

**Todd Creek Farms Metropolitan District No. 1
(Adams County, Colorado)**

BASIC FINANCIAL STATEMENTS

with Independent Auditors' Report

December 31, 2005

Wagner, Burke & Barnes, LLP
Certified Public Accountants
Golden, Colorado

Todd Creek Farms Metropolitan District No. 1

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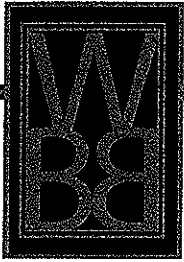
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Mark E. Wagner, CPA
Kelly R. Burke, CPA
Eric S. Barnes, CPA

Independent Auditors' Report

Board of Directors
Todd Creek Farms Metropolitan District No. 1
Adams County, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Todd Creek Farms Metropolitan District No. 1, as of and for the year ended December 31, 2005, 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 an opinion 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 misstatements. 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.

The District has not presented management's discussion and analysis that the Governmental Accounting Standards Board had determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects the respective financial position of the governmental activities, the business-type activities and each major fund of Todd Creek Farms Metropolitan District No. 1, as of December 31, 2005, and the respective changes in financial position thereof and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of January 1, 2005.

The accompanying financial information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the governmental activities, the business-type activities and each major fund financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements of each of the respective governmental activities, the business-type activities and each major fund, taken as a whole.

March 1, 2006
Golden, Colorado

Wagner, Burke & Barnes, LLP

Todd Creek Farms Metropolitan District No. 1

STATEMENT OF NET ASSETS

December 31, 2005

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ -	\$ 215,133	\$ 215,133
Cash and cash equivalents - restricted	5,026,960	-	5,026,960
Escrow funds	-	10,000	10,000
Accounts receivable	-	50,720	50,720
Developer accounts receivable	-	1,350	1,350
Developer notes receivable	-	825,000	825,000
Due from other funds	1,858,689	-	1,858,689
Bond issuance costs (net of accumulated amortization of \$381,667)	2,388,106	-	2,388,106
Capital assets (net of accumulated depreciation)			
Depreciable assets	-	34,368,932	34,368,932
Nondepreciable assets	-	3,030,473	3,030,473
Total assets	<u>9,273,755</u>	<u>38,501,608</u>	<u>47,775,363</u>
Liabilities			
Accounts payable	-	134,194	134,194
Retainage payable	155,744	-	155,744
Due to other funds	-	1,858,689	1,858,689
Accrued interest payable	106,251	-	106,251
Line of credit payable	-	599,050	599,050
Noncurrent liabilities:			
Due within one year	-	-	-
Due in more than one year	23,670,000	-	23,670,000
Total liabilities	<u>23,931,995</u>	<u>2,591,933</u>	<u>26,523,928</u>
Net assets			
Invested in capital assets, net of related debt	-	37,399,405	37,399,405
Restricted	5,026,960	-	5,026,960
Unrestricted (deficit)	(19,685,200)	(1,489,730)	(21,174,930)
Total net assets	<u>\$ (14,658,240)</u>	<u>\$ 35,909,675</u>	<u>\$ 21,251,435</u>

