

DEERWOOD SERVICE COMPANY, LLC,
A Limited Liability Company
Operating Agreement

This Operating Agreement (this "Agreement") is entered into effective as of the 31st day of May, 2008, by and among the signatories hereto.

Explanatory Statement

The undersigned Members hereby unanimously agree to re-state the Operating Agreement of the Company in form set forth below.

NOW, THEREFORE, for good and valuable consideration, the parties, intending legally to be bound, agree as follows:

Section I
Defined Terms

The following capitalized terms shall have the meanings specified in this Section I. Other terms are defined in the text of this Agreement; and, throughout this Agreement, those terms shall have the meanings respectively ascribed to them.

"Act" means the Colorado Limited Liability Company Act, as amended from time to time.

"Adjusted Capital Account Deficit" means, with respect to any Interest Holder, the deficit balance, if any, in the Interest Holder's Capital Account as of the end of the relevant taxable year, after giving effect to the following adjustments:

(i) the deficit shall be decreased by the amounts which the Interest Holder is obligated to restore pursuant to Section 4.4.2, or is deemed obligated to restore pursuant to Regulation Sections 1.704-1(g)(i) and (i)(5) (i.e., the Interest Holder's Share of Minimum Gain and Member Minimum Gain); and

(ii) the deficit shall be increased by the items described in Regulation Section 1.704-1(b)(2)(ii)(d)(4), (5), and (6).

"Adjusted Capital Balance" means, as of any day, an Interest Holder's total Capital Contributions less all amounts actually distributed to the Interest Holder pursuant to Sections 4.2.3.4.1 and 4.4 hereof. If any Interest is transferred in accordance with the terms of this Agreement, the transferee shall succeed to the Adjusted Capital Balance of the transferor to the extent the Adjusted Capital Balance relates to the Interest transferred.

"Affiliate" means, with respect to any Member, any Person: (i) which owns directly or indirectly more than 25% of the voting interests in the Member; or (ii) in which the Member owns directly or indirectly more than 25% of the voting interests; or (iii) in which more than 25% of the voting interests are owned directly or indirectly by a Person who has a relationship with the

Member described in clause (i) or (ii) above.

``Agreement'' means this Agreement, as amended from time to time.

``Board of Managers'' is the group of Persons designated as such in *Section V*.

``Capital Account'' means the account maintained by the Company for each Interest Holder in accordance with the following provisions:

(i) an Interest Holder's Capital Account shall be credited with the Interest Holder's Capital Contributions, the amount of any Company liabilities assumed by the Interest Holder (or which are secured by Company property distributed to the Interest Holder), the Interest Holder's allocable share of Profit and any item in the nature of income or gain specially allocated to such Interest Holder pursuant to the provisions of Section IV (other than Section 4.3.3); and

(ii) an Interest Holder's Capital Account shall be debited with the amount of money and the fair market value of any Company property distributed to the Interest Holder, the Interest Holder's allocable share of Loss, and any item in the nature of expenses or losses specially allocated to the Interest Holder pursuant to the provisions of Section IV (other than Section 4.3.3).

If any Interest is transferred pursuant to the terms of this Agreement, the transferee shall succeed to the Capital Account of the transferor to the extent the Capital Account is attributable to the transferred Interest. If the book value of Company property is adjusted pursuant to Section 4.3.3, the Capital Account of each Interest Holder shall be adjusted to reflect the aggregate adjustment in the same manner as if the Company had recognized gain or loss equal to the amount of such aggregate adjustment. It is intended that the Capital Accounts of all Interest Holders shall be maintained in compliance with the provisions of Regulation Section 1.704-1(b), and all provisions of this Agreement relating to the maintenance of Capital Accounts shall be interpreted and applied in a manner consistent with that Regulation.

``Capital Contribution'' means the total amount of cash and the fair market value of any other assets contributed (or deemed contributed under Regulation Section 1.704-1(b)(2)(iv)(d)) to the Company by a Member, net of liabilities assumed or to which the assets are subject.

``Capital Proceeds'' means the gross receipts received by the Company from a Capital Transaction.

``Capital Transaction'' means any transaction not in the ordinary course of business which results in the Company's receipt of cash or other consideration other than Capital Contributions, including, without limitation, proceeds of sales or exchanges or other dispositions of property not in the ordinary course of business, financings, refinancings, condemnations, recoveries of damage awards, and insurance proceeds.

``Cash Flow'' means all cash funds derived from operations of the Company (including interest received on reserves), without reduction for any noncash charges, but less cash funds used to pay current operating expenses and to pay or establish reasonable reserves for future expenses,

debt payments, capital improvements and replacements as determined by the Board of Managers. Cash Flow shall not include Capital Proceeds, but shall be increased by the reduction of any reserve previously established.

``Code'' means the Internal Revenue Code of 1986, as amended, or any corresponding provision of any succeeding law.

``Company'' means the limited liability company formed in accordance with this Agreement.

``CSOS'' means the Colorado Secretary of State.

``Interest Holder'' means any Person who holds a Membership Interest.

``Member'' means each Person signing this Agreement and any Person who subsequently is admitted as a member of the Company.

``Member Loan Nonrecourse Deductions'' means any Company deductions that would be Nonrecourse Deductions if they were not attributable to a loan made or guaranteed by a Member within the meaning of Regulation Section 1.704-2(i).

``Member Minimum Gain'' has the meaning set forth in Regulation Section 1.704-2(i) for ``partner nonrecourse debt minimum gain."''

