

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

**BASIC FINANCIAL STATEMENTS**

**with Independent Auditors' Report**

**December 31, 2006**

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

Todd Creek Farms Metropolitan District No. 1

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December 31, 2005

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### Independent Auditors' Report

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

We have audited the accompanying basic financial statements of Todd Creek Farms Metropolitan District No. 1, as of December 31, 2006 and 2005, and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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 financial position of Todd Creek Farms Metropolitan District No. 1, as of December 31, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming opinions on the basic financial statements. The supplemental information listed 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 audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 25, 2007  
Golden, Colorado

*Wagner, Burke & Barnes, LLP*

**Todd Creek Farms Metropolitan District No. 1**

**STATEMENT OF NET ASSETS**

December 31, 2006 and 2005

	2006	2005
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 180,139	\$ 215,133
Cash and cash equivalents - restricted	9,188,911	5,026,960
Accounts receivable	63,814	50,720
Developer accounts receivable	149,168	1,350
Developer notes receivable - current	921,304	-
<b>Total current assets</b>	<b>10,503,336</b>	<b>5,294,163</b>
<b>Capital assets</b>		
Water rights	5,378,718	3,030,473
Operating system and storage	45,214,437	36,180,195
	50,593,155	39,210,668
Accumulated depreciation	(2,404,810)	(1,811,263)
<b>Total capital assets</b>	<b>48,188,345</b>	<b>37,399,405</b>
<b>Other assets</b>		
Escrow funds	210,000	10,000
Developer notes receivable - noncurrent	-	825,000
Bond issuance costs (net of accumulated amortization of \$763,334)	2,006,439	2,388,106
Certificates of Participation issuance costs (net of accumulated amortization of \$10,605)	234,268	-
Certificates of Participation discount (net of accumulated amortization of \$6,564)	144,986	-
<b>Total other assets</b>	<b>2,595,693</b>	<b>3,223,106</b>
<b>TOTAL ASSETS</b>	<b>\$ 61,287,374</b>	<b>\$ 45,916,674</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 106,502	\$ 134,194
Retainage payable	3,486	155,744
Accrued interest payable	97,404	106,251
Line of credit payable	624,050	599,050
Miscellaneous payable	15,775	-
<b>Total current liabilities</b>	<b>847,217</b>	<b>995,239</b>
<b>Long-term liabilities</b>		
Bonds and certificates of participation payable	30,095,000	23,670,000
<b>TOTAL LIABILITIES</b>	<b>30,942,217</b>	<b>24,665,239</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	18,093,345	13,729,405
Restricted	9,188,911	5,026,960
Unrestricted (deficit)	3,062,901	2,495,070
<b>TOTAL NET ASSETS</b>	<b>\$ 30,345,157</b>	<b>\$ 21,251,435</b>

*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**

**For the Years Ended December 31, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
<b>Operating revenues</b>		
Water revenue	\$ 1,163,496	\$ 775,833
Meter fees	210,350	149,117
Inspection fees	56,600	42,300
Other income	96,006	72,755
<b>Total operating revenues</b>	<b>1,526,452</b>	<b>1,040,005</b>
<b>Operating expenses</b>		
Accounting and audit	8,395	8,425
Depreciation	593,547	395,343
Directors fees	3,375	2,250
District management	565,000	344,575
Engineering	64,463	3,356
Insurance	330	7,280
Legal	422,024	130,986
Miscellaneous	65,535	39,379
MXU system	108,903	101,331
Office expense	64,717	58,763
Interest expense - certificates of participation	269,539	-
Repairs and maintenance	264,025	268,482
Utilities	130,995	122,810
Water treatment	29,167	19,345
<b>Total operating expenses</b>	<b>2,590,015</b>	<b>1,502,325</b>
<b>Operating (loss)</b>	<b>(1,063,563)</b>	<b>(462,320)</b>
<b>Nonoperating revenue and (expense)</b>		
Investment earnings	523,208	193,853
Amortization expense	(398,836)	(381,667)
Credit enhancement fee	(188,025)	-
Interest	(1,361,279)	(1,376,609)
Issuance costs	(1,428)	(6,741)
Paying agent fees	(1,650)	(1,250)
Gain on sale of assets	307,935	-
<b>Total nonoperating revenue and (expense)</b>	<b>(1,120,075)</b>	<b>(1,572,414)</b>
<b>(Loss) before capital contributions</b>	<b>(2,183,638)</b>	<b>(2,034,734)</b>
<b>Capital contributions</b>		
Tap fees	4,027,413	4,218,074
Contributed assets	7,249,947	1,597,468
<b>Total capital contributions</b>	<b>11,277,360</b>	<b>5,815,542</b>
<b>Change in net assets</b>	<b>9,093,722</b>	<b>3,780,808</b>
<b>Net assets - beginning</b>	<b>21,251,435</b>	<b>17,470,627</b>
<b>Net assets - ending</b>	<b>\$ 30,345,157</b>	<b>\$ 21,251,435</b>

