VDW METROPOLITAN DISTRICT NO. 1
Larimer County, Colorado

FINANCIAL STATEMENTS
December 31, 2009

TABLE OF CONTENTS

JASPERS + HALL, PC

CERTIFIED PUBLIC ACCOUNTANTS

12295 Oracle Blvd
Colorado Springs, CO 80921
(719) 785-7905

Report of Independent Certified Public Accountants

Board of Directors
VDW Metropolitan District No. 1

We have audited the accompanying financial statements of the governmental activities and each major fund of VDW Metropolitan District No. 1 (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 District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 and each major fund of VDW Metropolitan District No. 1, as of December 31, 2009, and the respective changes in it's financial position, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 District's basic financial statements. The other supplementary information presented on pages 22 through 23 are presented for purposes of additional analysis and is also not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Jaspers + Hall, PC

May 28, 2010

Management's Discussion and Analysis

As management of VDW Metropolitan District No. 1 (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.

Financial Highlights

- Liabilities exceeded assets by $7,889,321 at the end of the fiscal year. This deficit of net assets is largely due to the District being responsible for the repayment of bonds and Developer advances that were used for public improvements and then subsequently dedicated to other governments.

- As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $102,700.

- Total net assets increased by $341,731. This increase is mainly attributable to the payment of Developer debt and City of Loveland reimbursement applied to Developer debt.

- Total cash and investments decreased by $65,142 as compared to 2008. This decrease is due mainly to funds used for the principal and interest payment during the year on Developer debt.

- General Fund expenditures were $352,147 for the year ended December 31, 2009. Included in this amount was $202,053 in principal and $12,140 in interest paid on the Developer note. The remaining $137,954 in expenditures included costs incurred to provide the administration of the District and include accounting, legal, management, insurance, utilities, landscape maintenance and other costs.

- At the end of the current fiscal year, unreserved fund balance for the General Fund was $83,914, or 24% of total General Fund expenditures.

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 are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of 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.

Both of the government-wide financial statements identify functions of the District that are principally to be supported by ad valorem taxes *(governmental activities).* The governmental activities of the District include the financing, construction of, and maintenance of governmental infrastructure including streets, water, sewer, storm, park and recreation, and transportation and traffic improvements constructed or acquired by the District.

The 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are governmental funds.

Governmental funds. *Governmental funds* are used to account for essential 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 spendable resources*, as well as on *balances of spendable 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-side financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for each of the funds – General Fund, Debt Service Fund, and Capital Projects Fund – all of which are considered to be major funds.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for this fund in the basic financial statements to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 3-6 of this report.

Notes to 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 financial statements can be found on pages 7-20 of this report.

Other information. The report includes individual fund schedules. A budgetary comparison statement has been provided in this section for the Debt Service Fund and the Capital Projects Fund to demonstrate compliance with these budgets. The budget statements are found after the *basic financial statements* on pages 21-23 of this report. A schedule of debt service requirements to maturity on the District's 2007 General Obligation Bonds is included on page 24 and schedules of comparative assessed valuation, mill levy and property taxes collected is included for VDW Metropolitan District Nos. 2 and 3 on pages 25-26.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The District's liabilities exceeded assets by $7,889,321 at the close of the most recent fiscal year.

Net Assets

	December 31, 2009	December 31, 2008
Current assets	$ 189,631	$ 259,426
Capital assets	278,066	157,687
Total assets	467,697	417,113
Current liabilities	23,141	31,305
Long-term obligations	8,333,876	8,616,860
Total liabilities	8,357,017	8,648,165
Invested in capital assets, net of related debt	(38,591)	(32,696)
Restricted net assets	18,786	11,345
Unrestricted net assets	(7,869,516)	(8,209,701)
Total net assets	$ (7,889,321)	$ (8,231,052)

During 2009, the District's capital assets increased $120,379, the result of capital acquisitions of $135,842 less depreciation of $15,463. Current assets decreased by $69,796 from 2008 due mainly to the use of cash for Developer note payments.