``Membership Interest'' means a Person's share of the Profits and Losses of, and the right to receive distributions from, the Company.

``Membership Rights'' means all of the rights of a Member in the Company, including a Member's: (i) Membership Interest; (ii) right to inspect the Company's books and records; and (iii) right to participate in the management of and vote on matters coming before the Company.

``Minimum Gain'' has the meaning set forth in Regulation Section 1.704-2(d). Minimum Gain shall be computed separately for each Interest Holder in a manner consistent with the Regulations under Code Section 704(b).

``Negative Capital Account'' means a Capital Account with a balance of less than zero.

``Nonrecourse Deductions'' has the meaning set forth in Regulation Section 1.704-2(b)(1). The amount of Nonrecourse Deductions for a taxable year of the Company equals the net increase, if any, in the amount of Minimum Gain during that taxable year, determined according to the provisions of Regulation Section 1.704-2(c).

``Nonrecourse Liability'' has the meaning set forth in Regulation Sections 1.704-2(b)(3) and 1.752-1(a)(2).

``Percentage'' means, as to a Member, the percentage set forth after the Member's name on

Exhibit A, as amended from time to time, and as to an Interest Holder who is not a Member, the Percentage of the Member whose Membership Interest has been acquired by such Interest Holder, to the extent the Interest Holder has succeeded to that Member's Membership Interest

Person means and includes any individual, corporation, partnership, association, limited liability company, trust, estate, or other entity.

Positive Capital Account means a Capital Account with a balance greater than zero.

Profit and *Loss* means, for each taxable year of the Company (or other period for which Profit or Loss must be computed) the Company's taxable income or loss determined in accordance with Code Section 703(a), with the following adjustments:

(i) all items of income, gain, loss, deduction, or credit required to be stated separately pursuant to Code Section 703(a)(1) shall be included in computing taxable income or loss;

(ii) any tax-exempt income of the Company, not otherwise taken into account in computing Profit or Loss, shall be included in computing taxable income or loss;

(iii) any expenditures of the Company described in Code Section 705(a)(2)(B) (or treated as such pursuant to Regulation Section 1.704-1(b)(2)(iv)(i)) and not otherwise taken into account in computing Profit or Loss, shall be subtracted from taxable income or loss;

(iv) gain or loss resulting from any taxable disposition of Company property shall be computed by reference to the adjusted book value of the property disposed of, notwithstanding the fact that the adjusted book value differs from the adjusted basis of the property for federal income tax purposes;

(v) in lieu of the depreciation, amortization, or cost recovery deductions allowable in computing taxable income or loss, there shall be taken into account the depreciation computed based upon the adjusted book value of the asset; and

(vi) notwithstanding any other provision of this definition, any items which are specially allocated pursuant to Section 4.3 hereof shall not be taken into account in computing Profit or Loss.

Regulation means the income tax regulations, including any temporary regulations, from time to time promulgated under the Code.

Transfer means, when used as a noun, any voluntary sale, hypothecation, pledge, assignment, attachment, or other transfer, and, when used as a verb, means, voluntarily to sell, hypothecate, pledge, assign, or otherwise transfer.

Section II
Formation and Name; Office; Purpose; Term

2.1. *Organization.* The parties have organized a limited liability company pursuant to the Act and the provisions of this Agreement and, for that purpose, have caused Articles of Organization in the form attached as *Exhibit C* filed for record with the CSOS.

2.2. *Name of the Company.* The name of the Company shall be "**Deerwood Service Company, LLC**". The Company may do business under that name and under any other name or names upon which the Members select. If the Company does business under a name other than that set forth in its Articles of Organization, then the Company shall file a trade name certificate as required by law.

2.3. *Purpose.* The Company is organized for the purposes of engaging, directly or indirectly, in the business of providing water and other services to rural properties in Routt County, Colorado, and to do any and all things necessary, convenient, or incidental to that purpose.

2.4. *Term.* The term of the Company shall begin upon the acceptance of the Articles of Organization by the CSOS and shall continue in existence in perpetuity, unless its existence is sooner terminated pursuant to Section VII of this Agreement.

2.5. *Principal Office.* The principal office of the Company in the State of Colorado shall be located at 141-9th Street, Steamboat Springs, Colorado or at any other place which the Board of Managers selects.

2.6. *Resident Agent.* The name and address of the Company's resident agent in the State of Colorado shall be Robert H. Stickler.

2.7. *Members.* The Members shall be the organizations set forth below (and their respective proportion of the Company is set opposite their names)

Creek Ranch Owners Association	39	(58%)
Deerwood Ranches Owners Association	24	(36%)
Wilkerson Property Owners Association.	<u>4</u>	(6%)
	67	

Section III
Members; Capital; Capital Accounts

3.1. *Initial Capital Contributions.* Upon the execution of this Agreement, the Members have shall be credited with the capital contributions based upon the valuation of the Company on the date of transfer of the membership interest from the previous owners to the current members based upon their Percentages.

3.2. *Additional Capital Contributions.*

3.2.1. If the Members at any time or from time to time determine that the Company requires additional Capital Contributions, then the Board of Managers shall give notice to each Interest Holder of (i) the total amount of additional Capital Contributions required, (ii) the reason the additional Capital Contribution is required, (iii) each Interest Holder's proportionate share of the total additional Capital Contribution (determined in accordance with this Section), and (iv) the date each Interest Holder's additional Capital Contribution is due and payable, which date shall be thirty (30) days after the notice has been given. The total additional Capital Contribution which may be required to be contributed by the Interest Holders during the term of this Agreement shall not exceed \$1000.00 per calendar year (said amount to be increased automatically five percent (5%) per year each year after 2008). An Interest Holder's proportionate share of the total additional Capital Contribution shall be equal to the product obtained by multiplying the Interest Holder's Percentage and the total additional Capital Contribution required. An Interest Holder's proportionate share shall be payable in cash or by certified check.

