

**HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO**

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

December 31, 2009

**HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Headwaters Metropolitan District
Town of Granby, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Headwaters Metropolitan District (the "District") as of and for the year ended December 31, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the District. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Headwaters Metropolitan District as of December 31, 2009 and the respective changes in financial position and cash flows, where applicable and the respective budgetary comparison for the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages i through iv is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board ("GASB"). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Headwaters Metropolitan District's basic financial statements. The budgetary schedules on pages 24 and 25 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hiratsuka & Schmitt, LLP

July 26, 2010
Denver, Colorado

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Headwaters Metropolitan District

Management's Discussion and Analysis December 31, 2009

As management of Headwaters Metropolitan District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2009.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also include additional supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, from both a short-term fund perspective and a long-term economic perspective.

The Statement of Net Assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The governmental activity of the District is primarily the construction, operation, and maintenance of the basic public infrastructure that is being performed on behalf of Granby Ranch Metropolitan District, Sol Vista Metropolitan District, and Granby Ranch Metropolitan District Nos. 2-8. The business-type activity of the District is the operation of the District Amenities, which currently include the SolVista Basin ski area and the Headwaters Golf Course.

The District's government-wide financial statements can be found on pages 1 & 2 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with legal requirements. The District currently has two governmental funds, the General Fund and the Capital Projects Fund, as well as one proprietary fund, the Enterprise Amenities Fund.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. A reconciliation of the fund balance as reported in the governmental funds to the net assets reported in the government-wide financial statements and a reconciliation of the net change in fund balance to the change in net assets has been provided to facilitate the comparison between governmental funds and governmental activities.

The basic governmental fund financial statements can be found on pages 3 through 5 of this report.

Proprietary funds. The District maintains one proprietary fund, the Amenities Enterprise Fund, which is used to account for the SolVista Basin ski area and the Headwaters Golf Course, both of which are currently leased by the District from the primary developer within the District.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 7 through 9 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 10 through 23 of this report.

Government-wide Financial Analysis. A condensed comparative summary of the District's government-wide assets, liabilities, net assets, revenues and expenses follows:

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Assets:						
Current assets	\$ 457,650	\$ 804,804	\$ 493,330	\$ 981,576	\$ 950,980	\$ 1,786,380
Non-current receivables	12,357,040	11,073,327	-	-	12,357,040	11,073,327
Capital assets	12,106,506	14,157,994	523,928	606,437	12,630,434	14,764,431
Total Assets	<u>24,921,196</u>	<u>26,036,125</u>	<u>1,017,258</u>	<u>1,588,013</u>	<u>25,938,454</u>	<u>27,624,138</u>
Liabilities:						
Current liabilities	117,872	525,357	750,090	1,434,364	867,962	1,959,721
Long-term debt	12,696,818	11,352,769	5,413,609	4,019,122	18,110,427	15,371,891
Total Liabilities	<u>12,814,690</u>	<u>11,878,126</u>	<u>6,163,699</u>	<u>5,453,486</u>	<u>18,978,389</u>	<u>17,331,612</u>
Net Assets:						
Invested in capital assets, net	12,106,506	14,157,994			12,106,506	14,157,994
Restricted for emergencies	4,188	3,224	-	-	4,188	3,224
Unrestricted (deficit)	(4,188)	(3,219)	(5,146,441)	(3,865,473)	(5,150,629)	(3,868,692)
Total Net Assets (Deficit)	<u>\$ 12,106,506</u>	<u>\$ 14,157,999</u>	<u>\$ (5,146,441)</u>	<u>\$ (3,865,473)</u>	<u>\$ 6,960,065</u>	<u>\$ 10,292,526</u>

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$ -	\$ 63,937	\$ 4,357,445	\$ 4,933,626	\$ 4,357,445	\$ 4,997,563
Grants and contributions	1,503,331	1,353,274	-	-	1,503,331	1,353,274
General revenues:						
Interest	3,509	11,519	-	-	3,509	11,519
Total Revenues	<u>1,506,840</u>	<u>1,428,730</u>	<u>4,357,445</u>	<u>4,933,626</u>	<u>5,864,285</u>	<u>6,362,356</u>
Expenses:						
General government	136,970	195,064	-	-	136,970	195,064
Public works	490,772	353,752	-	-	490,772	353,752
Transportation	38,731	40,520	-	-	38,731	40,520
Intergovernmental agreement	-	-	-	-	-	-
Interest expense	834,900	507,326	-	-	834,900	507,326
Recreation	-	-	5,638,413	6,715,166	5,638,413	6,715,166
Total Expenses	<u>1,501,373</u>	<u>1,096,662</u>	<u>5,638,413</u>	<u>6,715,166</u>	<u>7,139,786</u>	<u>7,811,828</u>
Other financing sources (uses):						
Assets conveyed to Town	(2,056,960)	(5,566,218)	-	-	(2,056,960)	(5,566,218)
Total Other Financing (Uses)	<u>(2,056,960)</u>	<u>(5,566,218)</u>	<u>-</u>	<u>-</u>	<u>(2,056,960)</u>	<u>(5,566,218)</u>
Change in Net Assets	(2,051,493)	(5,234,150)	(1,280,968)	(1,781,540)	(3,332,461)	(7,015,690)
Net Assets - Beginning	14,157,999	19,392,149	(3,865,473)	(2,083,933)	10,292,526	17,308,216
Net Assets - Ending	<u>\$ 12,106,506</u>	<u>\$ 14,157,999</u>	<u>\$ (5,146,441)</u>	<u>\$ (3,865,473)</u>	<u>\$ 6,960,065</u>	<u>\$ 10,292,526</u>

The District is the "Service District" in a multiple district structure whereby the District constructs, maintains, and operates infrastructure on behalf of Granby Ranch Metropolitan District and Granby Ranch Metropolitan District Nos. 2-8, the "Financing Districts." The District entered into a District Facilities Construction and Service Agreement on June 1, 2006. On September 17, 2008, the First Amended and Restated District Facilities Construction and Service Agreement was entered into, and superseded and replaced the 2006 agreement in its entirety. Per these agreements, the District will receive a "capital obligation" from the financing districts in the future for the costs to construct infrastructure on behalf of the Districts. The District will also receive a "service obligation" from the financing districts for the costs incurred by the District to operate and maintain the facilities. A majority of the District's assets consist of the infrastructure constructed to date as well as the capital and service obligations due from the financing districts. The District is also responsible for the operations of the SolVista Basin ski area and Headwaters Golf Course, both of which are leased from the District's developer and are located within the District.