Change in Net Assets

	December 31, 2009	December 31, 2008
Revenue		
Service fees - District 2	$ 146,178	$ 204,499
Service fees - District 3	343,485	146,948
City of Loveland capital reimbursement	216,773	-
Other revenue	1,306	5,461
Total revenues	707,742	356,908
Expenses		
General government	(153,417)	(156,777)
Interest and related costs on long-term debt	(212,594)	(201,073)
Total expenses	(366,011)	(357,850)
Change in net assets	341,731	(942)
Net assets - Beginning	(8,231,052)	(8,230,110)
Net assets - Ending	$ (7,889,321)	$ (8,231,052)

The District's main revenue source for 2009 was service fees earned. The majority of the expenses for general government were legal, accounting, management, service plan amendment and landscape maintenance, which totaled $137,954.

Financial Analysis of the Government's Funds

As noted 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, outflow, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $102,700. This amount represents $83,914 in unreserved fund balance that is available for spending at the government's discretion and $18,786 in reserved fund balance comprised of $8,900 for emergency reserves and $9,886 for capital projects.

General Fund Budgetary Highlights

The District's total General Fund expenditures for 2009 did not exceed the original budgeted appropriation. The difference between the original budgeted expenditures of $371,918 and the actual expenditures of $352,147 was $19,771.

Capital Assets

The District invested $135,842 in additional capital assets for its governmental activities for the period ended December 31, 2009.

Additional information on the District's capital assets can be found in Note 4 of this report.

Long-Term Debt

At the end of the current fiscal year, the District had total outstanding bond indebtedness of $3,000,000. The District's 2007 Limited Property Tax Supported Revenue Bonds are due December 1, 2032 and pay interest of 6.5%.

Additionally, the District had a long-term liability to the Developer, VDW Properties, LLC, of $5,333,876 as a result of funding provided by the Developer to the District for capital improvement costs.

Additional information on the District's long-term debt can be found in Note 5 of this report.

Next Year's Budgets and Rates

Budgeted General Fund expenditures for 2010 are $178,276, and are anticipated to be funded with service fees.

Requests for Information

This financial report is designed to provide a general overview of the finances for VDW Metropolitan District No. 1. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: VDW Metropolitan District No. 1, c/o Pinnacle Consulting Group, Inc., 5110 Granite Street, Suite C, Loveland, CO 80538.

THIS PAGE LEFT BLANK INTENTIONALLY

BASIC FINANCIAL STATEMENTS

VDW METROPOLITAN DISTRICT NO. 1
STATEMENT OF NET ASSETS
December 31, 2009

	Governmental Activities
ASSETS	
Cash and investments	$ 87,929
Cash and investments - Restricted	18,786
Service fees receivable - District 2	1,255
Service fees receivable - District 3	1,451
Bond issue costs, net and other assets	80,210
Capital assets, net	278,066
Total assets	467,697
LIABILITIES	
Accounts payable	6,891
Accrued interest payable	16,250
Noncurrent liabilities	
Due within one year	255,000
Due in more than one year	8,078,876
Total liabilities	8,357,017
NET ASSETS	
Invested in capital assets, net of related debt	(38,591)
Restricted for:	
Emergency reserves	8,900
Capital projects	9,886
Unrestricted	(7,869,516)
Total net assets	$ (7,889,321)

These financial statements should be read only in connection with the accompanying notes to financial statements.

VDW METROPOLITAN DISTRICT NO. 1
STATEMENT OF ACTIVITIES
Year Ended December 31, 2009

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Primary government:					
Government activities:					
General government	$ 153,417	$ -	$ -	$ -	$ (153,417)
Interest and related costs on long-term debt	212,594	-	-	-	(212,594)
	$ 366,011	$ -	$ -	$ -	$ (366,011)

General revenues:	
Service fees - District 2	146,178
Service fees - District 3	343,485
City of Loveland Capital Reimbursement	216,773
Net investment income	1,306
Total general revenues	707,742
Change in net assets	341,731
Net assets - Beginning	(8,231,052)
Net assets - Ending	$ (7,889,321)

These financial statements should be read only in connection with the accompanying notes to financial statements.