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

**Todd Creek Farms Metropolitan District No. 1**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 5,540,771	\$ 5,248,391
Payments to suppliers	<u>(1,891,104)</u>	<u>(1,109,795)</u>
Net cash provided by operating activities	<u>3,649,667</u>	<u>4,138,596</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(4,324,605)	(7,833,451)
Proceeds from sale of assets	500,000	-
Net proceeds (payments) on line of credit	25,000	(525,950)
Escrow payments (receipts) for capital acquisitions	(200,000)	631,763
Advances to developer	(1,070,472)	(1,445,000)
Payments on developer borrowings	826,350	1,345,000
Proceeds from issuance of certificates of participation	8,660,000	-
Interest paid certificates of participation	(269,539)	-
Issuance costs on certificates of participation	(396,423)	-
Principal paid on revenue bonds	(2,235,000)	(1,905,000)
Interest paid on revenue bonds	(1,283,859)	(1,259,294)
Interest paid on line of credit	(86,267)	(117,315)
Other debt-related expenditures	<u>(191,103)</u>	<u>(7,991)</u>
Net cash (used) by capital and related financing activities	<u>(45,918)</u>	<u>(11,117,238)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and dividends received	<u>523,208</u>	<u>193,853</u>
Net cash provided by investing activities	<u>523,208</u>	<u>193,853</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	4,126,957	(6,784,789)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>5,242,093</u>	<u>12,026,882</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 9,369,050</u>	<u>\$ 5,242,093</u>

(continued)

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

**Todd Creek Farms Metropolitan District No. 1**  
**STATEMENTS OF CASH FLOWS**  
**(continued)**  
**For the Years Ended December 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>Reconciliation of operating (loss) to net cash provided by operating activities:</b>		
Operating loss	\$ (1,063,563)	\$ (462,320)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation expense	593,547	395,343
Tap fees received from customers	4,027,413	4,218,074
Interest on certificates of participation	269,539	-
(Increase) decrease in accounts receivable	(13,094)	(9,688)
Increase (decrease) in accounts payable	(27,692)	(133,226)
Increase (decrease) in retainage payable	(152,258)	130,413
Increase (decrease) in other payables	15,775	-
<b>Total adjustments</b>	<u>4,713,230</u>	<u>4,600,916</u>
<b>Net cash provided by operating activities</b>	<u>\$ 3,649,667</u>	<u>\$ 4,138,596</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, 2006**

**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's service area 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 December 31, 2006, 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**

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units accounted for as a proprietary enterprise fund. The enterprise fund is used since the District's powers are related to those operated in a manner similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

The District has elected to follow Governmental Accounting Standards Board pronouncements. Therefore, statements issued by the Financial Accounting Standards Board after November 30, 1989 are not applied.

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

**A. Basis of accounting**

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned, and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets and redemption of bonds and certificates of participation is



**Todd Creek Farms Metropolitan District No. 1**

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

December 31, 2006

recorded as a reduction in liabilities. Tap fees are recorded as capital contributions when received.

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.

**B. Operating revenue and expenses**

The District distinguishes between operating revenues and expenses and nonoperating items in the Statement of Revenues, Expenses and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing water and wastewater services to its customers. Operating revenues consist of charges to customers for service provided. Operating expenses include the cost of service, administrative expenses and depreciation of assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

**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.

**E. Restricted cash**

Certain proceeds of the District's revenue bonds and certificates of participation, 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 \$9,188,911 at December 31, 2006 and \$5,026,960 at December 31, 2005.

**Todd Creek Farms Metropolitan District No. 1**

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

December 31, 2006

**F. Capital assets**

Capital assets, which include water rights, water wells, storage and treatment facilities and delivery systems, are reported 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 or at the developer's cost. Capital assets are defined by the District as those assets with a cost or value of \$1,000 or greater. 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). The cost of water rights includes acquisition cost, legal, and engineering costs related to the development and augmentation of those rights. Since the rights have a perpetual life, they are not amortized. Depreciation expense for the years ended December 31, 2006 and 2005 totaled \$593,547 and \$395,343, respectively.