3.2.2. Except as provided in Section 3.2.1, no Interest Holder shall be required to contribute any additional capital to the Company, and no Member shall have any personal liability for any obligations of the Company.

3.2.3. If an Interest Holder fails to pay when due all or any portion of any Capital Contribution, the Board of Managers shall request the nondefaulting Interest Holders to pay the unpaid amount of the defaulting Interest Holder's Capital Contribution (the "Unpaid Contribution"). To the extent the Unpaid Contribution is contributed by any other Interest Holder, the defaulting Interest Holder's Percentage shall be reduced and the Percentage of each Interest Holder who makes up the Unpaid Contribution shall be increased, so that each Interest Holder's Percentage is equal to a fraction, the numerator of which is that Interest Holder's total Capital Contribution and the denominator of which is the total Capital Contributions of all Interest Holders.

3.3. *No Interest on Capital Contributions.* Interest Holders shall not be paid interest on their Capital Contributions.

3.4. *Return of Capital Contributions.* Except as otherwise provided in this Agreement, no Interest Holder shall have the right to receive the return of any Capital Contribution.

3.5. *Capital Accounts.* A separate Capital Account shall be maintained for each Interest Holder.

3.6. *Loans.* Any Member may, at any time, make or cause a loan to be made to the Company in any amount and on those terms upon which the Company and the Member agree.

Section IV
Profit, Loss, and Distributions

4.1. *Distributions of Cash Flow and Allocations of Profit or Loss Other Than Capital Transactions.*

4.1.1. *Profit or Loss Other Than from a Capital Transaction.* After giving effect to the special allocations set forth in Section 4.3, for any taxable year of the Company, Profit or Loss (other than Profit or Loss resulting from a Capital Transaction, which Profit or Loss shall be allocated in accordance with the provisions of Sections 4.2.1 and 4.2.2) shall be allocated to the Interest Holders in proportion to their Percentages.

4.1.2. *Cash Flow.* Cash Flow for each taxable year of the Company shall be distributed to the Interest Holders in proportion to their Percentages no later than seventy-five (75) days after the end of the taxable year.

4.2. *Distributions of Capital Proceeds and Allocation of Profit or Loss from Capital Transactions.*

4.2.1. *Profit.* After giving effect to the special allocations set forth in Section 4.3, Profit from a Capital Transaction shall be allocated as follows:

4.2.1.1. If one or more Interest Holders has a Negative Capital Account, to those Interest Holders, in proportion to their Negative Capital Accounts, until all of those Negative Capital Accounts have been reduced to zero.

4.2.1.2. Any Profit not allocated pursuant to Section 4.2.1.1 shall be allocated to the Interest Holders in proportion to, and to the extent of, the amounts distributable to them pursuant to Sections 4.2.3.4.1 and 4.2.3.4.3.

4.2.1.3. Any Profit in excess of the foregoing allocations shall be allocated to the Interest Holders in proportion to their Percentages.

4.2.2. *Loss.* After giving effect to the special allocations set forth in Section 4.3, Loss from a Capital Transaction shall be allocated as follows:

4.2.2.1. If one or more Interest Holders has a Positive Capital Account, to those Interest Holders, in proportion to their Positive Capital Accounts, until all Positive Capital Accounts have been reduced to zero.

4.2.2.2. Any Loss not allocated to reduce Positive Capital Accounts to zero pursuant to Section 4.2.2.1 shall be allocated to the Interest Holders in proportion to their Percentages.

4.2.3. *Capital Proceeds.* Capital Proceeds shall be distributed and applied by the Company in the following order and priority:

4.2.3.1. to the payment of all expenses of the Company incident to the Capital Transaction; then

4.2.3.2. to the payment of debts and liabilities of the Company then due and outstanding (including all debts due to any Interest Holder); then

4.2.3.3. to the establishment of any reserves which the Board of Managers deems necessary for liabilities or obligations of the Company; then

4.2.3.4. the balance shall be distributed as follows:

4.2.3.4.1. to the Interest Holders in proportion to their Adjusted Capital Balances, until their remaining Adjusted Capital Balances have been paid in full;

4.2.3.4.2. if any Interest Holder has a Positive Capital Account after the distributions made pursuant to Section 4.2.3.4.1 and before any further allocation of Profit pursuant to Section 4.2.1.3, to those Interest Holders in proportion to their Positive Capital Accounts; then

4.2.3.4.3. the balance, to the Interest Holders in proportion to their Percentages.

4.3. *Regulatory Allocations.*

4.3.1. *Qualified Income Offset.* No Interest Holder shall be allocated Losses or deductions if the allocation causes an Interest Holder to have an Adjusted Capital Account Deficit. If an Interest Holder receives (1) an allocation of Loss or deduction (or item thereof) or (2) any distribution, which causes the Interest Holder to have an Adjusted Capital Account Deficit at the end of any taxable year, then all items of income and gain of the Company (consisting of a pro rata portion of each item of Company income, including gross income and gain) for that taxable year shall be allocated to that Interest Holder, before any other allocation is made of Company items for that taxable year, in the amount and in proportions required to eliminate the excess as quickly as possible. This Section 4.3.1 is intended to comply with, and shall be interpreted consistently with, the "qualified income offset" provisions of the Regulations promulgated under Code Section 704(b).

