

**LOVELAND MIDTOWN METROPOLITAN
DISTRICT**

BASIC FINANCIAL STATEMENTS

December 31, 2011

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FINANCIAL SECTION



**JOHN CUTLER
& ASSOCIATES**

Board of Directors
Loveland Midtown Metropolitan District
Loveland, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of Loveland Midtown Metropolitan District, as of and for the year ended December 31, 2011, which collectively comprise the basic financial statements of the District, as listed in the table of contents. These financial statements are the responsibility of Loveland Midtown Metropolitan 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 Loveland Midtown Metropolitan District, as of December 31, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has not presented the management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Loveland Midtown Metropolitan District's financial statements. The individual fund schedule is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund schedule is fairly stated in all material respects in relation to the financial statements as a whole.

John Cutler & Associates, LLC

July 17, 2012

BASIC FINANCIAL STATEMENTS

LOVELAND MIDTOWN METROPOLITAN DISTRICT

STATEMENT OF NET ASSETS

As of December 31, 2011

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Cash	\$ 46,394
Accounts Receivable	27,454
Capital Assets, not depreciated	554,310
Capital Assets, depreciated, net of accumulated depreciation	<u>478,718</u>
TOTAL ASSETS	<u>1,106,876</u>
LIABILITIES	
Accounts Payable	41,485
Accrued Interest	7,215
Noncurrent Liabilities	
Due within One Year	534,365
Due in More than One Year	<u>1,350,000</u>
TOTAL LIABILITIES	<u>1,933,065</u>
NET ASSETS	
Invested in Capital Assets, net of Related Debt	(851,337)
Reserved for Emergencies	3,500
Reserved for Debt Service	3,000
Unrestricted, Unreserved	<u>18,648</u>
TOTAL NET ASSETS	<u>\$ (826,189)</u>

The accompanying notes are an integral part of the financial statements.

LOVELAND MIDTOWN METROPOLITAN DISTRICT

STATEMENT OF ACTIVITIES
Year Ended December 31, 2011

	<u>GOVERNMENTAL ACTIVITIES</u>
EXPENSES	
Governmental Activities	
General Government	\$ 161,915
Interest on Long-Term Debt	<u>107,381</u>
Total Expenses	<u>269,296</u>
REVENUES	
GENERAL REVENUES	
Taxes	\$ 101,430
Interest	69
SPECIAL ITEM	
Developer Reimbursement	<u>26,940</u>
Total Revenues	<u>128,439</u>
CHANGE IN NET ASSETS	(140,857)
NET ASSETS, Beginning	<u>(685,332)</u>
NET ASSETS, Ending	<u><u>\$ (826,189)</u></u>

The accompanying notes are an integral part of the financial statements.

LOVELAND MIDTOWN METROPOLITAN DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
As of December 31, 2011

	GENERAL FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and Investments	\$ 46,394	\$ -	\$ 46,394
Due from Other Funds	23,940	-	23,940
Accounts Receivable	514	26,940	27,454
Property Taxes Receivable	101,832	-	101,832
	<u>172,680</u>	<u>26,940</u>	<u>199,620</u>
TOTAL ASSETS	\$ 172,680	\$ 26,940	\$ 199,620
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Accounts Payable	\$ 41,485	\$ -	\$ 41,485
Due to Other Funds	-	23,940	23,940
Deferred Property Taxes	101,832	-	101,832
	<u>143,317</u>	<u>23,940</u>	<u>167,257</u>
TOTAL LIABILITIES	143,317	23,940	167,257
FUND EQUITY			
Fund Balance			
Restricted for Emergencies	3,500	-	3,500
Restricted for Debt Service	-	3,000	3,000
Unassigned	25,863	-	25,863
	<u>29,363</u>	<u>3,000</u>	<u>32,363</u>
TOTAL FUND EQUITY	29,363	3,000	32,363
TOTAL LIABILITIES AND FUND EQUITY	\$ 172,680	\$ 26,940	

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.