Government-wide Financial Analysis. For the Governmental Activities, the District's primary revenue sources were from cash received and increases in capital and service obligations due from the financing districts. The primary expenses of the District were operating expenses. All of the capital outlay during the year was funded through developer advances, which are reported as increases in long-term debt.

For Business-Type Activities, the District continued leasing and operating the SolVista Basin ski area and the Headwaters Golf Course. During the year, both the ski and golf operations experienced substantial losses. Per the management agreement between the District and the Developer, the Developer provided advances of \$1,479,606 in 2009 and \$1,558,488 in 2008 to cover these losses. Such losses are expected to decrease in the future as additional homes are constructed within the District and corresponding use of the facilities increase.

Financial Analysis of the District's Funds

As mentioned earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the District's financing requirements. In particular, assigned and unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported a combined ending fund balance of \$339,778 which reflects an increase of \$60,331. This increase is the result of the District receiving developer capital advances for some 2008 capital expenditures in the beginning of 2009.

The District adopts budgets for each fund on an annual basis. Budgetary comparisons have been provided on page 6 for the General Fund and on page 24 for the Capital Projects Fund.

Proprietary funds. The District's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net assets for the proprietary fund totaled (\$5,146,441) at December 31, 2009, as the developer is owed \$5,130,164 for current and prior year losses funded through advances from the Developer. A budgetary comparison has been provided on page 25 for the proprietary fund.

Capital assets. The District constructed or purchased a total of \$419,703 in capital assets but conveyed infrastructure worth \$2,065,961 to the Town of Granby. Additional information can be found in the Notes to the Financial Statements on page 15 of this report.

Long-term debts. The majority of the funding for infrastructure and other costs were funded by developer advances, which increase the long-term liability due to the developer. During the year, the governmental funds received advances and interest accruals of \$1,167,889, which resulted in a year-end total amount due to the developer of \$12,448,379. The business-type activities received developer advances of \$1,479,606, which increased the amount due to the developer at the end of 2009 to \$5,130,164. Additional information can be found in the Notes to the Financial Statement starting on page 16 of this report.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Robertson & Marchetti, P.C., 28 Second Street, Suite 213, Edwards, CO 81632 or you may call (970) 926-6060.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

HEADWATERS METROPOLITAN DISTRICT
Statement of Net Assets
December 31, 2009

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and investments	\$ 325,773	\$ 136,518	\$ 462,291
Receivables:			
Credit card receivables	-	107,906	107,906
Trade accounts receivable	-	95,969	95,969
Due from Granby Ranch Metropolitan District	20,811	-	20,811
Internal balances	2,252	(2,252)	-
Due from Silver Creek Master HOA	30,039	-	30,039
Due from HOAs	61,498	-	61,498
Due from Village Homes	6,287	-	6,287
Due from developer	1	-	1
Due from manager	-	20,306	20,306
Inventory	-	129,050	129,050
Prepaid expenses	10,989	5,833	16,822
Capital obligation from financing districts, non-current	11,276,416	-	11,276,416
Service obligation from financing districts, non-current	1,080,624	-	1,080,624
Capital assets, net	12,106,506	523,928	12,630,434
Total assets	24,921,196	1,017,258	25,938,454
Liabilities:			
Accounts payable	64,844	186,761	251,605
Accrued liabilities	-	286,271	286,271
Accrued interest payable	1,335,183	-	1,335,183
Deferred revenue	53,028	26,007	79,035
Due to manager	-	251,051	251,051
Long-term debt due within one year:			
Capital leases	49,782	77,823	127,605
Notes payable	-	2,481	2,481
Long-term debt due in excess of one year:			
Capital leases	198,657	203,141	401,798
Notes payable to developer	11,113,196	5,130,164	16,243,360
Total liabilities	12,814,690	6,163,699	18,978,389
Net assets (Deficit):			
Invested in capital assets, net of related debt	12,106,506	-	12,106,506
Restricted for emergencies	4,188	-	4,188
Unrestricted	(4,188)	(5,146,441)	(5,150,629)
Total net assets (Deficit)	\$ 12,106,506	\$ (5,146,441)	\$ 6,960,065

The accompanying notes are an integral part of this financial statement.

HEADWATERS METROPOLITAN DISTRICT
Statement of Activities
For the Year Ended December 31, 2009

	Program Revenues				Net (expense) revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Functions/Programs:							
Governmental activities:							
General government	\$ 136,970	\$ -	\$ -	\$ -	\$ (136,970)		\$ (136,970)
Public works	490,772	-	52,060	-	(438,712)		(438,712)
Transportation	38,731	-	42,371	-	3,640		3,640
Intergovernmental agreements	-	-	409,759	999,141	1,408,900		1,408,900
Interest expense	834,900	-	-	-	(834,900)		(834,900)
Total governmental activities	1,501,373	-	504,190	999,141	1,958		1,958
Business-type activities:							
Recreation	5,638,413	4,357,445	-	-		(1,280,968)	(1,280,968)
Total business-type activities	5,638,413	4,357,445	-	-		(1,280,968)	(1,280,968)
Total Primary Government	\$ 7,139,786	\$ 4,357,445	\$ 504,190	\$ 999,141	1,958	(1,280,968)	(1,279,010)
General revenues:							
Investment earnings					3,509	-	3,509
Total general revenues					3,509	-	3,509
Other financing sources (uses):							
Assets conveyed to Town of Granby					(2,056,960)	-	(2,056,960)
Total other financing (uses)					(2,056,960)	-	(2,056,960)
Change in net assets					(2,051,493)	(1,280,968)	(3,332,461)
Net assets beginning of the year					14,157,999	(3,865,473)	10,292,526
Net assets end of the year					\$ 12,106,506	\$ (5,146,441)	\$ 6,960,065

The accompanying notes are an integral part of this financial statement.