4.3.2. *Minimum Gain Chargeback.* Except as set forth in Regulation Section 1.704-2(f)(2), (3), and (4), if, during any taxable year, there is a net decrease in Minimum Gain, each Interest Holder, prior to any other allocation pursuant to this Section IV, shall be specially allocated items of gross income and gain for such taxable year (and, if necessary, subsequent taxable years) in an amount equal to that Interest Holder's share of the net decrease of Minimum Gain, computed in accordance with Regulation Section 1.704-2(g)(2). Allocations of gross income and gain pursuant to this Section 4.3.2 shall be made first from gain recognized from the disposition of Company assets subject to nonrecourse liabilities (within the meaning of the Regulations promulgated under Code Section 752), to the extent of the Minimum Gain attributable to those

assets, and thereafter, from a pro rata portion of the Company's other items of income and gain for the taxable year. It is the intent of the parties hereto that any allocation pursuant to this Section 4.3.2 shall constitute a "minimum gain chargeback" under Regulation Section 1.704-2(f).

4.3.3. *Contributed Property and Book-Ups.* In accordance with Code Section 704(c) and the Regulations thereunder, as well as Regulation Section 1.704-1(b)(2)(iv)(d)(3), income, gain, loss, and deduction with respect to any property contributed (or deemed contributed) to the Company shall, solely for tax purposes, be allocated among the Interest Holders so as to take account of any variation between the adjusted basis of the property to the Company for federal income tax purposes and its fair market value at the date of contribution (or deemed contribution). If the adjusted book value of any Company asset is adjusted as provided herein, subsequent allocations of income, gain, loss, and deduction with respect to the asset shall take account of any variation between the adjusted basis of the asset for federal income tax purposes and its adjusted book value in the manner required under Code Section 704(c) and the Regulations thereunder.

4.3.4. *Code Section 754 Adjustment.* To the extent an adjustment to the tax basis of any Company asset pursuant to Code Section 734(b) or Code Section 743(b) is required, pursuant to Regulation Section 1.704-1(b)(2)(iv)(m), to be taken into account in determining Capital Accounts, the amount of the adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases basis), and the gain or loss shall be specially allocated to the Interest Holders in a manner consistent with the manner in which their Capital Accounts are required to be adjusted pursuant to that Section of the Regulations.

4.3.5. *Nonrecourse Deductions.* Nonrecourse Deductions for a taxable year or other period shall be specially allocated among the Interest Holders in proportion to their Percentages.

4.3.6. *Member Loan Nonrecourse Deductions.* Any Member Loan Nonrecourse Deduction for any taxable year or other period shall be specially allocated to the Interest Holder who bears the risk of loss with respect to the loan to which the Member Loan Nonrecourse Deduction is attributable in accordance with Regulation Section 1.704-2(b).

4.3.7. *Guaranteed Payments.* To the extent any compensation paid to any Member by the Company, including any fees payable to any Member pursuant to Section 5.3 hereof, is determined by the Internal Revenue Service not to be a guaranteed payment under Code Section 707(c) or is not paid to the Member other than in the Person's capacity as a Member within the meaning of Code Section 707(a), the Member shall be specially allocated gross income of the Company in an amount equal to the amount of that compensation, and the Member's Capital Account shall be adjusted to reflect the payment of that compensation.

4.3.8. *Unrealized Receivables.* If an Interest Holder's Interest is reduced (provided the reduction does not result in a complete termination of the Interest Holder's Interest), the Interest Holder's share of the Company's "unrealized receivables" and "substantially appreciated inventory" (within the meaning of Code Section 751) shall not be reduced, so that, notwithstanding any other provision of this Agreement to the contrary, that portion of the Profit otherwise allocable upon a liquidation or dissolution of the Company pursuant to Section 4.4 hereof which is taxable as

ordinary income (recaptured) for federal income tax purposes shall, to the extent possible without increasing the total gain to the Company or to any Interest Holder, be specially allocated among the Interest Holders in proportion to the deductions (or basis reductions treated as deductions) giving rise to such recapture. Any questions as to the aforesaid allocation of ordinary income (recapture), to the extent such questions cannot be resolved in the manner specified above, shall be resolved by the Board of Managers.

4.3.9. *Withholding.* All amounts required to be withheld pursuant to Code Section 1446 or any other provision of federal, state, or local tax law shall be treated as amounts actually distributed to the affected Interest Holders for all purposes under this Agreement.

4.4. *Liquidation and Dissolution.*

4.4.1. If the Company is liquidated, the assets of the Company shall be distributed to the Interest Holders in accordance with the balances in their respective Capital Accounts, after taking into account the allocations of Profit or Loss pursuant to Sections 4.1 or 4.2, if any, and distributions, if any, of cash or property, if any, pursuant to Sections 4.1 and 4.2.3.

4.4.2. No Interest Holder shall be obligated to restore a Negative Capital Account.

4.5. *General.*

4.5.1. Except as otherwise provided in this Agreement, the timing and amount of all distributions shall be determined by the Members.

4.5.2. If any assets of the Company are distributed in kind to the Interest Holders, those assets shall be valued on the basis of their fair market value, and any Interest Holder entitled to any interest in those assets shall receive that interest as a tenant-in-common with all other Interest Holders so entitled. Unless the Members otherwise agree, the fair market value of the assets shall be determined by an independent appraiser who shall be selected by the Board of Managers. The Profit or Loss for each unsold asset shall be determined as if the asset had been sold at its fair market value, and the Profit or Loss shall be allocated as provided in Section 4.2 and shall be properly credited or charged to the Capital Accounts of the Interest Holders prior to the distribution of the assets in liquidation pursuant to Section 4.4.