1,033,028

Long-term liabilities are not due and payable in the current period and are not reported in the funds. These include bonds payable (\$1,350,000), notes payable (\$534,365), and accrued interest (\$7,215).

(1,891,580)

Net assets of governmental activities

\$ (826,189)

The accompanying notes are an integral part of the financial statements.

LOVELAND MIDTOWN METROPOLITAN DISTRICT

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended December 31, 2011

	GENERAL FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Property Taxes	\$ 95,454	\$ -	\$ 95,454
Specific Ownership Taxes	5,976	-	5,976
Interest	69	-	69
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	101,499	-	101,499
EXPENDITURES			
Current			
General Government	77,870	-	77,870
Bond Issuance Costs	-	41,940	41,940
Debt Service			
Principal	-	814,590	814,590
Interest	-	535,410	535,410
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	77,870	1,391,940	1,469,810
EXCESS OF REVENUES OVER (UNDER) EXPENSES	<hr/>	<hr/>	<hr/>
	23,629	(1,391,940)	(1,368,311)
OTHER FINANCING SOURCES (USES)			
Transfers In	-	18,000	18,000
Transfers Out	(18,000)	-	(18,000)
Developer Reimbursement	-	26,940	26,940
Proceeds from the Issuance of Debt	-	1,350,000	1,350,000
	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	(18,000)	1,394,940	1,376,940
NET CHANGE IN FUND BALANCES	5,629	3,000	8,629
FUND BALANCES, Beginning	<hr/>	<hr/>	<hr/>
	23,734	-	23,734
FUND BALANCES, Ending	<hr/>	<hr/>	<hr/>
	\$ 29,363	\$ 3,000	\$ 32,363

The accompanying notes are an integral part of the financial statements.

LOVELAND MIDTOWN METROPOLITAN DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2011

Amounts Reported for Governmental Activities in the Statement of Activities
are Different Because:

Net Changes in Fund Balances - Total Governmental Funds	\$ 8,629
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 and reported as depreciation expense. This is the amount of depreciation (\$42,105), for the current period.	(42,105)
Proceeds and payments on loans are revenues and expenditure in the governmental funds, but the issuance and payment of debt increases or reduces long-term liabilities in the statement of net assets. These include bond proceeds of (\$1,350,000), decrease in accrued interest of \$428,029, and payment of notes payable of \$814,590.	<u>(107,381)</u>
Change in Net Assets of Governmental Activities	<u>\$ (140,857)</u>

The accompanying notes are an integral part of the financial statements.

LOVELAND MIDTOWN METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Loveland Midtown Metropolitan District was formed to provide public services and improvements for the District and surrounding area within its boundaries. The District is governed by a five-member Board of Directors elected by the constituents.

The accounting policies of the Loveland Midtown Metropolitan District (the "District") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Reporting Entity

In accordance with governmental accounting standards, the Loveland Midtown Metropolitan District has considered the possibility of inclusion of additional entities in its financial statements.

The definition of the reporting entity is based primarily on financial accountability. The District is financially accountable for organizations that make up its legal entity. It is also financially accountable for legally separate organizations if District officials appoint a voting majority of the organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. The District may also be financially accountable for organizations that are fiscally dependent upon it.

Based on the application of these criteria, the District does not include additional organizations in its reporting entity.

Government-Wide and Fund Financial Statements

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. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

LOVELAND MIDTOWN METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Government-Wide and Fund Financial Statements (Continued)

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

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

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 the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Property taxes, specific ownership taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

LOVELAND MIDTOWN METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

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

In the fund financial statements, 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 District, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the repayment of principle and interest for the servicing of the District's debt.

Investments

Investments are recorded at fair value.

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column 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 and an estimated useful life in excess of one year. 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.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property and equipment of the District is depreciated using the straight line method over the estimated useful life of fifteen years.

Interfund Balances

Balances at year-end between funds are report as "due to/from other funds" in the fund financial statements and as internal balances in the statement of net assets.

LOVELAND MIDTOWN METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities fund type statement of net assets. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets/Fund Balance Classification

In the government-wide financial statements, net assets are restricted when constraints placed on the net assets are externally imposed.