VDW METROPOLITAN DISTRICT NO. 1
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2009

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and investments	$ 87,929	$ -	$ -	$ 87,929
Cash and investments - Restricted	8,900	-	9,886	18,786
Service fees receivable - District 2	1,255	-	-	1,255
Service fees receivable - District 3	1,451	-	-	1,451
Prepaid Expenses	170	-	-	170
TOTAL ASSETS	$ 99,705	$ -	$ 9,886	$ 109,591
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 6,891	$ -	$ -	$ 6,891
Total liabilities	6,891	-	-	6,891
FUND BALANCES				
Reserved				
Emergency reserve	8,900	-	-	8,900
Capital projects	-	-	9,886	9,886
Unreserved, reported in:				
General fund	83,914	-	-	83,914
Total fund balances	92,814	-	9,886	102,700
TOTAL LIABILITIES AND FUND BALANCES	$ 99,705	$ -	$ 9,886	

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 as assets in the funds.	
Capital assets, net	278,066
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Bond issue costs, net	80,039
Long-term liabilities, including Developer advances and bonds payable are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Developer advance payable	(5,333,876)
Accrued interest on bonds payable	(16,250)
Bonds payable	(3,000,000)
Net assets of governmental activities	$ (7,889,321)

These financial statements should be read only in connection with the accompanying notes to financial statements.

VDW METROPOLITAN DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2009

	General	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Service fees - District 2	$ 146,178	$ -	$ -	$ 146,178
Service fees - District 3	343,485	-	-	343,485
Proceeds from developer note	-	-	135,842	135,842
Net investment income	1,306	-	-	1,306
Total Revenues	490,969	-	135,842	626,811
EXPENDITURES				
Current				
Accounting	35,168	-	-	35,168
Audit	4,200	-	-	4,200
Directors' fees	100	-	-	100
Engineering	153	-	-	153
Insurance and bonds	6,041	-	-	6,041
Landscape maintenance	42,158	-	-	42,158
Legal	11,881	-	-	11,881
Management	17,896	-	-	17,896
Office expense/miscellaneous	3,130	-	-	3,130
Service plan amendment	9,373	-	-	9,373
Utiliites	7,854	-	-	7,854
Repayment of developer advance - Principal	202,053	-	-	202,053
Repayment of developer advance - Interest	12,140	-	-	12,140
Debt service				
Bond interest	-	195,000	-	195,000
Capital outlay	-	-	135,842	135,842
Total expenditures	352,147	195,000	135,842	682,989
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	138,822	(195,000)	-	(56,178)
OTHER FINANCING SOURCES (USES)				
Transfer from other fund	-	195,000	-	195,000
Transfer to other fund	(195,000)	-	-	(195,000)
Total other financing sources (uses)	(195,000)	195,000	-	-
NET CHANGE IN FUND BALANCES	(56,178)	-	-	(56,178)
FUND BALANCES - BEGINNING OF YEAR	148,992	-	9,886	158,878
FUND BALANCES - END OF YEAR	$ 92,814	$ -	$ 9,886	$ 102,700

These financial statements should be read only in connection with the accompanying notes to financial statements.

VDW METROPOLITAN DISTRICT NO. 1
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2009

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

Net change in fund balances - Total governmental funds	$ (56,178)
Governmental funds report capital outlays as expenditures. In the statement of activities capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the jcost of any depreciable asset of the estimated useful life of the asset.	
Depreciation expense	(15,463)
The issuance of long-term debt (e.g., bonds, Developer advances) 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. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	
Amortization of bond issue costs	(5,454)
Current year repayment of Developer advance - Principal	202,053
City of Loveland capital reimbursement	216,773
Changes in net assets of governmental activities	$ 341,731

These financial statements should be read only in connection with the accompanying notes to financial statements.