4.5.3. All Profit and Loss shall be allocated, and all distributions shall be made to the Persons shown on the records of the Company to have been Interest Holders as of the last day of the taxable year for which the allocation or distribution is to be made. Notwithstanding the foregoing, unless the Company's taxable year is separated into segments, if there is a Transfer or an Involuntary Withdrawal during the taxable year, the Profit and Loss shall be allocated between the original Interest Holder and the successor on the basis of the number of days each was an Interest Holder during the taxable year; provided, however, the Company's taxable year shall be segregated into two or more segments in order to account for Profit, Loss, or proceeds attributable to a Capital Transaction or to any other extraordinary nonrecurring items of the Company.

4.5.4. The Board of Managers is hereby authorized, upon the advice of the

Company's tax counsel, to amend this Article IV to comply with the Code and the Regulations promulgated under Code Section 704(b); provided, however, that no amendment shall materially affect distributions to an Interest Holder without the Interest Holder's prior written consent.

Section V
Management: Rights, Powers, and Duties

5.1. Management.

5.1.1. *Board of Managers.* The Company shall be managed by a Board of Managers comprising five (5) persons who are designated to serve on such Board by the Members as set forth below and who are themselves members of the Members (being owners, directly or through ownership of the owning entity (trust, limited liability company, etc.) of property supplied water by the Company):

Creek Ranch Owners Association	Two (2) Board Positions
Deerwood Ranches Owners Association	Two (2) Board Positions
Wilkerson Property Owners Association	One (1) Board Position

5.1.2. *General Powers.* The Board of Managers shall have full, exclusive, and complete discretion, power, and authority, subject in all cases to the other provisions of this Agreement and the requirements of applicable law, to manage, control, administer, and operate the business and affairs of the Company for the purposes herein stated, and to make all decisions affecting such business and affairs, provided, however, that any commitment or expenditure by the Board of Managers in a single transaction or a related group of transactions exceeding \$25,000.00 shall require the prior approval of the Members pursuant to Section 5.2.2; including, without limitation, for Company purposes, the power to:

5.1.2.1. acquire by purchase, lease, or otherwise, any real or personal property, tangible or intangible;

5.1.2.2. construct, operate, maintain, finance, and improve, and to own, sell, convey, assign, mortgage, or lease any real estate and any personal property;

5.1.2.3. sell, dispose, trade, or exchange Company assets in the ordinary course of the Company's business;

5.1.2.4. enter into agreements and contracts and to give receipts, releases and discharges;

5.1.2.5. purchase liability and other insurance to protect the Company's properties and business;

5.1.2.6. borrow money for and on behalf of the Company, and, in connection therewith, execute and deliver instruments authorizing the confession of judgment against the Company;

5.1.2.7. execute or modify leases with respect to any part or all of the assets of the Company;

5.1.2.8. prepay, in whole or in part, refinance, amend, modify, or extend any mortgages or deeds of trust which may affect any asset of the Company and in connection therewith to execute for and on behalf of the Company any extensions, renewals or modifications of such mortgages or deeds of trust;

5.1.2.9. execute any and all other instruments and documents which may be necessary or in the opinion of the Board of Managers desirable to carry out the intent and purpose of this Agreement, including, but not limited to, documents whose operation and effect extend beyond the term of the Company;

5.1.2.10. make any and all expenditures deemed necessary or appropriate in connection with the management of the affairs of the Company and the carrying out of its obligations and responsibilities under this Agreement, including, without limitation, all legal, accounting and other related expenses incurred in connection with the organization, financing and operation of the Company;

5.1.2.11. enter into any kind of activity necessary to, in connection with, or incidental to, the accomplishment of the purposes of the Company;

5.1.2.12. invest and reinvest Company reserves in short-term instruments or money market funds;

5.1.2.13. employ individuals, who may, but need not, be a member of a Member, to carry out the business of the Company; and

5.1.2.14. designate one or more members of the Board of Managers to act on behalf of the Board of Managers, provided the Board of Managers has previously approved the action.

5.1.3. *Extraordinary Transactions.* Notwithstanding anything to the contrary in this Agreement, the Board of Managers shall not undertake any of the following without the approval of the Members:

5.1.3.1. any Capital Transaction;

5.1.3.2. the Company's lending more than \$500.00 of its money on any one occasion.

5.1.3.3. the admission of additional Members to the Company;

5.1.3.4. the Company's engaging in business in any jurisdiction which does not provide for the registration of limited liability companies; and

5.1.4. Limitation on Authority of Members.

5.1.4.1. No Member is an agent of the Company solely by virtue of being a Member, and no Member has authority to act for the Company solely by virtue of being a Member.

5.1.4.2. Any Member who takes any action or binds the Company in violation of this Section 5.1 shall be solely responsible for any loss and expense incurred by the Company as a result of the unauthorized action and shall indemnify and hold the Company harmless with respect to the loss or expense.