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Restricted** – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies and has classified the Debt Service fund balance as restricted because its use is restricted for the repayment of long-term debt.
- **Unassigned** – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The District would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned fund balance.

LOVELAND MIDTOWN METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

Property taxes are levied on December 15 and attach as an enforceable lien on property on January 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15. The County Treasurer's office collects property taxes and remits to the District on a monthly basis.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- On or before October 15, District Management submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to December 31, the budget is legally enacted through passage of a resolution.
- District Management is authorized to transfer budgeted amounts between departments within any fund. However, any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.
- Budgets are legally adopted for all funds of the District on a basis consistent with generally accepted accounting principles (GAAP).
- Budgeted amounts in the financial statements are as originally adopted or as amended by the Board of Directors. All appropriations lapse at year end.

LOVELAND MIDTOWN METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 3: CASH AND INVESTMENTS

A summary of deposits and investments as of December 31, 2011 follows:

Deposits	\$ 634
Investments	<u>45,760</u>
Total	<u>\$ 46,394</u>

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. 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 regulations. At December 31, 2011, State regulatory commissioners have indicated that all financial institutions holding deposits for the District are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The Authority has no policy regarding custodial credit risk for deposits.

At December 31, 2011, the District had deposits with financial institutions with a carrying amount of \$634. The bank balances with the financial institutions were \$5,453. All of these balances were covered by federal depository insurance.

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

LOVELAND MIDTOWN METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 3: CASH AND INVESTMENTS

Credit Risk

Colorado statutes specify in which instruments the units of local government may invest which includes:

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

The above investments are authorized for all funds and fund types used by Colorado municipalities.

The District had invested \$45,760 in the Colorado Government Liquid Asset Trust (COLOTRUST), an investment vehicle established for local government entities in Colorado to pool surplus funds and are registered with the State Securities Commissioner. They operate similarly to a money market fund and each share is equal in value to \$1.00. Investments consist of U.S. Treasury and U.S. Agency securities and repurchase agreements collateralized by U.S. Treasury and U.S. Agency securities. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions.

Substantially all securities owned are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the entities. Colotruster is rated AAAM by Standard and Poor's.

LOVELAND MIDTOWN METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 4: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2011, is summarized below:

	<u>Balances</u> <u>12/31/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>12/31/11</u>
Governmental Activities				
Capital Assets, not depreciated				
Land	\$ 554,310	\$ -	\$ -	\$ 554,310
Capital Assets, depreciated				
Infrastructure	<u>705,060</u>	<u>-</u>	<u>-</u>	<u>705,060</u>
Less Accumulated Depreciation				
Infrastructure	<u>184,237</u>	<u>42,105</u>	<u>-</u>	<u>226,342</u>
Total Capital Assets, depreciated, net	<u>520,823</u>	<u>(42,105)</u>	<u>-</u>	<u>478,718</u>
Governmental Activities, Capital Assets, Net	<u>\$ 1,075,133</u>	<u>\$ (42,105)</u>	<u>\$ -</u>	<u>\$ 1,033,028</u>

Depreciation expense was charged to the General Government activity.

NOTE 5: INTERFUND BALANCES AND TRANSFERS

Interfund Balances

The following is a schedule of interfund balances as of December 31, 2011:

<u>Due To</u>	<u>Due From</u>	<u>Amount</u>
General Fund	Debt Service Fund	<u>\$ 26,940</u>

The outstanding balances between the funds are due to timing of payment of expenditures between the funds.

Transfers

The General Fund transferred \$18,000 to the Debt Service fund to assist in the payment of debt.

LOVELAND MIDTOWN METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 5: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the governmental activities for the year ended December 31, 2011.