VDW METROPOLITAN DISTRICT NO. 1
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2009

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Service fees - District 2	$ 233,653	$ 146,178	$ (87,475)
Service fees - District 3	270,209	343,485	73,276
Net investment income	2,000	1,306	(694)
Total Revenues	505,862	490,969	(14,893)
EXPENDITURES			
Accounting and Financial Management	47,500	35,168	12,332
Audit	5,000	4,200	800
Directors' fees	100	100	-
Engineering	1,000	153	847
Insurance and bonds	5,500	6,041	(541)
Landscape maintenance	44,970	42,158	2,812
Legal	25,000	11,881	13,119
Management	22,848	17,896	4,952
Office expense/miscellaneous	3,000	3,130	(130)
Repayment of developer advance - Principal	100,000	202,053	(102,053)
Repayment of developer advance - Interest	-	12,140	(12,140)
Service plan amendment	77,300	9,373	67,927
Utiliites	9,700	7,854	1,846
Contingency	30,000	-	30,000
Total expenditures	371,918	352,147	19,771
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	133,944	138,822	4,878
OTHER FINANCING SOURCES (USES)			
Transfer to other fund	(195,000)	(195,000)	-
Total other financing sources (uses)	(195,000)	(195,000)	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(61,056)	(56,178)	4,878
FUND BALANCES - BEGINNING OF YEAR	99,652	148,992	49,340
FUND BALANCES - END OF YEAR	$ 38,596	$ 92,814	$ 54,218

These financial statements should be read only in connection with the accompanying notes to financial statements.

NOTE 1 – DEFINITION OF REPORTING ENTITY

VDW Metropolitan District No. 1 (the District), a quasi-municipal corporation and political subdivision of the State of Colorado was organized by order and decree of the District Court for the City of Loveland on June 6, 2002, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in the City of Loveland (City), Larimer County, Colorado. The District was established to provide construction, installation, financing and operation of public improvements, including streets, traffic and safety controls, water, sanitation, storm drainage, transportation, television relay and translator, park and recreation facilities, and mosquito and pest control. The District's service plan was approved by the City. Pursuant to the consolidated service plan for VDW Metropolitan Districts No. 1-3, the District operates as the Service District related to VDW Metropolitan District No. 2 (Residential District) and VDW Metropolitan District No. 3 (Commercial District).

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.

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

The District is not financially accountable for any other organization, including VDW Metropolitan Districts No. 2-3, nor is the District a component unit of any other primary governmental entity, including the City.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These financial statements include all of the activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The statement of net assets reports all financial and capital resources of the District. The difference between the assets and liabilities of the District is reported as net assets.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets and redemption of bonds and notes are recorded as a reduction in liabilities.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes and service fees. Expenditures, other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation paid. All other revenue items are considered to be measurable and available only when cash is received by the District. The District determined that Developer advances are not considered as revenue susceptible to accrual.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District reports the following major governmental funds:

The General fund is the district's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the governmental funds.

The Capital Projects fund is used to account for financial resources to be used for the acquisition and construction of capital equipment and facilities.

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.

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the 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. The budget includes each fund on its basis of accounting unless otherwise indicated.

Pooled Cash and Investments

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

Investments are carried at fair value.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000. Such assets 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.

Capital assets which are anticipated and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation expense has been computed using the straight-line method over the following estimated economic useful life:

Parks and recreation	20 years

Amortization

Bond Issue Costs

In the government-wide financial statements, bond issuance costs are reported as deferred charges and amortized over the term of the related debt using the effective interest method.