5.2. Meetings of and Voting by Members.

5.2.1. A meeting of the Members may be called at any time by the Board of Managers or by any Member. Meetings of Members shall be held at the Company's principal place of business or at any other place designated by the Persons calling the meeting. Not less than ten (10) nor more than fifty (50) days before each meeting, the Persons calling the meeting shall give written notice of the meeting to each Member entitled to vote at the meeting. The notice shall state the time, place, and purpose of the meeting. Notwithstanding the foregoing provisions, each Member who is entitled to notice waives notice if before or after the meeting the Member signs a waiver of the notice which is filed with the records of Members' meetings, or is present at the meeting in person or by proxy and fails to object to the lack of notice. Unless this Agreement provides otherwise, at a meeting of Members, the presence in person or by proxy of Members holding at least sixty percent (60%) of the Percentages then held by Members constitutes a quorum. A Member may vote either in person or by written proxy signed by the Member or by the Member's duly authorized attorney-in-fact.

5.2.2. Except as otherwise provided in this Agreement, the affirmative vote of Members holding more than sixty percent (60%) of the Percentages then held by Members present at a meeting at which there is a quorum shall be required to approve any matter coming before the Members.

5.2.3. An annual meeting shall be held each May at such time and place as the Board of Managers shall fix. Notice shall be given to the Members in accordance with Section 5.2.1.

5.3. Personal Services

5.3.1. No Member shall be required to perform services for the Company solely by virtue of being a Member. Unless approved by the Board of Managers, no Member shall perform services for the Company or be entitled to compensation for services performed for the Company.

5.4. Duties of Parties.

5.4.1. (1) All members of the Board of Managers selected pursuant to this Operating Agreement shall perform his or her duties as a manager in good faith, in a manner he or she

reasonably believes to be in the best interests of the limited liability company, and with such care as an ordinarily prudent person in a like position would use under similar circumstances. A Person who so performs his duties shall not have any liability by reason of being or having been a member of the Board of Managers of the Company.

(2) In performing his duties, a member of the Board of Managers shall be entitled to rely on information, opinions, reports, or statements of the following persons or groups unless he has knowledge concerning the matter in question that would cause such reliance to be unwarranted:

(a) One or more employees or other agents of the Company whom the manager reasonably believes to be reliable and competent in the matters presented;

(b) Any attorney, public accountant, or other person as to matters which the Board of Managers reasonably believes to be within such person's professional or expert competence; or

(c) A committee upon which he does not serve, duly designated in accordance with a provision of the Articles of this Organization or this Agreement, as to matters within its designated authority, which committee the Board of Managers reasonably believes to merit confidence.

Section 7-108-501 of the Colorado Business Corporation Act (entitled "conflicting interest transaction") shall apply to contracts or other transactions between the Company and any members of its Board of Managers or committee members and any other entity in which any members of its Board of Managers or committee members is a director or has a material financial interest; provided that references therein to the "corporation" shall be deemed to be to the Company, references to "director" shall be deemed to be to a member of the Board of Managers, references to "shareholders" shall be deemed to be to "Members," and references to the "board of directors" shall be to the "Board of Managers".

5.5. Liability and Indemnification.

5.5.1. The members of the Board of Managers shall not be liable, responsible, or accountable, in damages or otherwise, to any Member or to the Company for any act performed by the Board of Managers within the scope of the authority conferred on the Board of Managers by this Agreement, except for actions or omissions constituting fraud, gross negligence, or an intentional breach of this Agreement or applicable law.

5.5.2. The Company shall indemnify the members of the Board of Managers for any act performed by the Board of Managers within the scope of the authority conferred on the Board of Managers by this Agreement, except for actions or omissions constituting fraud, gross negligence, or an intentional breach of this Agreement or applicable law. The Company shall promptly notify the Members whenever any member of the Board of Managers has been so indemnified by the Company.

5.6. Power of Attorney.

5.6.1. *Grant of Power.* Each Member constitutes and appoints the Board of Managers as the Member's true and lawful attorney-in-fact ("Attorney-in-Fact"), and in the Member's name, place and stead, to make, execute, sign, acknowledge, and file:

5.6.1.1. one or more articles of organization;

5.6.1.2. all documents (including amendments to articles of organization) which the Attorney-in-Fact deems appropriate to reflect any amendment, change, or modification of this Agreement;

5.6.1.3. any and all other certificates or other instruments required to be filed by the Company under the laws of the State of Colorado or of any other state or jurisdiction, including, without limitation, any certificate or other instruments necessary in order for the Company to continue to qualify as a limited liability company under the laws of the State of Colorado;

5.6.1.4. one or more fictitious or trade name certificates; and

5.6.1.5. all documents which may be required to dissolve and terminate the Company and to cancel its articles of organization.

5.6.2. *Irrevocability.* The foregoing power of attorney is irrevocable and is coupled with an interest, and, to the extent permitted by applicable law, shall survive the death or disability of a Member. It also shall survive the Transfer of an Interest, except that if the transferee is approved for admission as a Member, this power of attorney shall survive the delivery of the assignment for the sole purpose of enabling the Attorney-in-Fact to execute, acknowledge and file any documents needed to effectuate the substitution. Each Member shall be bound by any representations made by the Attorney-in-Fact acting in good faith pursuant to this power of attorney, and each Member hereby waives any and all defenses which may be available to contest, negate or disaffirm the action of the Attorney-in-Fact taken in good faith under this power of attorney.

Section VI

Transfer of Interests and Withdrawals of Members

6.1. Transfers.

6.1.1. Membership Rights or Membership Interest in the Company shall not be transferred to any Person who is not the owner (or beneficial owner or a representative owner) of the water rights utilized in the water distribution business of the Company.

6.1.2. Under no circumstances may a Member or Membership Interest Holder Transfer all or any portion of that Person's Membership Interest except as provided in Section 6.1.1.