	Balance <u>12/31/10</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>12/31/11</u>	Due In <u>One Year</u>
Capital Note	\$ 1,267,620	\$ -	\$ 814,590	\$ 453,030	\$ 453,030
O & M Note	81,335	-	-	81,335	81,335
Accrued Interest	435,244	107,381	535,410	7,215	7,215
2011A Bonds	-	1,100,000	-	1,100,000	-
2011B Subordinate Bonds	-	250,000	-	250,000	-
	<u>\$ 1,784,199</u>	<u>\$ 1,457,381</u>	<u>\$ 1,350,000</u>	<u>\$ 1,891,580</u>	<u>\$ 541,580</u>

Loan Payable

On February 1, 2006, the District entered into two loan agreements with Loveland Midtown Development, Inc. (the "Developer"). The first, entitled "Advance and Reimbursement Agreement" ("Capital Agreement"), provided for the Developer to loan funds to the District, in an amount not to exceed \$2,000,000, for the purpose of financing public improvements within and without the District's boundaries. The Capital Agreement is secured by a promissory note ("Capital Note") made by the District, payable to the Developer, which note bears interest at a rate of 8% simple interest. The Capital Note is dated January 1, 2012 and reflects a due and owing obligation of the District to the Developer, as of December 31, 2011, of \$453,328, which amount includes unpaid principal outstanding and accrued and unpaid interest. The Capital Note matures on December 31, 2012. In the event the District does not have funds available to pay the Capital Note in full at the maturity date, the District is required to make a new note to the Developer, reflecting all unpaid and outstanding amounts due and owing, which note shall include similar terms to the Capital Note and shall mature on December 31, 2013. The Capital Agreement expired on December 31, 2007.

The second loan agreement, dated February 1, 2006, and entitled "Funding and Reimbursement Agreement" ("O&M Agreement"), provided for the Developer to loan funds to the District, in an amount not to exceed \$500,000, for the purpose of financing the District's operations and maintenance obligations. The O&M Agreement is secured by a promissory note (the "O&M Note"), made by the District, payable to the Developer, which note bears interest at a rate of 8% simple interest. The O&M note is dated January 1, 2012, which O&M Note reflects a due and owing obligation of the District to the Developer, as of December 31, 2011, of \$88,252, which amount includes unpaid principal outstanding and accrued and unpaid interest. The O&M Note matures on December 31, 2012. In the event the District does not have funds available to pay the O&M Note in full at the maturity date, the District is required to make a new note to the Developer, reflecting all unpaid and outstanding amounts due and owing, which note shall include similar terms to the O&M Note and shall mature on December 31, 2013. The O&M agreement expired on December 31, 2007.

LOVELAND MIDTOWN METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 5: LONG-TERM DEBT (Continued)

General Obligation Bonds, Series 2011A and 2011B

On December 28, 2011, the District issued \$1,100,000 Limited Tax General Obligation Bonds, Series 2011A and \$250,000 Subordinate Limited Tax General Obligation Bonds, Series 2011B. Proceeds of the bonds were used to repay funds advanced by the Developer. The Series 2011A Bonds carry interest rates ranging from 3.4% to 6.5%. Semi-annual principal and interest payments are due on June 1 and December 1 through 2051. The Series 2011B Bonds are subordinate to the 2011A bonds and carry an interest rate of 9.0%. Semiannual payments of interest are payable on June 1 and December 1 through 2051. The 2011B bonds are not subject to mandatory redemption, therefore the principal is not expected to be repaid until it matures in 2051.

Estimated annual debt service requirements for the long-term debt are as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 541,580	\$ 56,991	\$ 598,571
2013	-	66,494	66,494
2014	-	76,687	76,687
2015	-	92,717	92,717
2016	5,000	89,942	94,942
2017-2021	45,000	441,595	486,595
2022-2026	80,000	423,600	503,600
2027-2031	100,000	396,150	496,150
2032-2036	135,000	362,295	497,295
2037-2041	175,000	316,545	491,545
2042-2046	240,000	256,155	496,155
2047-2051	<u>570,000</u>	<u>173,500</u>	<u>743,500</u>
Total	<u>\$ 1,891,580</u>	<u>\$ 2,752,671</u>	<u>\$ 4,644,251</u>

NOTE 6: RELATED PARTIES

Several members of the board of directors have financial interests and/or are independent contractors with the Developer. These conflicts of interest are evaluated and disclosed at all meetings of the Board of Directors.