In the fund financial statements, governmental fund types recognize bond issue costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service or capital projects expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are legally segregated or are not subject to future appropriation. Designations of unreserved fund balances indicate management's intention for future utilization of such funds and are subject to change by management.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reserved Fund Balance

Emergency reserves have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado. $8,900 of the fund balance has been reserved in compliance with this requirement.

The reserved fund balance in the Capital Projects Fund in the amount of $9,886 represents bond proceeds for completion of capital projects.

NOTE 3 – CASH AND INVESTMENTS

Cash and investments as of December 31, 2009 are classified in the accompanying financial statements as follows:

Statement of net assets:		
Cash and investments	$	87,929
Cash and investments - Restricted		18,786
Total cash and investments	$	106,715

Cash and investments as of December 31, 2009, consist of the following:

Deposits with financial institutions	$	11,884
Investments		94,831
Total cash and investments	$	106,715

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

Deposits with Financial Institutions

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. 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 for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to the aggregate uninsured deposits.

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

At December 31, 2009, the District's cash deposits had a bank balance of $17,859 and a carrying balance of $11,884.

Investments

The District has not adopted a formal investment policy; however the District follows state statutes regarding investments.

The District generally limits its concentration of investments to local government investment pools, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

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.

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

- Obligations of the United States, certain U.S. government agency securities and securities of the World Bank
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

- Commercial paper
- Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

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

Investment	Maturity	Fair Value
Colorado Liquid Asset Trust (Colotrust)	Less than 1 year	$ 94,831

COLOTRUST

During 2009, the District invested in the Colorado Local Government Liquid Asset Trust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value up to $1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+, both of which are rated AAAm from Standard and Poor's. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUS PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. As of December 31, 2009, the District had $94,831 invested in COLOTRUST PLUS+.

NOTE 4 – CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2009, follows:

	Balance at December 31, 2008	Increases	Decreases	Balance at December 31, 2009
Governmental Activities:				
Capital assets, being depreciated:				
Parks and recreation	$ 184,737	$ 135,842	$ -	$ 320,579
Less accumulated depreciation for:				
Parks and recreation	27,050	15,463	-	42,513
Total capital assets, being depreciated	157,687	120,379	-	278,066
Capital assets, net	$ 157,687	$ 120,379	$ -	$ 278,066

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

Governmental Activities:	
General government	$ 15,463
Total depreciation expense - Governmental activities	$ 15,463

NOTE 5 – LONG-TERM OBLIGATIONS

The following is an analysis of the changes in the District's long-term obligations for the year ended December 31, 2009.

	Balance at December 31, 2008	Additions	Reductions	Balance at December 31, 2009	Due Within One Year
Series 2007 G.O. Bonds	$ 3,000,000	$ -	$ -	$ 3,000,000	$ 60,000
Developer advances - General	202,053	-	(202,053)	-	-
Developer advances - Capital	5,414,807	135,842	(216,773)	5,333,876	-
Total	$ 8,616,860	$ 135,842	$ (418,826)	$ 8,333,876	$ 60,000

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

The detail of the District's long-term obligations is as follows:

Limited Property Tax Supported Revenue Bonds

$3,000,000 Limited Property Tax Supported Revenue Bonds, Series 2007, dated December 20, 2007, with interest of 6.50%, consisting of term bonds issued in the original amount of $3,000,000 due December 1, 2032. All bonds maturing on or after December 1, 2017 are callable at the option of the District without premium. The bonds and interest are insured as to repayment by the District.

The bonds are secured by and payable from the Pledged Revenue consisting of monies derived by the District from the following sources, net of any collection costs: (1) all amounts payable to the District under the Capital Pledge Agreement. Under the Capital Pledge Agreement the two Financing Districts must remit all net property tax collections from the Required Mill Levy to the District. (2) Any other legally available moneys which the District determines, in its absolute discretion, to credit to the Bond Fund. Required Mill Levy means an ad valorem mill levy imposed upon all taxable property of the Financing Districts, each year in an amount sufficient to pay the principle and interest on the bonds as the same become due and payable. The maximum Required Mill Levy is 40.0 mills with respect to each Financing District, adjusted for changes in the ratio of actual value to assessed value of property within the Financing Districts. As of December 31, 2009, the adjusted maximum mill levy is 45.98 mills with respect to District No. 2 and 40.0 mills with respect to District No. 3. For collection year 2010, District No. 2 levied 45.98 mills and District No. 3 levied 40.0 mills.