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

Todd Creek Farms Metropolitan District No. 1

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2005

Functions/Programs:	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government						
Governmental activities:						
General government	\$ (381,667)	\$ -	\$ -	\$ (381,667)	\$ -	\$ (381,667)
Interest on long-term debt	(1,297,211)	-	-	(1,297,211)	-	(1,297,211)
Total governmental activities	<u>(1,678,878)</u>	<u>-</u>	<u>-</u>	<u>(1,678,878)</u>	<u>-</u>	<u>(1,678,878)</u>
Business-type activities:						
Water	(1,589,714)	1,040,005	-	-	(549,709)	(549,709)
Total business-type activities	<u>(1,589,714)</u>	<u>1,040,005</u>	<u>-</u>	<u>-</u>	<u>(549,709)</u>	<u>(549,709)</u>
Total primary government	<u>\$ (3,268,592)</u>	<u>\$ 1,040,005</u>	<u>\$ -</u>	<u>(1,678,878)</u>	<u>(549,709)</u>	<u>(2,228,587)</u>
General revenues:						
Tap fees				3,417,434	800,640	4,218,074
Investment earnings				191,829	2,024	193,853
Total general revenues				<u>3,609,263</u>	<u>802,664</u>	<u>4,411,927</u>
Assets contributed to business-type activities				<u>(6,818,376)</u>	<u>8,415,844</u>	<u>1,597,468</u>
Change in net assets				<u>(4,887,991)</u>	<u>8,668,799</u>	<u>3,780,808</u>
Net assets (deficit) - beginning				<u>(9,770,249)</u>	<u>27,240,876</u>	<u>17,470,627</u>
Net assets (deficit) - ending				<u>\$ (14,658,240)</u>	<u>\$ 35,909,675</u>	<u>\$ 21,251,435</u>

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

Todd Creek Farms Metropolitan District No. 1

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2005

	<u>Capital Projects Fund</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents - restricted	\$ 2,405,741	\$ 2,621,219	\$ 5,026,960
Due from other funds	<u>2,403,121</u>	<u>-</u>	<u>2,403,121</u>
Total assets	<u>\$ 4,808,862</u>	<u>\$ 2,621,219</u>	<u>\$ 7,430,081</u>
Liabilities			
Retainage payable	\$ 155,744	\$ -	\$ 155,744
Due to other funds	<u>-</u>	<u>544,432</u>	<u>544,432</u>
Total liabilities	<u>155,744</u>	<u>544,432</u>	<u>700,176</u>
Fund balance			
Reserved for debt service	-	2,076,787	2,076,787
Reserved for future expenditures	<u>4,653,118</u>	<u>-</u>	<u>4,653,118</u>
Total fund balance	<u>4,653,118</u>	<u>2,076,787</u>	<u>6,729,905</u>
Total liabilities and fund balance	<u>\$ 4,808,862</u>	<u>\$ 2,621,219</u>	

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

Bond issue costs are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 2,388,106

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

Bonds payable and related interest payable (23,776,251)

Net assets (deficit) of governmental activities \$ (14,658,240)

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

Todd Creek Farms Metropolitan District No. 1

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2005

	Capital Projects Fund	Debt Service	Total Governmental Funds
Revenues			
Tap fees	\$ -	\$ 3,417,434	\$ 3,417,434
Investment earnings	123,179	68,650	191,829
Total revenues	<u>123,179</u>	<u>3,486,084</u>	<u>3,609,263</u>
Expenditures			
Capital outlay	6,818,376	-	6,818,376
Debt service			
Interest	-	1,259,296	1,259,296
Principal	-	1,905,000	1,905,000
Total expenditures	<u>6,818,376</u>	<u>3,164,296</u>	<u>9,982,672</u>
Change in fund balances	(6,695,197)	321,788	(6,373,409)
Fund balances - beginning	<u>11,348,315</u>	<u>1,754,999</u>	<u>13,103,314</u>
Fund balances - ending	<u>\$ 4,653,118</u>	<u>\$ 2,076,787</u>	<u>\$ 6,729,905</u>

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

Todd Creek Farms Metropolitan District No. 1

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2005

Amounts reported for governmental activities in the statement of activities (page 3) are different because:

Net change in fund balances - total governmental funds (page 5) \$ (6,373,409)

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.

Capital outlays 6,818,376

Assets transferred to business-type activities (6,818,376)

The issuance of long-term debt (e.g., bonds, leases) 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.