FUND FINANCIAL STATEMENTS

HEADWATERS METROPOLITAN DISTRICT
Balance Sheet
Governmental Funds
December 31, 2009

	General Fund	Capital Projects Fund	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 148,297	\$ 177,476	\$ 325,773
Accounts receivable:			
Due from Granby Ranch Metropolitan District	20,811	-	20,811
Due from Amenities Fund	2,252	-	2,252
Due from Silver Creek Master HOA	30,039	-	30,039
Due from HOAs	61,498	-	61,498
Due from Village Homes	6,287	-	6,287
Due from developer	1	-	1
Prepays	10,989	-	10,989
Total assets	280,174	177,476	457,650
Liabilities:			
Accounts payable	64,844	-	64,844
Deferred revenue	53,028	-	53,028
Total liabilities	117,872	-	117,872
Fund balance:			
Nonspendable	10,989	-	10,989
Restricted for emergencies	4,188	-	4,188
Assigned for capital and debt service	-	177,476	177,476
Unassigned	147,125	-	147,125
Total fund balance	\$ 162,302	\$ 177,476	339,778

**Amounts reported for governmental activities in the Statement
of Net Assets are different because:**

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	12,106,506
Other long-term assets are not available to pay current period expenditures, and therefore, are not reported in the funds. These assets include capital and service obligation receivables from the financing districts	12,357,040
Long-term liabilities, including capital leases, accrued interest and developer advances payable are not due and payable in the current period and, therefore are not reported in the funds.	<u>(12,696,818)</u>
Net Assets of Governmental Activities	<u>\$ 12,106,506</u>

The accompanying notes are an integral part of this financial statement.

HEADWATERS METROPOLITAN DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2009

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues:			
Intergovernmental agreement	\$ 124,620	\$ 567	\$ 125,187
Sales and use tax	11,462	-	11,462
Interest income	3,509	-	3,509
Reimbursement of expenditures	82,969	-	82,969
Total revenues	222,560	567	223,127
Expenditures:			
Functions:			
General government	136,970	-	136,970
Public works	121,648	-	121,648
Public safety	-	-	-
Transportation	38,731	-	38,731
Debt service:			
Principal	18,868	-	18,868
Interest	3,129	-	3,129
Capital outlay	207,222	167,374	374,596
Total expenditures	526,568	167,374	693,942
Excess of revenues over (under) expenditures	(304,008)	(166,807)	(470,815)
Other Financing Sources			
Developer advances	-	336,118	336,118
Lease proceeds	195,028	-	195,028
Net change in fund balance	(108,980)	169,311	60,331
Fund balance, beginning of year	271,282	8,165	279,447
Fund balance, end of year	\$ 162,302	\$ 177,476	\$ 339,778

The accompanying notes are an integral part of this financial statement.

HEADWATERS METROPOLITAN DISTRICT
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund
Balances of the Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2009

Net Change in Fund Balances of the Governmental Funds \$ 60,331

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In addition, a significant portion of capital assets are ultimately conveyed to the Town of Granby. This amount is the net effect of these differences in the treatment of capital assets. (2,051,488)

Changes in the capital and service obligations receivable from Granby Ranch Metropolitan District are only reported in the Statement of Activities because they do not generate currently available resources. This difference represents the net change in these receivable balances during the year. 1,283,713

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount represents principal payments made during the year. 18,868

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents accrued interest. (831,771)

Lease proceeds provide current financial resources to the governmental funds, however the transaction has no effect on net assets. (195,028)

Developer advances provide current financial resources to the governmental funds, however the transaction has no effect on net assets. (336,118)

Change in Net Assets of Governmental Activities \$ (2,051,493)

The accompanying notes are an integral part of this financial statement.

HEADWATERS METROPOLITAN DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance
- Budget and Actual
General Fund
For the Year Ended December 31, 2009

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Intergovernmental agreement	\$ 123,330	\$ 124,620	\$ 1,290
Sales and use tax	50,000	11,462	(38,538)
Interest income	5,490	3,509	(1,981)
Reimbursement of expenditures	100,549	82,969	(17,580)
Total Revenues	279,369	222,560	(56,809)
Expenditures:			
General government:			
Accounting and admin	70,000	69,657	343
Audit	17,000	15,500	1,500
Legal	60,000	36,053	23,947
Elections	-	-	-
Insurance	11,054	10,965	89
Other	3,189	4,795	(1,606)
Contingency	10,000	-	10,000
Public works:			
Facilities management fee	-	6,326	(6,326)
Mosquito control	11,440	11,000	440
Road maintenance	113,091	90,941	22,150
Equipment leases	29,927	13,381	16,546
Other	7,241	-	7,241
TOG police protection	78,260	-	78,260
Transportation:			
Equipment leases	17,160	14,562	2,598
Other	48,000	24,169	23,831
Debt service:			
Principal	18,868	18,868	-
Interest	3,128	3,129	(1)
Capital outlay	-	207,222	(207,222)
Total Expenditures	498,358	526,568	(28,210)
Excess of revenues over (under) expenditures	(218,989)	(304,008)	(85,019)
Other Financing Sources:			
Developer advance	99,391	-	(99,391)
Lease proceeds	-	195,028	195,028
Total Other Financing Sources	99,391	195,028	95,637
Net Change in Fund Balance	(119,598)	(108,980)	10,618
Fund balance - beginning of year	219,598	271,282	51,684
Fund balance - end of year	\$ 100,000	\$ 162,302	\$ 62,302

The accompanying notes are an integral part of this financial statement.