6.1.3. Each Member hereby acknowledges the reasonableness of the prohibition contained in this *Section 6.1* in view of the purposes of the Company and the relationship of the Members. The Transfer of any Membership Rights or Membership Interests in violation of the prohibition contained in this *Section 6.1* shall be deemed invalid, null and void, and of no force or effect. Any Person to whom Membership Rights are attempted to be transferred in violation of this Section shall not be entitled to vote on matters coming before the Members, participate in the management of the Company, receive distributions from the Company, or have any other rights in or with respect to the Membership Rights.

6.2. *Resignation.* No Member shall have the right or power to Resign from the Company.

Section VII Dissolution, Liquidation, and Termination of the Company

7.1. *Events of Dissolution.* The Company shall be dissolved upon the unanimous written agreement of the Members.

7.2. *Liquidating Trustee.* If the Company is dissolved, the Board of Managers shall act as liquidating trustee. The Board of Managers shall liquidate and reduce to cash the assets of the Company as promptly as is consistent with obtaining a fair value therefor and, unless otherwise required by law, shall apply and distribute the proceeds of liquidation, as well as any other Company assets, first, to the payment of creditors of the Company, including Interest Holders who are creditors, in satisfaction of the liabilities of the Company; then to Interest Holders in satisfaction of any distributions of Cash Flow or Capital Proceeds; and then to the Interest Holders in accordance with *Section 4.4*.

7.3. *Filing of Statement of Intent to Dissolve and Articles of Dissolution.* If the Company is dissolved pursuant to Section 7.1, the Board of Managers shall promptly file a Statement of Intent to Dissolve with the CSOS. After the affairs of the Company are wound up pursuant to Section 7.2, the Board of Managers shall promptly execute and file Articles of Dissolution with the CSOS. If there is no Board of Managers, then the Articles of Cancellation shall be filed by the remaining Members; if there are no remaining Members, the Articles shall be filed by the last Person to be a Member; if there is neither a Board of Managers, remaining Members, or a Person who last was a Member, the Articles shall be filed by the legal or personal representatives of the Person who last was a Member.

Section VIII Books, Records, Accounting, and Tax Elections

8.1. *Bank Accounts.* All funds of the Company shall be deposited in a bank account or accounts maintained in the Company's name. The Board of Managers shall determine the institution or institutions at which the accounts will be opened and maintained, the types of accounts, and the Persons who will have authority with respect to the accounts and the funds therein.

8.2. *Books and Records.* The Board of Managers shall keep or cause to be kept complete

and accurate books and records of the Company and supporting documentation of transactions with respect to the conduct of the Company's business. The books and records shall be maintained in accordance with sound accounting practices and shall be available at the Company's registered office for inspection and copying at the reasonable request, and at the expense, of any member during ordinary business hours. Without limiting any of the foregoing, the Board of Managers shall keep or cause to be kept at the registered office the following:

8.2.1. A current list of the full name and last known business, residence, or mailing address of each Member and Manager, both past and present;

8.2.2. A copy of the articles of organization and all amendments thereto, together with executed copies of any powers of attorney pursuant to which any amendment has been executed;

8.2.3. Copies of the Company's federal, state, and local income tax returns and reports, if any, for the three most recent years;

8.2.4. Copies of any currently effective Agreement, copies of any writings regarding contributions of members or members' liability therefor, and copies of any financial statements of the Company for the three most recent years;

8.2.5. Minutes of every annual and special meeting of the Members;

8.2.6. Any written consents obtained from Members acting in lieu of a meeting.

8.3. *Annual Accounting Period.* The annual accounting period of the Company shall be its taxable year. The Company's taxable year shall be selected by the Board of Managers, subject to the requirements and limitations of the Code.

8.4. *Reports.* Within seventy-five (75) days after the end of each taxable year of the Company, the Board of Managers shall cause to be sent to each Person who was a Member at any time during the taxable year then ended: (i) an annual compilation report, prepared by the Company's independent accountants in accordance with standards issued by the American Institute of Certified Public Accountants; and (ii) a report summarizing the fees and other remuneration paid by the Company to any Member, the Board of Managers, or any Affiliate in respect of the taxable year. In addition, within seventy-five (75) days after the end of each taxable year of the Company, the Board of Managers shall cause to be sent to each Person who was an Interest Holder at any time during the taxable year then ended, that tax information concerning the Company which is necessary for preparing the Interest Holder's income tax returns for that year. At the request of any Member, and at the Member's expense, the Board of Managers shall cause an audit of the Company's books and records to be prepared by independent accountants for the period requested by the Member.

8.5. *Tax Matters Partner.* The Board of Managers shall be the Company's tax matters partner ("Tax Matters Partner"). The Tax Matters Partner shall have all powers and responsibilities provided in Code Section 6221, et seq. The Tax Matters Partner shall keep all Members informed

of all notices from government taxing authorities which may come to the attention of the Tax Matters Partner. the Company shall pay and be responsible for all reasonable third-party costs and expenses incurred by the Tax Matters Partner in performing those duties. A Member shall be responsible for any costs incurred by the Member with respect to any tax audit or tax-related administrative or judicial proceeding against any Member, even though it relates to the Company. The Tax Matters Partner may not compromise any dispute with the Internal Revenue Service without the approval of the Members.

8.6. *Tax Elections.* The Board of Managers shall have the authority to make all Company elections permitted under the Code, including, without limitation, elections of methods of depreciation and elections under Code Section 754. The decision to make or not make an election shall be at the Board of Managers' sole and absolute discretion.