Bond principal 1,905,000

Amortization of bond issuance costs (381,667)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Change in accrued interest payable (37,915)

Change in net assets of governmental activities (page 3) \$ (4,887,991)

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

Todd Creek Farms Metropolitan District No. 1

STATEMENT OF NET ASSETS - PROPRIETARY FUND

December 31, 2005

	Water Fund
Assets	
Cash and cash equivalents	\$ 215,133
Escrow funds	10,000
Accounts receivable	50,720
Developer accounts receivable	1,350
Developer notes receivable	825,000
Capital assets (net of accumulated depreciation)	
Depreciable assets	34,368,932
Nondepreciable assets	<u>3,030,473</u>
Total assets	<u>38,501,608</u>
Liabilities	
Accounts payable	134,194
Line of credit payable	599,050
Due to other funds	<u>1,858,689</u>
Total liabilities	<u>2,591,933</u>
Net assets	
Invested in capital assets, net of related debt	37,399,405
Unrestricted	<u>(1,489,730)</u>
Total net assets	<u>\$ 35,909,675</u>

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

Todd Creek Farms Metropolitan District No. 1

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - PROPRIETARY FUND**

For the Year Ended December 31, 2005

	Water Fund
Operating revenues	
Water revenue	\$ 775,833
Meter fees	149,117
Inspection fees	42,300
Tap fees	800,640
Investment earnings	2,024
Other income	72,755
Total operating revenues	<u>1,842,669</u>
Operating expenses	
Accounting and audit	8,425
Depreciation	395,343
Directors fees	2,250
District management	344,575
Engineering	3,356
Insurance	7,280
Interest	79,398
Issuance costs	6,741
Legal	130,986
Miscellaneous	39,379
MXU system	101,331
Office expense	58,763
Paying agent fees	1,250
Repairs and maintenance	268,482
Utilities	122,810
Water treatment	19,345
Total operating expenses	<u>1,589,714</u>
Operating income	252,955
Nonoperating revenues	
Contributed assets	<u>8,415,844</u>
Change in net assets	8,668,799
Net assets - beginning	<u>27,240,876</u>
Net assets - ending	<u>\$ 35,909,675</u>

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

Todd Creek Farms Metropolitan District No. 1

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

For the Year Ended December 31, 2005

	<u>Water Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 1,830,957
Payments to suppliers	<u>(1,061,145)</u>
Net cash provided by operating activities	<u>769,812</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Net transfers to other funds	<u>(785,739)</u>
Net cash (used) by noncapital financing activities	<u>(785,739)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from line of credit	1,066,050
Payments on line of credit	(1,592,000)
Advances to developer	(1,445,000)
Payments on developer borrowings	<u>1,345,000</u>
Net cash used by capital and related financing activities	<u>(625,950)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends received	<u>2,024</u>
Net cash provided by investing activities	<u>2,024</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(639,853)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>854,986</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 215,133</u>

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

Todd Creek Farms Metropolitan District No. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

Note 1 – Definition of reporting entity

The Todd Creek Farms Metropolitan District No. 1 (the District) is a quasi-municipal corporation organized on November 19, 1996 and is governed pursuant to provisions of the Colorado Special District Act. The District is located in Adams County, Colorado. The District was established to provide water and wastewater services to an area encompassing approximately 6,725 acres in Adams County.

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

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

As of January 1, 2005, the District implemented the reporting requirements of the Governmental Accounting Standards Board GASB Statement No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37 – *Basic Financial Statements – and Management’s Discussions and Analysis – for State and Local Governments: Omnibus*, GASB Statement No. 38 – *Certain Financial Statement Disclosures*, and GASB Statement No. 40 – *Deposit and Investment Risk Disclosures*.

As of December 31, 2005, no component unit has been identified as reportable to the District, nor is the District a component unit of any other primary governmental entity.

Note 2 – Summary of significant accounting policies

A. 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 non-fiduciary activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities, which are normally 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly

Todd Creek Farms Metropolitan District No. 1

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2005

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. Tap fees and other items not properly included among program revenues are reported instead as general revenues.

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

B. 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, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Service charges 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. Other revenue items are considered to be measurable and available only when the District receives cash.

The government reports the following major governmental funds:

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

The capital projects fund accounts for the resources accumulated and payments made for the purchase, construction, and maintenance of capital assets of governmental funds.