LOVELAND MIDTOWN METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 7: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains insurance through a commercial carrier for these risks of loss.

NOTE 8: DEBT AUTHORIZATION

On November 2, 2004, a majority of the qualified electors of the District authorized the issuance of general obligation indebtedness in an amount not to exceed \$45,000,000 with a repayment cost not to exceed \$369,000,000 for providing public improvements

The District's Service Plan includes a maximum debt limit for bonds, contracts, or other instruments of \$4,000,000. As of December 31, 2011, the amount of debt available under this limitation is \$2,108,100.

As of December 31, 2011, the amount of debt authorized but unissued was \$43,650,000. The District intends to issue over time a part 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.

NOTE 9: DEFICIT NET ASSETS

As of December 31, 2011, the District had a government-wide net asset deficit of \$826,189. This deficit is expected to be reduced with subsequent years' operations.

NOTE 10: COMMITMENTS AND CONTINGENCIES

TABOR Amendment - Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local government. The Amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the Amendment.

The District has established an emergency reserve, representing 3% of fiscal year spending (excluding debt service), as required by the Amendment. At December 31, 2011, the emergency reserve of \$3,500 was recorded in the General Fund.

REQUIRED SUPPLEMENTAL INFORMATION

LOVELAND MIDTOWN METROPOLITAN DISTRICT

GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 Year Ended December 31, 2011

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES			
Property Taxes	\$ 95,594	\$ 95,454	\$ (140)
Specific Ownership Taxes	5,736	5,976	240
Interest	40	69	29
TOTAL REVENUES	<u>101,370</u>	<u>101,499</u>	<u>129</u>
EXPENDITURES			
Current			
General Government			
Accounting and Administration	7,612	8,793	(1,181)
District Management	12,500	15,241	(2,741)
Insurance	2,000	1,948	52
Legal Expenses	5,000	4,938	62
Office, Dues and Other	1,150	1,236	(86)
Repairs and Maintenance	30,060	32,146	(2,086)
Utilities	12,000	13,568	(1,568)
TOTAL EXPENDITURES	<u>70,322</u>	<u>77,870</u>	<u>(7,548)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>31,048</u>	<u>23,629</u>	<u>(7,419)</u>
OTHER FINANCING SOURCES			
Transfers Out	-	(18,000)	(18,000)
Repayment of Developer Advances	(30,000)	-	30,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>(30,000)</u>	<u>(18,000)</u>	<u>12,000</u>
NET CHANGE IN FUND BALANCE	1,048	5,629	4,581
FUND BALANCE, Beginning	<u>15,846</u>	<u>23,734</u>	<u>7,888</u>
FUND BALANCE, Ending	<u>\$ 16,894</u>	<u>\$ 29,363</u>	<u>\$ 12,469</u>

See the accompanying independent auditors' report.

INDIVIDUAL FUND SCHEDULE

LOVELAND MIDTOWN METROPOLITAN DISTRICT

DEBT SERVICE FUND
 BUDGETARY COMPARISON SCHEDULE
 Year Ended December 31, 2011

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
EXPENDITURES			
Current			
Bond Issuance Costs	\$ 51,500	\$ 41,940	\$ 9,560
Debt Service			
Principal	814,590	814,590	-
Interest	535,410	535,410	-
TOTAL EXPENDITURES	<u>1,401,500</u>	<u>1,391,940</u>	<u>9,560</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,401,500)</u>	<u>(1,391,940)</u>	<u>9,560</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	18,000	18,000	-
Developer Reimbursement	33,500	26,940	(6,560)
Proceeds from the Issuance of Debt	1,350,000	1,350,000	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,401,500</u>	<u>1,394,940</u>	<u>(6,560)</u>
NET CHANGE IN FUND BALANCE	-	3,000	3,000
FUND BALANCE, Beginning	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, Ending	<u>\$ -</u>	<u>\$ 3,000</u>	<u>\$ 3,000</u>

See the accompanying independent auditors' report.