HEADWATERS METROPOLITAN DISTRICT
Statement of Net Assets
Proprietary Fund
Amenities Fund
December 31, 2009

Assets:

Current assets:	
Cash and cash equivalents	\$ 136,518
Credit card receivables	107,906
Accounts receivable, trade	95,969
Due from manager	20,306
Inventory	129,050
Prepaid expenses	5,833
Total current assets	<u>495,582</u>
Non-current assets:	
Capital assets, net	<u>523,928</u>
Total assets	<u><u>1,019,510</u></u>

Liabilities:

Current liabilities:	
Accounts payable	189,013
Accrued liabilities	286,271
Due to manager	251,051
Deferred revenue	26,007
Current portion, notes payable	2,481
Current portion, capital leases payable	77,823
Total current liabilities	<u>832,646</u>
Non-current liabilities:	
Capital leases payable	203,141
Due to manager	<u>5,130,164</u>
Total non-current liabilities	<u>5,333,305</u>
Total liabilities	<u><u>6,165,951</u></u>

Net assets:

Unrestricted	<u>(5,146,441)</u>
Total net assets	<u><u>\$ (5,146,441)</u></u>

The accompanying notes are an integral part of this financial statement.

HEADWATERS METROPOLITAN DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Net Assets
Proprietary Fund
Amenities Fund
For the Year Ended December 31, 2009

Operating revenues:

Ski and bike fees	\$ 3,673,667
Golf fees	455,496
Interest revenue	8,282
Amenity fees	220,000
	<hr/>
Total operating revenues	4,357,445

Operating expenses:

Ski and bike operations:	
Salaries, wages, and benefits	2,052,022
Cost of sales	424,015
Operating and maintenance	1,065,066
Accounting and management fees	486,000
Golf operations:	
Salaries, wages, and benefits	416,274
Cost of sales	40,918
Operating and maintenance	381,669
Accounting and management fees	114,000
Facilities lease	220,000
Interest expense	317,041
Depreciation	121,408
	<hr/>
Total operating expenses	5,638,413

Operating income (loss)	(1,280,968)
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Net assets (deficit) - beginning	(3,865,473)
---	--------------------

Net assets (deficit) - ending	\$ (5,146,441)
--------------------------------------	-----------------------

The accompanying notes are an integral part of this financial statement.

HEADWATERS METROPOLITAN DISTRICT
Statement of Cash Flows
Proprietary Fund
Amenities Fund
For the Year Ended December 31, 2009

Cash flows from operating activities:

Cash received from customers and others	\$ 4,374,330
Cash paid to employees	(2,490,764)
Cash paid for goods and services	<u>(3,608,677)</u>

Net cash provided (used) by operating activities (1,725,111)

Cash flows from financing activities:

Principal paid on debt	(85,119)
Developer advances	1,479,606
Proceeds from sale of assets	<u>3,016</u>

Net cash provided by financing activities: 1,397,503

Cash flows from investing activities:

Asset additions	(45,106)
Disposal of assets	<u>3,191</u>
	<u>(41,915)</u>

Increase in cash and cash equivalents (369,523)

Cash and cash equivalents - beginning 506,041

Cash and cash equivalents - ending \$ 136,518

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Operating income (loss) \$ (1,280,968)

Adjustments:

Depreciation	121,408
Decrease in credit card receivables	16,363
Decrease in accounts receivable	1,265
Decrease in inventory	25,298
Increase in prepaid expenses	(5,833)
Decrease in accounts payable	(264,831)
Decrease in accrued liabilities	(69,037)
Decrease in due to/from manager	(268,033)
Decrease in deferred revenue	<u>(743)</u>
Total Adjustments	<u>(444,143)</u>

Net cash provided (used) by operating activities \$ (1,725,111)

The accompanying notes are an integral part of this financial statement.

NOTES TO THE FINANCIAL STATEMENTS

**HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2009**

1. Summary of significant accounting policies

The accounting policies of the Headwaters Metropolitan District (the District) conform to accounting principles generally accepted in the United States of America as applicable to governments (US GAAP). The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of such significant policies consistently applied in the preparation of the financial statements.

Reporting entity

The Headwaters Metropolitan District (the "District") was organized November 4, 2003 as a quasi-municipal corporation and a political subdivision of the State of Colorado and is governed by an elected Board of Directors. The District was originally named SolVista Metropolitan District No. 1 and was renamed Headwaters Metropolitan District effective October 23, 2004. The District was formed contemporaneously with SolVista Metropolitan District No. 2, which on October 23, 2004, became Granby Ranch Metropolitan District (GRMD). The Districts were organized to provide services, programs and facilities, including the financing of construction, completion, maintenance and operation of public infrastructure within and around the Districts' boundaries. Pursuant to the Service Plan, which was approved on July 22, 2003, the District serves as the "Service District" while GRMD serves as the "Taxing District". Granby Ranch Metropolitan Districts 2 through 8 were established on September 25, 2007 as additional taxing districts. See Note 4 for a detailed description of the Service Plan and other significant agreements.

The District has no component units as defined by the Governmental Accounting Standards Board (GASB), Statement No.14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

Basis of Presentation

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the District.

Both of the government-wide financial statements are designed to distinguish functions of the District that are principally supported by intergovernmental revenues and operating grants (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through their user fees and charges (business-type activities).

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by general and program revenues. Direct expenses are those that are clearly identifiable within a specific function or program. Program revenues include 1) fees or charges to citizens and other governmental entities that receive or directly benefit from services provided by a given function or program, and 2) grants, contributions and other revenues that are restricted to use in the operational or capital requirements of a specific function or program. Other revenues not directly related to a particular function or program, if any, are reported separately as general revenues.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow.

1. **Summary of significant accounting policies (continued)**

Measurement focus, basis of accounting and financial statement presentation (continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The exceptions to this general rule are that principal and interest on general long-term debt are recognized when due.