The government reports the following major proprietary fund:

The water fund accounts for the activities of the District's water distribution system operations.

Todd Creek Farms Metropolitan District No. 1

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2005

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for water sales and services. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

C. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires District management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

D. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value.

Todd Creek Farms Metropolitan District No. 1

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2005

E. Interfund receivables and payables

Activities between funds that result in outstanding balances at the end of the year are referred to as "due to/from other funds" in the financial statements.

F. Restricted cash

Certain proceeds of the District's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. Restricted cash totaled \$5,026,960 at December 31, 2005.

G. Capital assets

Capital assets, which include water rights, water wells, storage and treatment facilities and delivery systems, are reported in the applicable governmental or business-type activities columns of the government-wide financial statements. Capital assets are defined by the District as those assets with a cost of \$1,000 or greater. 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.

Major outlays for capital assets and improvements for which the District retains title are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the District is depreciated using the straight line method over the estimated useful lives (40 years for water system infrastructure). Depreciation expense for the year ended December 31, 2005 totaled \$395,343.

H. Long-term obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

In the fund financial statements, 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 expenditures.

Todd Creek Farms Metropolitan District No. 1

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2005

I. Fund equity/reserved fund balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Designations of fund balance represent tentative management plans that are subject to change. At December 31, 2005, the District's entire fund balance has been designated by management for future fund expenditures.

J. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. In accordance with the Colorado State Budget Law, the District's Board of Directors follows these procedures in establishing the budgetary data reflected in the financial statements:

- On or before October 15, the Board prepares a proposed operating budget for each fund, based on their respective basis of accounting, for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- A public hearing is held on the proposed budget.
- After considering comments received, the budget is formally adopted by resolution.
- On or before December 15, the required mill levy is adopted by resolution. The mill levy is then certified to the county commissioners.
- Before December 31, the expenditures are appropriated for the ensuing year. The appropriation is at the total fund level and lapses at year-end.

Note 3 – Deposits and investments

Cash and investments as of December 31, 2005 are classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 215,133
Cash and cash equivalents – restricted	<u>5,026,960</u>
Total cash and investments	<u>\$ 5,242,093</u>

Cash in the amount of \$2,677,776 was restricted at December 31, 2005 for use in the construction, installation, and completion of improvements in the water system and completion of a wastewater transmission system. Cash in the amount of \$2,301,944 was restricted for the payment of bond interest and principal.

Todd Creek Farms Metropolitan District No. 1

**NOTES TO THE FINANCIAL STATEMENTS
(continued)
December 31, 2005**

A. Cash deposits

Colorado statutes require that the District use eligible public depositories as defined by the Colorado Public Deposit Protection Act (the Act). Under the Act, amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the Act and allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to the aggregate uninsured deposits. The State Regulatory Commissions for banks and financial services are required by Statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

Custodial credit risk – deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has not adopted a formal policy regarding custodial credit risk for deposits. As of December 31, 2005, \$2,004,445 of the District's bank balance was exposed to custodial credit risk.

The District's cash deposits at December 31, 2005 are as follows:

	<u>Carrying Balance</u>	<u>Bank Balance</u>
Insured deposits	\$ 392,550	\$ 400,000
Uninsured collateralized deposits	2,049,184	2,051,685
Total cash deposits	<u>\$ 2,441,734</u>	<u>\$ 2,451,685</u>

B. Investments

Credit risk

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

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

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

Todd Creek Farms Metropolitan District No. 1

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2005

The District's money market account with Valley Bank & Trust is not rated.

Interest rate risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

As of December 31, 2005, the District had the following investments:

	<u>Maturity</u>	<u>Fair Value</u>
U.S. Treasury money market fund (ANB)	Less than 1 year	\$ 684,032
Federal Home Loan Mortgage Corp (ANB)	Less than 1 year	994,689
U.S. Treasury Bill (ANB)	Less than 1 year	999,055
Money market	Less than 1 year	<u>122,583</u>
		<u>\$ 2,800,359</u>

Concentration of credit risk

The District does not have a policy that addresses limitations on the amount that can be invested in any one issuer, however, the District invests primarily in money markets and/or U.S. securities, U.S. agency securities, or U.S. sponsored corporate securities, which are not subject to concentration of credit risk.