The District's long-term obligations will mature as follows:

	Principal	Interest	Total
2010	$ 60,000	$ 195,000	$ 255,000
2011	65,000	191,100	256,100
2012	70,000	186,875	256,875
2013	75,000	182,325	257,325
2014	75,000	177,450	252,450
2015-2019	465,000	806,650	1,271,650
2020-2024	635,000	634,725	1,269,725
2025-2029	880,000	398,125	1,278,125
2030-2032	675,000	89,700	764,700
	$ 3,000,000	$ 2,861,950	$ 5,861,950

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

Authorized Debt

On May 7, 2002, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed $32,944,452 at an interest rate not to exceed 12% per annum. At December 31, 2009, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	Amount Authorized on May 7, 2002	Authorization Used Series 2007 Bonds	Authorized But Unissued
Streets	$ 7,418,250	$ 996,507	$ 6,421,743
Traffic/safety controls	500,000	-	500,000
Water	1,641,366	536,963	1,104,403
Sanitation	4,662,610	1,466,530	3,196,080
Parks and recreation	500,000	-	500,000
Transportation	500,000	-	500,000
TV relay	500,000	-	500,000
Mosquito control	500,000	-	500,000
Bond refunding	16,222,226	-	16,222,226
Operations and maintenance	500,000	-	500,000
	$ 32,944,452	$ 3,000,000	$ 29,944,452

Pursuant to the Service Plan, the District is permitted to issue bond indebtedness of up to $16,000,000.

In the future, the District may issue a portion or all of the remaining authorized but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District's service area.

Developer Advances

The District had a long-term liability to the Developer of $5,333,876 as of December 31, 2009 as a result of funding provided by the Developer to the District for capital improvement costs. The District has entered into Funding and Reimbursement Agreements with the Developer as follows:

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

Operations and Maintenance Funding Agreement

The District had entered into an Amended and Restated Funding Agreement for Operations and Maintenance Costs with the Developer, VDW Properties, LLC. This agreement was in effect until December 31, 2007, and required the Developer to fund operation and maintenance costs up to a maximum of $500,000. During 2009, there were no advances made under this agreement; however, the full principal amount outstanding of $202,053 plus $12,140 in interest was repaid to the Developer. As of December 31, 2009, outstanding advances under this agreement totaled $0.

Improvements Acquisition Agreement

The District entered into an improvements acquisition agreement with the Developer on December 1, 2005. Under the terms of this agreement, the District has agreed to acquire completed public improvements from the Developer. During 2009, a $216,773 capital reimbursement was received from the City and applied to principal under this agreement. There were no public improvements acquisitions during 2009. Interest on these advances may only be repaid in the event the District generates sufficient cash flow to pay principal and related interest annually. As of December 31, 2009, outstanding advances under this agreement totaled $5,333,876.

NOTE 6 – 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 reduce by the outstanding balances of bonds and other borrowings that are attributable to the acquisition, constructions, or improvement of those assets. As of December 31, 2009, the District had invested in capital assets, net of related debt calculated as follows:

NOTE 6 – NET ASSETS (CONTINUED)

		Governmental Activities
Invested in capital assets, net of related debt:		
Capital assets, net	$	278,065
Noncurrent portion of outstanding long-term obligations		(320,147)
Bond issuance costs (net of accumulated amortization)		3,126
Unspent bond proceeds		365
Invested in capital asset, net of related debt	$	(38,591)

Restricted assets include net assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net assets as of December 31, 2009 as follows:

		Governmental Activities
Restricted net assets:		
Emergencies	$	8,900
Capital projects		9,886
Total restricted net assets	$	18,786

The District's unrestricted net assets as of December 31, 2009 are $(7,869,516). This deficit amount was a result of the District being responsible for the repayment of bonds and Developer debt issued for public improvements which were conveyed to other governmental entities and which costs were removed from the District's financial records.