The District reports the following governmental funds:

General Fund – is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Capital Projects Fund –accounts for the acquisition and construction of major capital facilities.

The District reports the following proprietary fund:

Amenities Fund – accounts for revenues and expenses associated with the operation of the Headwaters Golf Course, the SolVista Basin Ski Area and other recreational amenities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Amenities Fund are charges for services and sales. Operating expenses for the Amenities Fund include salaries, cost of sales and the other costs to perform the services. All revenues and expenses not meeting this definition are reported as non-operating revenue and expenses.

Assets, liabilities, and net assets or equity

Deposits and investments

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 are reported at fair value.

Receivables

The District considered all receivables collectible as of December 31, 2009.

Inventory

All inventories are valued at cost using the first-in/first-out (FIFO) method.

**HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2009**

1. Summary of significant accounting policies (continued)

Assets, liabilities, and net assets or equity (continued)

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure – road, storm sewer, traffic and safety control	30
Improvements	15
Vehicles	10
Equipment	2-15

Capital and Service Obligations from Financing Districts

Granby Ranch Metropolitan District and Granby Ranch Metropolitan District No. 2 through No. 8 (the “Financing Districts”) are obligated under the First Amended and Restated District Facilities Construction and Service Agreement (Note IV.D.3) to reimburse the District over time for the cost of the infrastructure constructed (capital obligation) as well as the operations and maintenance of such infrastructure (service obligation) by the District. These items represent the portions of the obligations that have not yet been paid by the Financing Districts to the District as of December 31, 2009.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets.

Intergovernmental revenues

For governmental funds, intergovernmental revenues, such as contributions awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available.

Fund equity

In the fund financial statements, governmental funds report restrictions and assignments of fund balance for amounts that are not available for appropriation, are legally restricted by outside parties, or are intended to be used for a specific purpose.

Internal balances

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are reported in the funds as “internal balances.”

1. **Summary of significant accounting policies (continued)**

Assets, liabilities, and net assets or equity (continued)

Fair value of financial instruments

The District's financial instruments include cash and investments, accounts receivable, accounts payable and accrued expenses. The District estimates that the fair value of all financial instruments at December 31, 2009 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Use of estimates

The preparation of financial statements in conformity with US GAAP requires 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. **Stewardship, compliance, and accountability**

Budgetary information

The District conforms to the following procedures, in compliance with Colorado Revised Statutes, in establishing the budgetary data reflected in the financial statements:

In the fall of each year, the District Board of Directors prepares a proposed budget for the fiscal year commencing the following January 1. The budget for the funds includes proposed expenses and the means of financing them.

A public hearing is held at a Board of Directors meeting to obtain taxpayer input. Prior to December 15, the budget is legally enacted through passage of a budget resolution. The Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements

3. **Detailed notes on the funds**

Deposits and investments

The Colorado Public Deposit Protection Act, (PDPA) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at a minimum of 102% of the aggregate uninsured deposits.

As of December 31, 2009, all of the District deposits were either insured by the Federal Deposit Insurance Corporation or held in eligible public depositories as required by PDPA.

**HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2009**

3. Detailed notes on the funds (continued)

Investments

Colorado Revised Statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest. The allowed investments may include:

- Obligations of the U.S. and certain U.S. government agencies securities
- Certain money market funds
- Certain certificates of deposit
- Local government investment pools

As of December 31, 2009, the District invested in the Colorado Surplus Asset Fund Trust (C-Safe) local investment pool. As an investment pool, this fund operates under the Colorado Revised Statutes (24-75-701) and is overseen by the Colorado Securities Commissioner. It invests in securities that are specified by CRS 24-75-701. It operates similar to a money market mutual fund with a share value equal to \$1.00.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. CSAFE held \$324,227 of the District's funds at December 31, 2009.

The following is a summary of deposits and investments held by the District at December 31, 2009:

Type	Ratings	Fair Value as of December 31, 2009
<i>Deposits:</i>		
Petty cash		\$ 12,150
Checking		125,914
<i>Investments:</i>		
CSAFE	AAAm	324,227
Total		\$ 462,291

**HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2009**

3. Detailed notes on the funds (continued)

Capital assets

Capital asset activity for the year ended December 31, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Conveyances/ Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 4,044,144	\$ 112,303	\$ (2,056,961)	\$ 2,099,486
Total capital assets not being depreciated	<u>4,044,144</u>	<u>112,303</u>	<u>(2,056,961)</u>	<u>2,099,486</u>
Capital assets being depreciated:				
Infrastructure	10,349,036	55,072	-	10,404,108
Vehicles and equipment	128,802	207,222	-	336,024
Total capital assets being depreciated	<u>10,477,838</u>	<u>262,294</u>	<u>-</u>	<u>10,740,132</u>
Less accumulated depreciation for:				
Infrastructure	(345,486)	(345,883)	-	(691,369)
Vehicles and equipment	(18,502)	(23,241)	-	(41,743)
Total accumulated depreciation	<u>(363,988)</u>	<u>(369,124)</u>	<u>-</u>	<u>(733,112)</u>
Total capital assets being depreciated, net	<u>10,113,850</u>	<u>(106,830)</u>	<u>-</u>	<u>10,007,020</u>
Total Governmental activities capital assets, net	<u>\$ 14,157,994</u>	<u>\$ 5,473</u>	<u>\$ (2,056,961)</u>	<u>\$ 12,106,506</u>
Business-type activities:				
Capital assets being depreciated				
Buildings and improvements	\$ 31,009	\$ -	\$ -	\$ 31,009
Equipment	672,122	45,106	(9,282)	707,946
Total capital assets being depreciated	<u>703,131</u>	<u>45,106</u>	<u>(9,282)</u>	<u>735,955</u>
Less accumulated depreciation for:				
Buildings and improvements	(5,673)	(3,935)	-	(9,608)
Equipment	(91,021)	(117,473)	3,075	(205,419)
Total accumulated depreciation	<u>(96,694)</u>	<u>(121,408)</u>	<u>3,075</u>	<u>(215,027)</u>
Total Business-type activities capital assets, net	<u>\$ 606,437</u>	<u>\$ (76,302)</u>	<u>\$ (6,207)</u>	<u>\$ 523,928</u>

For the year ended December 31, 2009, total decreases of \$2,056,961 consisted of the infrastructure assets conveyed to the Town of Granby.