Custodial credit risk – investments

For investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a policy for investment custodial credit risk. As of December 31, 2005, the District had \$2,677,776 of investments held by outside parties.

Note 4 – Notes receivable

The District holds two promissory notes from the main Developer (Note 9) totaling \$825,000. These agreements bear interest at 6% per annum with principal and interest payable in full on December 31, 2006. It is anticipated that these amounts will be repaid by the Developer through the contribution of water rights.

Todd Creek Farms Metropolitan District No. 1

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2005

Note 5 – Capital assets

Capital asset activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Water rights	\$ 2,555,079	\$ 475,394	\$ -	\$ 3,030,473
Capital assets, being depreciated:				
Water distribution and storage	27,516,319	3,961,631	-	31,477,950
Sewer system	467,183	4,235,062	-	4,702,245
Accumulated depreciation	<u>(1,415,920)</u>	<u>(395,343)</u>	<u>-</u>	<u>(1,811,263)</u>
Total capital assets, being depreciated, net	<u>26,567,582</u>	<u>7,801,350</u>	<u>-</u>	<u>34,368,932</u>
Capital assets, net	<u>\$ 29,122,661</u>	<u>\$ 8,276,744</u>	<u>\$ -</u>	<u>\$ 37,399,405</u>

Note 6 – Bonds payable

A. Changes in long-term debt

The following is an analysis of changes in bonds and loans payable for the year ended December 31, 2005:

	<u>Balance 12/31/04</u>	<u>New Issues</u>	<u>Principal Payments</u>	<u>Balance 12/31/05</u>	<u>Due within one year</u>
Governmental activities:					
Series 2004 Bonds	\$ 25,575,000	\$ -	\$ 1,905,000	\$ 23,670,000	\$ -

B. Bonds payable

\$25,575,000 Water Revenue Refunding and Improvement Bonds, Series 2004, dated December 27, 2004

The bonds are term bonds in the amount of \$25,575,000 maturing through December 2019. The bonds were issued to finance the construction, installation and completion of improvements to the water supply, purification, transmission and distributions system, wastewater lift station, force main end interceptor trunk line, and to refund and discharge the outstanding District revenue bonds as well as other District obligations. The bonds bear interest from 4.75% to 6.125% per annum payable semi-annually on June 1 and December 1. The bonds are subject to redemption prior to maturity, at the option of the District, on December 1, 2012, and on any date thereafter, upon payment of par and accrued interest, with a

Todd Creek Farms Metropolitan District No. 1

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2005

redemption premium through November 30, 2014, and without a redemption premium thereafter.

The bonds are payable solely from and secured by an irrevocable pledge of and first lien upon the "pledged revenue" as defined in the bond resolution. Additional security for the bonds is provided by a "debt service reserve fund" and by guaranty agreements dated as of December 27, 2004; one between the District and The Equinox Group LLC (the Developer), a Colorado limited liability company, whose affiliates own or control approximately 58% of the property to be served with water services and facilities by the District, and the other between the District and an individual principal of the Developer.

With respect to "pledged revenue" that may be derived by the District's water system, the Developer and its principal have entered into a Tap Purchase Agreement whereby the Developer and its principal have guaranteed the payment of principal and interest on the bonds in the event that "pledged revenues" are insufficient in any year. The Developer and its principal will agree, jointly and severally, to purchase water and wastewater taps from time to time in the amount necessary to pay when due the scheduled amounts of principal and interest with respect to the Series 2004 bonds.