8.7. *Title to Company Property.* All real and personal property acquired by the Company shall be held and owned, and conveyance made, by the Company in its name.

Section IX General Provisions

9.1. *Assurances.* Each Member shall execute all such certificates and other documents and shall do all such filing, recording, publishing and other acts as the Board of Managers deems appropriate to comply with the requirements of law for the formation and operation of the Company and to comply with any laws, rules, and regulations relating to the acquisition, operation, or holding of the property of the Company.

9.2. *Notifications.* Any notice, demand, consent, election, offer, approval, request, or other communication (collectively a "notice") required or permitted under this Agreement must be in writing and either delivered personally or sent by certified or registered mail, postage prepaid, return receipt requested. Any notice to be given hereunder by the Company shall be given by the Board of Managers. A notice must be addressed to an Interest Holder at the Interest Holder's last known address on the records of the Company. A notice to the Company must be addressed to the Company's principal office. A notice delivered personally will be deemed given only when acknowledged in writing by the person to whom it is delivered. A notice that is sent by mail will be deemed given three (3) business days after it is mailed. Any party may designate, by notice to all of the others, substitute addresses or addressees for notices; and, thereafter, notices are to be directed to those substitute addresses or addressees.

9.3. *Specific Performance.* The parties recognize that irreparable injury will result from a breach of any provision of this Agreement and that money damages will be inadequate to fully remedy the injury. Accordingly, in the event of a breach or threatened breach of one or more of the provisions of this Agreement, any party who may be injured (in addition to any other remedies which may be available to that party) shall be entitled to one or more preliminary or permanent orders (i) restraining and enjoining any act which would constitute a breach or (ii) compelling the performance of any obligation which, if not performed, would constitute a breach.

9.4. *Complete Agreement.* This Agreement constitutes the complete and exclusive statement

of the agreement among the Members. It supersedes all prior written and oral statements, agreements or understandings including any prior representation, statement, condition, or warranty. Except as expressly provided otherwise herein, this Agreement may not be amended without the written consent of Members holding more than sixty percent (60%) of the Percentages then held by Members.

9.5. *APPLICABLE LAW.* ALL QUESTIONS CONCERNING THE CONSTRUCTION, VALIDITY, AND INTERPRETATION OF THIS AGREEMENT AND THE PERFORMANCE OF THE OBLIGATIONS IMPOSED BY THIS AGREEMENT SHALL BE GOVERNED BY THE INTERNAL LAW, NOT THE LAW RELATING TO CONFLICTS OF LAWS, OF THE STATE OF COLORADO.

9.6. *Section Titles.* The headings herein are inserted as a matter of convenience only, and do not define, limit, or describe the scope of this Agreement or the intent of the provisions hereof.

9.7. *Binding Provisions.* This Agreement is binding upon, and inures to the benefit of, the parties hereto and their respective heirs, executors, administrators, personal and legal representatives, successors, and permitted assigns.

9.8. *Jurisdiction and Venue.* Any suit involving any dispute or matter arising under this Agreement may only be brought in the United States District Court for the District of Colorado or any Colorado State Court having jurisdiction over the subject matter of the dispute or matter. All Members hereby consent to the exercise of personal jurisdiction by any such court with respect to any such proceeding.

9.9. *Terms.* Common nouns and pronouns shall be deemed to refer to the masculine, feminine, neuter, singular and plural, as the identity of the Person may in the context require.

9.10. *Separability of Provisions.* Each provision of this Agreement shall be considered separable; and if, for any reason, any provision or provisions herein are determined to be invalid and contrary to any existing or future law, such invalidity shall not impair the operation of or affect those portions of this Agreement which are valid.

9.11. *Counterparts.* This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original and all of which, when taken together, constitute one and the same document. The signature of any party to any counterpart shall be deemed a signature to, and may be appended to, any other counterpart.

9.12. *Estoppel Certificate.* Each Member shall, within ten (10) days after written request by any Member or the Board of Managers, deliver to the requesting Person a certificate stating, to the Member's knowledge, that: (a) this Agreement is in full force and effect; (b) this Agreement has not been modified except by any instrument or instruments identified in the certificate; and (c) there is no default hereunder by the requesting Person, or if there is a default, the nature and extent thereof. If the certificate is not received within that ten (10)-day period, the Board of Managers shall execute and deliver the certificate on behalf of the requested Member, without qualification, pursuant to the power of attorney granted in Section 5.6.

IN WITNESS WHEREOF, the parties have executed, or caused this Agreement to be executed, under seal, as of the date set forth hereinabove.

WITNESS OR ATTEST:

MEMBERS:

Creek Ranch Owners Association

By: *Herald J. Andrusik*

Deerwood Ranches Owners Association

By: *Christ A. Beitz*

Wilkerson Property Owners Association

By: *Lorey Fountain*

DEERWOOD SERVICE COMPANY, LLC
Operating Agreement

Exhibit A
List of Members, Capital and Percentages

Name, Address and Taxpayer I.D. Number	Initial Cash Capital Contribution	Percentages
Creek Ranch Owners Association P.O. Box 880391 Steamboat Springs, CO 80488	\$5,800.00	39 (58%)
Deerwood Ranches Owners Association P.O. Box 772741 Steamboat Springs, CO 80477	\$3,600.00	24 (36%)
Wilkerson Property Owners Association P.O. Box 880773 Steamboat Springs, CO 80488	\$ 400.00	4 (6%)