,765	8,740
Meters	20,000	35,725	15,725
Inspection fees	5,000	10,725	5,725
Tap fees	790,000	28,000	(762,000)
Investment earnings	2,000	-	(2,000)
Penalties and other income	75,000	61,660	(13,340)
Total revenues	3,339,525	2,924,193	(415,332)
Expenditures			
Accounting and audit	10,000	10,000	-
Administration	74,000	93,443	(19,443)
Directors fees	6,000	5,300	700
District management	618,000	618,000	-
Emergency reserve	68,270	-	68,270
Engineering	30,000	24,568	5,432
Insurance	14,900	11,520	3,380
Interest	85,000	83,964	1,036
Lease payment	936,688	521,688	415,000
Legal	205,000	329,755	(124,755)
Loan fees	-	53,803	(53,803)
Miscellaneous	22,500	5,509	16,991
MXU system	80,000	74,474	5,526
Community relations	20,000	5,994	14,006
Raw water acquisition	150,000	280,935	(130,935)
Repairs and maintenance	180,000	139,527	40,473
Utilities	150,000	168,878	(18,878)
Water treatment	50,000	54,451	(4,451)
Total expenditures	2,700,358	2,481,809	218,549
Excess of enterprise revenues over (under) enterprise expenditures	639,167	442,384	(196,783)
Funds available (deficit) - beginning enterprise fund	(901,233)	(524,903)	376,330
Funds available (deficit) - ending enterprise fund	\$ (262,066)	\$ (82,519)	\$ 179,547

(continued)

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, 2010

	Original Budgeted Amounts	Final Budgeted Amounts	Actual
GENERAL GOVERNMENT:			
Revenues			
Tap fees and availability of service fees	\$ 5,639,860	\$ 5,639,860	\$ 160,000
Investment earnings	90,000	90,000	11,853
Total revenues	<u>5,729,860</u>	<u>5,729,860</u>	<u>171,853</u>
Expenditures			
Debt service:			
Interest	1,060,000	1,060,000	1,060,728
Principal	4,575,000	4,575,000	-
Capital Outlay:			
Water lease	119,000	119,000	-
Operating system and storage	109,900	500,000	405,050
Total expenditures	<u>5,863,900</u>	<u>6,254,000</u>	<u>1,465,778</u>
Excess of general government revenues over (under) general government expenditures	(134,040)	(524,140)	(1,293,925)
Funds available (deficit) - beginning general government	<u>3,671,531</u>	<u>3,671,531</u>	<u>(5,170,841)</u>
Funds available (deficit) - ending general government	<u>\$ 3,537,491</u>	<u>\$ 3,147,391</u>	<u>\$ (6,464,766)</u>
Total district revenues	\$ 9,069,385	\$ 9,069,385	\$ 3,096,046
Total district expenditures	<u>8,564,258</u>	<u>8,954,358</u>	<u>3,947,587</u>
Total excess of revenue over (under) expenditures	505,127	115,027	(851,541)
Funds available (deficit) - beginning	<u>2,770,298</u>	<u>2,770,298</u>	<u>(4,289,672)</u>
Funds available (deficit) - ending	<u>\$ 3,275,425</u>	<u>\$ 2,885,325</u>	<u>\$ (5,141,213)</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, 2010

REVENUE (BUDGETARY BASIS)	<u>\$ 3,096,046</u>
Total revenue (GAAP basis)	<u>3,096,046</u>
EXPENDITURES (BUDGETARY BASIS)	3,947,587
Add:	
Depreciation	1,305,642
Amortization	159,305
Less:	
Capital outlay	<u>(405,050)</u>
Total expenses (GAAP basis)	<u>5,007,484</u>
CHANGE IN NET ASSETS PER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	<u><u>\$ (1,911,438)</u></u>

Todd Creek Village Metropolitan District
DEBT SERVICE REQUIREMENTS TO MATURITY

December 31, 2010

Bonds and Certificates and Interest Maturing in the Year Ending December 31,	\$25,575,000 Revenue Refunding and Improvement Bonds Dated December 27, 2004		\$8,660,000 Certificates of Participation Dated May 25, 2006		Total
	Principal	Interest	Principal (1)	Interest (1)	
2011	\$ 5,350,000	\$ 805,000	\$ 855,000	\$ 758,669	\$ 7,768,669
2012	-	805,000	465,000	472,525	1,742,525
2013	-	805,000	490,000	445,788	1,740,788
2014	7,375,000	805,000	520,000	417,613	9,117,613
2015	-	392,000	550,000	387,713	1,329,713
2016	-	392,000	585,000	354,025	1,331,025
2017	-	392,000	620,000	318,194	1,330,194
2018	-	392,000	655,000	280,219	1,327,219
2019	6,400,000	392,000	695,000	240,100	7,727,100
2020	-	-	740,000	197,531	937,531
2021	-	-	785,000	152,206	937,206
2022	-	-	1,700,000	104,121	1,804,121
	<u>\$ 19,125,000</u>	<u>\$ 5,180,000</u>	<u>\$ 8,660,000</u>	<u>\$ 4,128,704</u>	<u>\$ 27,785,000</u>
					<u>\$ 9,308,704</u>
					<u>\$ 37,093,704</u>

(1) Note: This payment schedule is according to the original payment schedule for Certificates of Participation. It does not reflect changes that may be negotiated or required during 2011.