C. Debt maturities

Debt maturities for the next five years and to maturity are as follows:

<u>Year ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ -	\$ 1,275,013	\$ 1,275,013
2007	-	1,275,013	1,275,013
2008	-	1,275,013	1,275,013
2009	9,895,000	1,275,013	11,170,013
2010	-	805,000	805,000
2011-2015	7,375,000	3,612,000	10,987,000
2016-2019	<u>6,400,000</u>	<u>1,568,000</u>	<u>7,968,000</u>
Total	<u>\$ 23,670,000</u>	<u>\$ 11,085,052</u>	<u>\$ 34,755,052</u>

D. Refunding

On December 27, 2004, the District advance refunded and defeased (debt legally satisfied) \$12,500,000 of its Water Revenue Refunding and Improvement Bonds dated November 1, 2001 by portions of the proceeds from the issuance of \$25,575,000 Water Revenue Refunding and Improvement Bonds, dated December 27, 2004 with an interest rate ranging from 4.75% to 6.125%. \$6,200,000 of the bonds were redeemed outright and \$6,300,000 were defeased. The defeased bonds are not considered a liability of the District since sufficient funds (\$6,751,058) were deposited with a trustee and invested in U.S. government securities for the purpose of paying the principal and interest of the defeased bonds when due.

Todd Creek Farms Metropolitan District No. 1

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2005

Note 7 – Line of credit

The District has a \$1,400,000 line of credit agreement with Valley Bank & Trust maturing November 3, 2006. The credit agreement provides for monthly interest payments at prime (as published by the Wall Street Journal) plus 1.75%. Borrowings under this note agreement are secured by a deed of trust on the District's water rights and storage facilities. Additional security for this agreement is provided by a guarantee from the Developer and an individual principal of the Developer. At December 31, 2005, the outstanding balance was \$599,050.

Note 8 – Net assets

The District has net assets consisting of three components – invested in capital assets, net of related debt; restricted; and unrestricted.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, loans, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those net assets.

As of December 31, 2005, the District has invested in capital assets, net of related debt of \$37,399,405. There was no related debt associated with these assets.

At December 31, 2005, the District's governmental funds had restricted net assets of \$5,026,960 and an unrestricted net deficit of \$19,685,200 and the District's business-type funds had unrestricted net deficit of \$1,489,730.

Note 9 – Related parties

The majority of the District's Board of Directors are either members or employees of the primary developer of land (the Developer) within and around the District.

The District entered into an agreement with the Developer to perform administrative duties, maintain and administer operations, and handle the financial affairs of the District. The contract is renewable annually. Under the terms of the agreement, the Developer received a monthly fee for these services in an amount not to exceed \$25,000 for January through July 2005 and \$32,000 beginning in August 2005 and continuing until December 2006. During the year ended December 31, 2005, the District paid \$342,000 to the Developer under this agreement.

The District is assessed an additional 10% by the Developer on all construction costs as a construction management fee. Total amounts paid to the Developer in construction management fees for the year ended December 31, 2005 were \$619,852.

The District has entered into various agreements and assignments of rights with the Developer (Note 10).

Todd Creek Farms Metropolitan District No. 1

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2005

Note 10 – Water agreements

Water Lease Agreements

On January 1, 2004, the District entered into two Water Lease Agreements with Coors Brewing Company (Coors), both renewable annually until December 31, 2006. Under the terms of the agreements, the District will receive the water rights for a minimum of 250 acre feet of water at a rate of \$157 per acre foot in 2004, \$175 per acre foot in 2005 and \$200 per acre foot in 2006, with minimum annual payments of \$40,700, \$45,500 and \$52,000, respectively, payable on January 1 each year.

Amended and Restated Raw Water Service Agreement

On April 30, 2004, the District entered into an Amended and Restated Raw Water Service Agreement (the Agreement) with Consolidated Mutual Water Company (Consolidated) for 200 acre-feet of Reusable Effluent during each calendar year beginning in 2005. Under the terms of the agreement, the District is required to purchase 1,000 shares of Consolidated's capital stock at a cost of \$1,800 per share, as adjusted. The first 200 shares were to be purchased on or before April 30, 2004 and the remaining 800 shares are to be purchased in five annual installments beginning on January 1, 2010.