Depreciation expense was charged to functions of the District as follows:

Governmental activities:	
Public works, including infrastructure	\$ 369,124
Business-type activities:	
Recreation	\$ 121,408

**HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2009**

3. Detailed notes on the funds (continued)

Long-term obligations

Changes in long-term obligations for the year ended December 31, 2009 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Due to Developer:					
Operating	\$ 840,604	\$ 58,850	\$ --	\$ 899,454	\$ --
Capital	10,439,886	1,109,039	--	11,548,925	--
Capital leases	72,280	195,027	(18,868)	248,439	49,782
Governmental activities long-term obligations	\$ 11,352,770	\$ 1,362,916	\$ (18,868)	\$ 12,696,818	\$ 49,782
Business-type activities:					
Note payable	\$ 9,539	\$ --	\$ (7,058)	\$ 2,481	\$ 2,481
Due to Developer	3,650,558	1,479,606	--	5,130,164	--
Capital leases	359,025	--	(78,061)	280,964	77,823
Business-type activities long-term obligations	\$ 4,019,122	\$ 1,479,606	\$ (85,119)	\$ 5,413,609	\$ 85,057

Governmental Activities:

Due to Developer – The District has an obligation to the District’s developer, Granby Realty Holdings, LLC (“GRH”), for developer advances made to the District. In 2006, the District entered into a Funding and Reimbursement Agreement whereby the developer agreed to loan the District one or more sums of money for operating and maintenance expenses of the District. In 2006, the District entered into a Construction Funding and Reimbursement Agreement whereby the developer agreed to loan the District one or more sums of money not to exceed \$2,700,000 for capital costs. In January 2008, a new Construction Funding and Reimbursement Agreement was entered into which eliminated the maximum loan amount for capital costs. For both the operating and capital agreements, the funds shall be loaned to the District in one or a series of installments. The loan advances shall bear simple interest at a rate of 8% per annum from the date any advance is made to the date of repayment of such amount. Since inception of the agreements, the District has incurred interest of \$1,812,327. During 2007 and 2008, the District paid capital interest of \$477,144 with developer advances. Therefore, the accrued interest balance was decreased and the Due to Developer balance was increased. As of December 31, 2009, accrued interest on the advances amounted to \$1,335,183 and the principal balance totaled \$11,113,196.

Business-type activities:

Note payable –

The Amenities Fund of the District entered into a commercial promissory note for \$20,000 on May 1, 2007. The note is due May 1, 2010 and bears interest at 8.25%. The note requires monthly installments of \$630.33 until maturity.

Capital leases –

The District has entered into various lease agreements to finance the acquisition of vehicles and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

HEADWATERS METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2009

3. **Detailed notes on the funds (continued)**

Capital leases (continued) –

The assets acquired through capital leases are as follows:

Asset:	Governmental Activities	Business-type Activities
Vehicles and equipment	\$ 301,252	\$ 421,568
Less: accumulated depreciation	(33,050)	(108,157)
Total	<u>\$ 268,202</u>	<u>\$ 313,411</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2009, are as follows:

Year ending, December 31,	Governmental Activities	Business-type Activities
2010	\$ 62,406	\$ 90,929
2011	66,800	94,590
2012	58,534	68,930
2013	44,785	55,551
2014	44,744	--
2015	5,517	--
Total minimum lease payments	<u>282,786</u>	<u>310,000</u>
Less: amount representing interest	(34,347)	(29,036)
Present value of minimum lease payments	<u>\$ 248,439</u>	<u>\$ 280,964</u>

Operating Leases – Business-type activities:

The District leases equipment under non-cancelable operating leases which are subject to annual appropriation. Total costs for such leases were \$76,771 for the year ended December 31, 2009. The future minimum lease payments for these leases are as follows:

Year ending, December 31,	Amount
2010	\$ 65,710
2011	65,569
2012	42,563
Total	<u>\$ 173,842</u>

4. **Significant agreements**

Service Plan - The service plan dated March 2003 was approved by the Town of Granby on July 22, 2003. The service plan contemplated the creation of two separate districts designating Granby Ranch Metropolitan District (GRMD) as the “taxing” district and Headwaters Metropolitan District (HMD) as the “service” district. Under the plan, HMD is to construct, manage and operate public facilities and services throughout the development. GRMD is to produce property taxes and other revenue sufficient to pay the costs of operations and debt service expenditures incurred for the improvement of public infrastructure. The use of a dual district structure provides for the issuance of bonds in a timely manner that is consistent with the construction of development improvements when needed. The service plan also outlined a financial plan for the districts entitling HMD to all taxing district revenues in order to pay all costs associated with the operations and management of the development.

Intergovernmental Agreement with the Town of Granby - On December 9, 2003, Granby Ranch and Headwaters Metropolitan Districts (acting jointly) entered into an agreement with the Town of Granby in an effort to promote the coordinated development of the Districts. The agreement was amended May 20, 2005 to increase the aggregate bonded debt limit to \$64,000,000. The agreement was further amended April 11, 2006 to outline the street maintenance and transportation mill levy. On February 26, 2008, the Intergovernmental Agreement between the Town of Granby and GRMD, HMD, and Granby Ranch Nos. 2-8 was executed. This IGA superseded and replaced the prior IGA and amendments in their entirety. The agreement states that all infrastructure and improvements will be designated and constructed in accordance with Town standards. As defined by the service plan, HMD has the primary responsibility for meeting the Town’s standards. All streets, roadways, traffic and safety protection, transportation, parks and recreation, storm-water drainage, mosquito control and non-potable water facilities are to be owned, maintained, and operated by HMD. The sanitary sewer and potable systems will be conveyed to the Town of Granby or Granby Sanitation District, upon acceptance.