NOTE 7 – INTERFUND AND OPERATING TRANSFERS

The following schedule summarizes the District's transfer for the year ended December 31, 2009:

Transfers Out	Transfers Out	Amount
Debt Service Fund	General Fund	$ 195,000

The transfer of $195,000 from the General fund to the Debt Service Fund was related to payment of debt service expenses.

NOTE 8 – RELATED PARTY

The Developers of the property which constitutes the District are VDW Properties, LLC, and VDW Retail, LLC. The members of the Board of Directors are employees, owners or are otherwise associated with the Developers, and have disclosed any potential conflicts of interest in taking action on matters brought before the Board. The District owes VDW Properties, LLC $5,333,876 as of December 31, 2009 for outstanding Developer advances.

NOTE 9 – 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 is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2009. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, 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.

The District pays annual premiums to the Pool for liability, property, public officials' liability and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 10 – 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 that apply to the State of Colorado and all local governments.

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

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

On May 7, 2002, the District voters passed an election question to increase property taxes $500,000 annually, without limitation of rate, to pay the District's operations, maintenance, and other expenses.

On May 7, 2002, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all current and future levied taxes and fees of the District, up to the amounts specified in the May 2002 election, without regard to any limitations under TABOR.

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

THIS PAGE LEFT BLANK INTENTIONALLY

SUPPLEMENTAL INFORMATION

VDW METROPOLITAN DISTRICT NO. 1
DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2009

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES	$ -	$ -	$ -
EXPENDITURES			
Bond interest	195,000	195,000	-
Total expenditures	195,000	195,000	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(195,000)	(195,000)	-
OTHER FINANCING SOURCES (USES)			
Transfer from other fund	195,000	195,000	-
Total other financing sources (uses)	195,000	195,000	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	-	-	-
FUND BALANCES - BEGINNING OF YEAR	-	-	-
FUND BALANCES - END OF YEAR	$ -	$ -	$ -

VDW METROPOLITAN DISTRICT NO. 1
CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2009

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES	$ 2,000,000	$ -	$ (2,000,000)
EXPENDITURES			
Capital Outlay			
Landscaping	-	135,842	(135,842)
Water	222,200	-	222,200
Streets	888,900	-	888,900
Sewer and storm sewer	888,900	-	888,900
Total expenditures	2,000,000	135,842	1,864,158
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(135,842)	(135,842)
OTHER FINANCING SOURCES (USES)			
Proceeds from developer note	-	135,842	135,842
Total other financing sources (uses)	-	135,842	135,842
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	-	-	-
FUND BALANCES - BEGINNING OF YEAR	16,015	9,886	(6,129)
FUND BALANCES - END OF YEAR	$ 16,015	$ 9,886	$ (6,129)

VDW METROPOLITAN DISTRICT NO. 1
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2009

	$3,000,000 Limited Property Tax Supported Revenue Bonds Series 2007, Dated December 20, 2007 Principal Due December 1 Interest Rate 6.50% Interest Payable June 1 and December 1		
Year Ended December 31,	**Principal**	**Interest**	**Annual Debt Service**
2010	60,000	195,000	255,000
2011	65,000	191,100	256,100
2012	70,000	186,875	256,875
2013	75,000	182,325	257,325
2014	75,000	177,450	252,450
2015	80,000	172,575	252,575
2016	85,000	167,375	252,375
2017	95,000	161,850	256,850
2018	100,000	155,675	255,675
2019	105,000	149,175	254,175
2020	110,000	142,350	252,350
2021	120,000	135,200	255,200
2022	125,000	127,400	252,400
2023	135,000	119,275	254,275
2024	145,000	110,500	255,500
2025	155,000	101,075	256,075
2026	165,000	91,000	256,000
2027	175,000	80,275	255,275
2028	185,000	68,900	253,900
2029	200,000	56,875	256,875
2030	210,000	43,875	253,875
2031	225,000	30,225	255,225
2032	240,000	15,600	255,600
	3,000,000	2,861,950	5,861,950