A developer within the District acquired 500 shares (representing water rights to 500 acre feet), and subsequently assigned 200 shares (representing water rights to 200 acre feet) to the District for \$450,800, which satisfied the first installment payment due under the Agreement. These rights were assigned to the District under an Assignment of Water Certificates agreement on May 21, 2004, which transferred the right, title and interest in the water rights purchased to the District.

Note 11 – Commitments and contingencies

Construction commitments

The District had active construction projects as of December 31, 2005. Commitments under these projects totaled \$603,575 at December 31, 2005.

Pending litigation

A lawsuit is pending against the District by a property owner for damages relating to a leak in an irrigation line owned by the District. The case is set for trial in October 2006. At December 31, 2005, the outcome of the case could not be determined and possible damages could not be reasonably estimated.

Note 12 – Risk management

The District is exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God. The District maintains commercial insurance for all risks of loss. Settled claims have not exceeded the commercial insurance coverage limits in any of the past three years.

Todd Creek Farms Metropolitan District No. 1

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2005

Note 13 – Tax, spending and debt limitations

Article X, Section 20 of the Colorado constitution, commonly known as the Taxpayer's Bill of Rights (TABOR) contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

The District's management believes it qualifies under the Water Activity Enterprise definition of TABOR and therefore is not subject to the requirements of TABOR. However, TABOR is complex and subject to interpretation.

Note 14 – Restatement of net assets

The District previously did not record the value of water and sewer lines contributed by developers within the District. These omissions, resulting in the understatement of the reported capital assets and net assets in the District's previously issued financial statements, have been corrected in the current year. This resulted in the following changes to net assets as of December 31, 2004:

Net assets, as previously reported - December 31, 2004	\$ 5,300,832
Contributed assets not previously recorded	<u>12,169,795</u>
Net assets, restated - December 31, 2004	<u>\$ 17,470,627</u>

SUPPLEMENTAL INFORMATION

Todd Creek Farms Metropolitan District No. 1

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
CAPITAL PROJECTS FUND**

For the Year Ended December 31, 2005

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget - Favorable (Unfavorable)
Revenues			
Investment earnings	\$ -	\$ 123,179	\$ 123,179
Total revenues	<u>-</u>	<u>123,179</u>	<u>123,179</u>
Expenditures			
Capital outlay	10,431,531	6,198,524	4,233,007
Project management/engineering/district office	150,000	619,852	(469,852)
Total expenditures	<u>10,581,531</u>	<u>6,818,376</u>	<u>3,763,155</u>
Excess (deficiency) of revenues over (under) expenditures	(10,581,531)	(6,695,197)	3,886,334
Other financing sources			
Transfers from other funds	123,832	-	(123,832)
Change in fund balances	(10,457,699)	(6,695,197)	3,762,502
Fund balances - beginning	<u>10,457,699</u>	<u>11,348,315</u>	<u>890,616</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ 4,653,118</u>	<u>\$ 4,653,118</u>

Todd Creek Farms Metropolitan District No. 1

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
DEBT SERVICE FUND**

For the Year Ended December 31, 2005

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget - Favorable (Unfavorable)
Revenues			
Tap fees	\$ 3,650,000	\$ 3,417,434	\$ (232,566)
Investment earnings	116,724	68,650	(48,074)
Total revenues	<u>3,766,724</u>	<u>3,486,084</u>	<u>(280,640)</u>
Expenditures			
Debt service			
Paying agent fees	5,000	-	5,000
Interest	3,169,204	1,259,296	1,909,908
Principal	-	1,905,000	(1,905,000)
Total expenditures	<u>3,174,204</u>	<u>3,164,296</u>	<u>9,908</u>
Change in fund balance	592,520	321,788	(270,732)
Fund balance - beginning	<u>1,000,000</u>	<u>1,754,999</u>	<u>754,999</u>
Fund balance - ending	<u>\$ 1,592,520</u>	<u>\$ 2,076,787</u>	<u>\$ 484,267</u>