If the Town determines the Districts are not operating or maintaining any Street Improvement in conformity with this agreement, the Town may cure the nonconforming condition and receive reimbursement for related costs from the District.

The agreement limits the aggregate bonded debt amount to \$94,250,000 for the Districts. It also limits the maximum mill levy to 50.000 mills, adjusted for the change in the ratio of actual valuation to assessed valuation from 2003 to the current year.

Master Intergovernmental Agreements with Headwaters Metropolitan District – On June 1, 2006, the District entered into the District Facilities Construction and Service Agreement with HMD as the “Operating” district and GRMD as the “Taxing” district. This agreement terminated and replaced the Master Intergovernmental Agreement entered into by GRMD and HMD on December 10, 2003. The agreement is to coordinate the financing, processing of construction, and operation and maintenance of the development of public infrastructure in Granby Ranch. The districts are empowered to enter into contracts and agreements with one another to provide intergovernmental services and facilities and the agreement basically provides that HMD will construct the public infrastructure in the Districts and that GRMD and the other taxing districts will ultimately pay the cost of constructing those improvements.

4. Significant agreements (continued)

Master Intergovernmental Agreements with Headwaters Metropolitan District (continued)

Certain improvements such as water and sanitary sewer improvements will be conveyed to the Town of Granby and other improvements such as roads, roadway landscaping and drainage improvements will be operated and maintained by HMD. The cost of operation and maintenance of the improvements owned by HMD will ultimately be paid by the taxing districts in Granby Ranch. As the taxing districts have the financial ability to issue bonds, they have an obligation to issue bonds, the proceeds of which will be used to pay the cost of constructing the infrastructure.

The consolidated service plan for the additional taxing districts (Granby Ranch Metropolitan Districts Nos. 2 through 8) was approved by the Town of Granby on September 25, 2007. The District's management expects that similar master intergovernmental agreements will be entered into between HMD and the new taxing districts. On September 17, 2008, the First Amended and Restated District Facilities Construction and Service Agreement was entered into. It superseded and replaced the prior agreement in its entirety. This new agreement included the additional taxing districts (Granby Ranch Metropolitan Districts Nos. 2 through 8). The combined amounts due to HMD by the taxing districts are \$11,276,416 for capital costs and \$1,080,624 for service costs. The amount owed to the District by the taxing districts has been recorded in the Statement of Net Assets. During the year ended December 31, 2009, the District received service obligation payments from GRMD totaling \$124,620.

Amenities Lease Purchase Agreement – On June 1, 2005 (and subsequently amended and restated on June 1, 2006, with addenda dated January 1, 2007, January 16, 2007, January 16, 2008, March 19, 2008, and May 20, 2009), the District entered into a lease purchase agreement with the District developer to lease the ski area and golf course premises (the "amenities"). The initial term of the lease was through December 31, 2005 and the District has the option to renew the lease for twenty-four additional one-year terms coinciding with the District's fiscal year. The fourth addendum, signed March 19, 2008, modified the terms so that the agreement will automatically renew each year on January 1 unless otherwise terminated.

Under this agreement, the District leases the ski area and golf course premises for an annual rental payment of \$600,000, beginning in 2005, payable solely from amenities fees and any other available revenues as determined at the sole discretion of the District. The agreement defines amenities fees as fees imposed by the District related to the use of the ski area and golf course premises but excluding any fee imposed solely for the purposes of funding operational costs. If the District is not able to make the full annual rental payment due in any year, such shortfall will be added to the amount due in the subsequent year and the District will not be construed as being in default under the agreement. In the event amenities fees are received in excess of the annual rental payment in any year, such excess shall be applied as a prepayment of rental payments due in future years. The annual rental payments are defined as current financial obligations and shall not be construed to be indebtedness of the District. The District has the option to purchase the amenities at any time for a price as defined in the agreement. The fees received in 2009 totaled \$220,000.

4. Significant agreements (continued)

Amenities Management Agreement – On June 1, 2005 (and subsequently amended and restated on June 1, 2006) the District entered into an amenities management agreement with the District Developer (the “manager”) pursuant to which the Developer will manage the recreational amenity facilities which are the subject of the Amenities Lease Purchase Agreement. The initial term of the amenities management agreement was effective through the District’s fiscal year with an annual option to renew on January 1 for successive annual periods. The agreement may be terminated by either party with 30 days notice. As of December 31, 2009, the agreement has been extended through December 31, 2010 and shall automatically renew on January 1st of each year for an additional one year term unless terminated, pursuant to the second amendment.

Under the agreement, in the event the amenities facilities operate at a deficit, the manager is obligated to advance funds to the District to fund such deficits. Any advances made by the manager after May 1, 2006 are to be recorded as increases to long-term debt in the Amenities Fund, with simple interest accrued at a rate of 8% per annum. Such advances and accrued interest are repayable solely from the operating profits, if any, of the Amenities Fund. The Manager’s obligation to advance funds to cover operating deficits will terminate when the District has received and applied amenities fees to the payment of rentals under the Amenities Lease Purchase Agreement equal to at least one-half of the amenities purchase price as defined in the Amenities Lease Purchase Agreement.

The management fee payable to the Manager pursuant to the 2005 agreement was equal to the Manager’s actual costs, including an allocation of the manager’s overhead, without a margin for profit. When the agreement was amended and restated in 2006 the management fee was amended to become \$600,000 per year beginning June 1, 2006. Based on this amendment, management fees in the amount of \$600,000 have been recognized for 2009. \$65,091 of this amount has not been paid and is included in advance payable to Developer.