VDW METROPOLITAN DISTRICT NO. 1
FIVE YEAR SUMMARY OF VDW METROPOLITAN DISTRICT NO. 2'S
ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED
December 31, 2009

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Restated Assessed Valuation (1)	Mills Levied for General Obligation Bonds	Mills Levied for Contractual Obligation	Total Mills Levied	Total Property Taxes Levied	Total Property Taxes Collected	Percent Collected to Levied
2005	$ 1,910,820		-	-	-	$ -		N/A
2006	$ 2,734,990		-	-	-	$ -		N/A
2007	$ 3,689,110	3,458,030	-	45.980	45.980	$ 169,625	$ 167,478	98.7%
2008	$ 4,355,720	3,579,360	-	45.980	45.980	$ 200,276	$ 191,549	95.6%
2009 as certified (1)	*$ 4,794,000*	3,677,140	*17.460*	*28.520*	*45.980*	*$ 220,428*	*$ 133,355*	*60.5%*
2009 adjusted (1)	$ 2,900,780		17.460	28.520	45.980	$ 133,378	$ 133,355	100.0%
Estimated for calendar year ending December 31, 2010	$ 4,084,550		21.300	24.680	45.980	$ 187,808		

Notes:

1) After certification, in early 2009, the assessor reclassified $1.8million of AV from District No. 2 to District No. 3, which was a cumulative adjustment of $776,360 related to 2008 and $1,1168,860 related to 2009 collection years. This resulted in less property taxes received in District No. 2 than budgeted and certified and more in District No. 3. However, when the adjustment is taken into account, both Districts collected 100% of property taxes in 2009.

2) Property taxes collected in any one year include collection of delinquent property taxes levied in prior years.

VDW METROPOLITAN DISTRICT NO. 1
FIVE YEAR SUMMARY OF VDW METROPOLITAN DISTRICT NO. 3'S
ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED
December 31, 2009

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Restated Assessed Valuation (1)	Mills Levied for General Obligation Bonds	Mills Levied for Contractual Obligation	Total Mills Levied	Total Property Taxes Levied	Total Property Taxes Collected	Percent Collected to Levied
2005	$ 3,930		-	45.980	45.980	$ 181	$ 182	100.6%
2006	$ 573,120		-	45.980	45.980	$ 26,352	$ 26,352	100.0%
2007	$ 2,778,650	3,009,730	-	45.980	45.980	$ 127,762	$ 127,762	100.0%
2008	$ 3,445,190	4,221,550	-	40.000	40.000	$ 137,808	$ 137,807	100.0%
2009 as certified (1)	*$ 6,372,850*	7,489,710	*17.460*	*22.540*	*40.000*	*$ 254,914*	*$ 330,643*	*129.7%*
2009 adjusted (1)	$ 8,266,070		17.460	22.540	40.000	$ 330,643	$ 330,643	100.0%
Estimated for calendar year ending December 31, 2010	$ 7,911,250		21.300	18.700	40.000	$ 316,450		

Note:

1) After certification, in early 2009, the assessor reclassified $1.8million of AV from District No. 2 to District No. 3, which was a cumulative adjustment of $776,360 related to 2008 and $1,1168,860 related to 2009 collection years. This resulted in more property taxes received in District No. 3 than budgeted and certified and less in District No. 2. However, when the adjustment is taken into account, both Districts collected 100% of property taxes in 2009.

2) Property taxes collected in any one year include collection of delinquent property taxes levied in prior years.