Todd Creek Farms Metropolitan District No. 1

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUNDS
AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS) - WATER FUND**

For the Year Ended December 31, 2005

	<u>Original and Final Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with Final Budget - Favorable (Unfavorable)</u>
Revenues			
Water revenue	\$ 606,000	\$ 775,833	\$ 169,833
Meter fees	131,200	149,117	17,917
Inspection fees	40,000	42,300	2,300
Tap fees	713,870	800,640	86,770
Investment earnings	3,500	2,024	(1,476)
Other income	15,000	72,755	57,755
Total revenues	<u>1,509,570</u>	<u>1,842,669</u>	<u>333,099</u>
Expenditures			
Accounting and audit	10,000	8,425	1,575
Contingency and emergency reserve	78,438	-	78,438
Directors fees	4,000	2,250	1,750
District management	300,000	344,575	(44,575)
Engineering	55,000	3,356	51,644
Insurance	5,000	7,280	(2,280)
Interest	-	79,398	(79,398)
Issuance costs	-	6,741	(6,741)
Legal	100,000	130,986	(30,986)
Miscellaneous	-	39,379	(39,379)
MXU system	131,200	101,331	29,869
Office expense	50,000	58,763	(8,763)
Paying agent fees	-	1,250	(1,250)
Raw water acquisition	304,100	-	304,100
Repairs and maintenance	243,000	268,482	(25,482)
Transfers to other funds	(123,832)	-	(123,832)
Utilities	95,000	122,810	(27,810)
Water treatment	10,000	19,345	(9,345)
Total expenditures	<u>1,261,906</u>	<u>1,194,371</u>	<u>67,535</u>
Excess of revenues over expenditures	247,664	648,298	400,634
Funds available (deficit) - beginning	<u>-</u>	<u>(2,138,028)</u>	<u>(2,138,028)</u>
Funds available (deficit) - ending	<u>\$ 247,664</u>	<u>\$ (1,489,730)</u>	<u>\$ (1,737,394)</u>

Funds available (deficit) at December 31, 2005 is computed as follows:

Current assets	\$ 1,102,203
Current liabilities	<u>(2,591,933)</u>
	<u>\$ (1,489,730)</u>

Todd Creek Farms Metropolitan District No. 1

**RECONCILIATION OF ACTUAL (BUDGETARY BASIS) TO STATEMENT
OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

For the Year Ended December 31, 2005

REVENUE (BUDGETARY BASIS)	<u>\$ 1,842,669</u>
EXPENDITURES (BUDGETARY BASIS)	1,194,371
Add:	
Depreciation	<u>395,343</u>
Total expenses (GAAP basis)	<u>1,589,714</u>
OPERATING INCOME (GAAP basis)	252,955
Add:	
Contributed assets	<u>8,415,844</u>
CHANGE IN NET ASSETS PER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	<u>\$ 8,668,799</u>

Todd Creek Farms Metropolitan District No. 1

DEBT SERVICE REQUIREMENTS TO MATURITY

December 31, 2005

Bonds and Interest Maturing in the Year Ending December 31,	\$25,575,000 Revenue Refunding and Improvement Bonds Dated December 27, 2004 Interest Payable June 1 and December 1 Principal Payable December 1		
	Principal	Interest	Total
2006	\$ -	\$ 1,275,013	\$ 1,275,013
2007	-	1,275,013	1,275,013
2008	-	1,275,013	1,275,013
2009	9,895,000	1,275,013	11,170,013
2010	-	805,000	805,000
2011	-	805,000	805,000
2012	-	805,000	805,000
2013	-	805,000	805,000
2014	7,375,000	805,000	8,180,000
2015	-	392,000	392,000
2016	-	392,000	392,000
2017	-	392,000	392,000
2018	-	392,000	392,000
2019	6,400,000	392,000	6,792,000
	\$ 23,670,000	\$ 11,085,052	\$ 34,755,052