5. Other information

Commitments and contingencies

During the normal course of business, the District may incur claims and other assertions against it from various agencies and individuals. Management of the District and its legal representatives have disclosed that there are no material outstanding claims against the District at December 31, 2009.

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 has elected to participate in the Colorado Special Districts Property and Liability Pool (the Pool) which is sponsored by the Special District Association of Colorado. The Pool is an organization created by intergovernmental agreement to provide property, liability, public official liability, and boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

5. Other information (continued)

Risk management (continued)

The District pays annual premiums to the Pool for property, general liability and public official's liability, coverage. Members of the Pool may be required to make additional surplus contributions in the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool. Any excess funds, which the Pool determines are not needed for purposes of the Pool, may be returned to the members pursuant to a distribution formula. No distributions were made during the year ended December 31, 2009.

In addition, the District is named as insured along with the Developer or additionally insured on several of the Developer's policies including general liability, excess liability, crime and employment. The general liability coverage is in excess of \$28,000,000.

Related parties

All the members of the Board of Directors of the District are employees or have substantial business interest with the developer.

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, and revenue and debt limitations which apply to the State of Colorado and all local governments.

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

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

The District's management believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations of the amendment's language in order to determine its compliance.

6. Reconciliation of government-wide and fund financial statements

Explanation of differences between the Governmental Funds Balance Sheet and the government-wide Statement of Net Assets

The Governmental Funds Balance Sheet and the government-wide Statement of Net Assets includes a reconciling section. Explanation of the adjustments included in the reconciling section is as follows:

Capital assets of \$12,839,618 less accumulated depreciation of \$733,112 or a net book value of \$12,106,506 are not financial resources and therefore are not reported in the funds.

**HEADWATERS METROPOLITAN DISTRICT
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Notes to Financial Statements
December 31, 2009**

6. Reconciliation of government-wide and fund financial statements (continued)

Explanation of differences between the Governmental Funds Balance Sheet and the government-wide Statement of Net Assets (continued)

Other long-term assets are not available to pay current period expenditures, and therefore are not reported in the funds.

Capital obligation from financing districts	\$ 11,276,416
Service obligation from financing districts	1,080,624
Net adjustment	<u>\$ 12,357,040</u>

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Accrued interest payable	\$ 1,335,183
Capital leases:	
Due within one year	49,782
Due in more than one year	198,657
Notes payable to developer:	
Due in more than one year	11,113,196
Net adjustment	<u>\$ 12,696,818</u>

Explanation of differences between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the government-wide Statement of Activities

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In addition, a significant portion of infrastructure assets were conveyed to the Town of Granby in 2009.

Depreciation expense	\$ (369,124)
Capital outlay	374,596
Conveyance to the Town of Granby	<u>(2,056,960)</u>
Net adjustment	<u>\$ (2,051,488)</u>

Changes in capital and service obligations receivable from Granby Ranch Metropolitan District and Granby Ranch Metropolitan Districts #'s 2-8 are only reported in the Statement of Activities because they do not generate currently available resources. This difference represents the net change in these receivable balances during the year.

Intergovernmental contribution – operating	\$ 285,139
Intergovernmental contribution – capital	998,574
Net adjustment	<u>\$ 1,283,713</u>

**HEADWATERS METROPOLITAN DISTRICT
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Notes to Financial Statements
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7. Subsequent event

On April 21, 2010, Granby Ranch Metropolitan District issued \$11,119,000 of Subordinate Bonds, the proceeds of which were transferred to the District to reduce the capital and service obligation receivables of the District. The District then used the proceeds to pay down a substantial portion of the balance owed to the Developer.

Other Supplementary Information

HEADWATERS METROPOLITAN DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund Balance
- Budget and Actual
Capital Projects Fund
For the Year ended December 31, 2009

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Intergovernmental agreement	\$ -	\$ 567	\$ 567
Expenditures:			
Capital outlay:			
Construction management fee	4,075	2,464	1,611
Capital advance interest	-	-	-
Construction projects	271,639	164,910	106,729
Total expenditures	275,714	167,374	108,340
Excess of revenues over (under) expenditures	(275,714)	(166,807)	108,907
Other Financing Sources:			
Developer advances	275,714	336,118	60,404
Net Change in Fund Balance	-	169,311	169,311
Fund balance - beginning of year	-	8,165	8,165
Fund balance - end of year	\$ -	\$ 177,476	\$ 177,476

HEADWATERS METROPOLITAN DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund Net Assets
-Budget (Non-GAAP Basis) and Actual
Proprietary Fund - Amenities Fund
For the Year ended December 31, 2009

	Original and Final Budget	Actual	Variance Positive (Negative)
Operating Revenues:			
Ski, bike and golf revenues, net	\$ 4,781,007	\$ 4,129,163	\$ (651,844)
Interest income	4,489	8,282	3,793
Club fees, net	683,358	-	(683,358)
Amenities fees	-	220,000	220,000
Total Operating Revenues	<u>5,468,854</u>	<u>4,357,445</u>	<u>(1,111,409)</u>
Operating Expenses:			
Ski, bike and golf cost of goods sold	424,984	464,933	(39,949)
Salaries, wages and benefits	2,770,281	2,468,296	301,985
Other operating expenses	2,961,413	2,168,143	793,270
Interest expense	265,000	317,041	(52,041)
Facilities lease	-	220,000	(220,000)
Total Operating Expenses	<u>6,421,678</u>	<u>5,638,413</u>	<u>783,265</u>
Operating income (loss)	(952,824)	(1,280,968)	(328,144)
Non-operating revenues:			
Developer advances	952,824	1,479,606	526,782
Change in net assets - Non-GAAP Basis	<u>\$ -</u>	<u>\$ 198,638</u>	<u>\$ 198,638</u>
Reconciliation to GAAP Basis:			
Developer advances		(1,479,606)	
Net GAAP Basis Adjustment		<u>(1,479,606)</u>	
Change in Net Assets - GAAP Basis		<u>\$ (1,280,968)</u>	