**G. Amortization of bond and loan costs**

Bond and loan issue costs and discounts are being amortized over the respective terms of the bonds or loan using the straight-line method. Amortization expense for bond, loan, and discounts amounted to \$398,836 and \$381,667 for the years ended December 31, 2006 and 2005, respectively.

**H. Budgetary information**

In accordance with State Budget Law, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year-end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The total appropriation can only be modified by upon completion of notification and publication requirements. In September 2007, the District amended the total expenditure appropriation from \$7,913,098 to \$10,520,206.

**I. Contributed capital**

Tap fees and water resource fees are generally recorded as capital contributions when received. Lines contributed to the District by developers are recorded as capital contributions and additions to the systems at the developer's cost or at the estimated fair value at the date of contribution.

Todd Creek Farms Metropolitan District No. 1

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2006

Note 3 – Deposits and investments

Cash and investments as of December 31, 2006 and 2005 are classified in the accompanying financial statements as follows:

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 180,139	\$ 215,133
Cash and cash equivalents – restricted	<u>9,188,911</u>	<u>5,026,960</u>
Total cash and investments	<u>\$ 9,369,050</u>	<u>\$ 5,242,093</u>

Cash in the amount of \$4,981,646 and \$2,677,776 was restricted at December 31, 2006 and 2005, respectively, 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 \$4,207,265 and \$2,349,184 was restricted at December 31, 2006 and 2005, respectively, for the payment of bond and certificate of participation interest and principal.

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's cash deposit and investment policy adopts State statutes regarding custodial credit risk for deposit. As of December 31, 2006 and 2005, none of the District's bank balance was exposed to custodial risk.

The District's cash deposits at December 31, 2006 are as follows:

	<u>Carrying Balance</u>	<u>Bank Balance</u>
Cash deposits	<u>\$ 2,426,271</u>	<u>\$ 2,443,706</u>

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

	<u>Carrying Balance</u>	<u>Bank Balance</u>
Cash deposits	<u>\$ 2,441,734</u>	<u>\$ 2,451,685</u>

Todd Creek Farms Metropolitan District No. 1

NOTES TO THE FINANCIAL STATEMENTS

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December 31, 2006

**B. Investments**

Credit risk

The District's cash deposit and investment policy adopts State statutes regarding credit risk for 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

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, 2006, the District had the following investments:

	<u>Maturity</u>	<u>Fair Value</u>
U.S. Treasury money market fund (ANB)	Less than 1 year	\$ 927,875
Aim Trust Treasury Portfolio (Zion)	Less than 1 year	5,876,975
Money market	Less than 1 year	137,929
		<u>\$ 6,942,779</u>

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	122,583
		<u>\$ 2,800,359</u>

**Todd Creek Farms Metropolitan District No. 1**

**NOTES TO THE FINANCIAL STATEMENTS  
(continued)  
December 31, 2006**

Concentration of credit risk

The District's cash deposit and investment policy adopts state statutes regarding concentration of credit risk for investments. 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's cash deposit and investment policy adopts state statutes regarding custodial credit risk for investments. As of December 31, 2006 and 2005, the District had \$6,804,850 and \$2,677,776, respectively, of investments held by outside parties.

**Note 4 – Notes receivable**

The District holds two promissory notes from the main Developer (Note 9) totaling \$921,304 at December 31, 2006. These agreements bear interest at 6% per annum with principal and interest payable in full on December 31, 2007. It is anticipated that these amounts will be repaid by the Developer through the contribution of water rights.

**Note 5 – Capital assets**

Capital asset activity for the year ended December 31, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Water rights	\$ 3,030,473	\$ 2,540,310	\$ 192,065	\$ 5,378,718
Capital assets, being depreciated:				
Water distribution and storage	31,477,950	9,034,242	-	40,512,192
Sewer system	4,702,245	-	-	4,702,245
Accumulated depreciation	<u>(1,811,263)</u>	<u>(593,547)</u>	<u>-</u>	<u>(2,404,810)</u>
Total capital assets, being depreciated, net	<u>34,368,932</u>	<u>8,440,695</u>	<u>-</u>	<u>42,809,627</u>
Capital assets, net	<u>\$ 37,399,405</u>	<u>\$10,981,005</u>	<u>\$ 192,065</u>	<u>\$ 48,188,345</u>

Todd Creek Farms Metropolitan District No. 1

NOTES TO THE FINANCIAL STATEMENTS

(continued)

December 31, 2006

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, 2006:

	<u>Balance</u> <u>12/31/05</u>	<u>New Issues</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>12/31/05</u>	<u>Due within</u> <u>one year</u>
Series 2004 Bonds	\$ 23,670,000	\$ -	\$ 2,235,000	\$ 21,435,000	\$ -
Series 2006 Certificates of Participation	-	<u>8,660,000</u>	-	<u>8,660,000</u>	-
Total	<u>\$ 23,670,000</u>	<u>\$ 8,660,000</u>	<u>\$ 2,235,000</u>	<u>\$ 30,095,000</u>	<u>\$ -</u>

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, as allowed under a "Special Mandatory Redemption" provision whereby the District, from sources other than borrowed funds or funds derived from refunding or refinancing of the Series 2004 Bonds, may redeem certain bonds at a price equal to the principal amount plus accrued interest. Accordingly, bonds maturing on December 1, 2019 may be redeemed no earlier than December 1, 2005, bonds maturing on December 1, 2014 may be redeemed no earlier than June 1, 2008, and bonds maturing on December 1, 2019 may be redeemed no earlier than June 1, 2010.

Alternatively, the bonds are subject to redemption prior to maturity, at the option of the District, redeemed with borrowed funds beginning on December 1, 2012, and on any date thereafter, upon payment of par and accrued interest, with a 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

**Todd Creek Farms Metropolitan District No. 1**

**NOTES TO THE FINANCIAL STATEMENTS**

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December 31, 2006

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. Certificates of participation (COPS)**

The District entered into a lease purchase agreement for a principal amount of \$8,660,000, dated May 18, 2006, with Todd Creek Farms Metropolitan District No.1 Water Activity Enterprise Leasing Trust 2006 (the Trust). The Trust acts as lessor, and the District acts as lessee. The Trust was created by the trustee (Zions First National Bank, Denver, Colorado) pursuant to a trust indenture and laws of the State of Colorado. The proceeds of the issuance of the COPS are used to fund the acquisition of water rights and the acquisition, construction and installation of various water and non-potable water facilities. The Trust leases such water rights and facilities to the District pursuant to a 16.5-year lease agreement. Base rentals under the lease agreement are sufficient to cover the payments of principal and interest on the certificates, and all trustee costs. The District may elect at any time to purchase the property from the Trust in an amount sufficient to redeem, pay, and defease all outstanding COPS. At the termination of the lease, ownership of all assets reverts to the District. The obligations of the District under the lease are not secured by a pledge or lien on any revenues, funds, or property of the District, and are payable on a parity basis with other general unsecured capital obligations of the District.

The COPS bear interest at rates ranging from 5.75% to 6.125%. They are subject to optional redemption on December 1, 2012 and thereafter at prices ranging from par to par plus a 2% premium. Certain certificates are subject to a mandatory sinking fund beginning on December 1, 2010.

The District accounts for proceeds of the issuance of the COPS as debt proceeds, and reports all assets of the trust and all outstanding COPS on its financial statements. Rental payments to the Trust are reported as interest expense and principal reductions by the District.

**Todd Creek Farms Metropolitan District No. 1**

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

December 31, 2006

**D. 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>
2007	\$ -	\$ 1,796,701	\$ 1,796,701
2008	-	1,796,701	1,796,701
2009	7,660,000	1,796,701	9,456,701
2010	415,000	1,326,688	1,741,688
2011	440,000	1,302,825	1,742,825
2012-2016	9,985,000	5,276,664	15,261,664
2017-2021	9,895,000	2,364,250	12,259,250
2022	<u>1,700,000</u>	<u>104,121</u>	<u>1,804,121</u>
Total	<u>\$ 30,095,000</u>	<u>\$ 15,764,651</u>	<u>\$ 45,859,651</u>

**E. 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.

**Note 7 – Line of credit**

The District has a \$1,400,000 line of credit agreement with Valley Bank & Trust maturing November 3, 2007. 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, 2006 and 2005, respectively, the outstanding balance was \$624,050 and \$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.



**Todd Creek Farms Metropolitan District No. 1**

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

December 31, 2006

As of December 31, 2006 and 2005, the District has invested in capital assets, net of related debt of \$18,093,345 and \$13,729,405.

At December 31, 2006 and 2005, the District had restricted net assets, due to contractual obligations to pay debt service and capital projects, of \$9,188,911 and \$5,026,960, respectively.

**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, \$32,000 from August, 2005 through January, 2006, and \$48,000 thereafter. During the year ended December 31, 2006 and 2005, the District paid \$565,000 and \$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 years ended December 31, 2006 and 2005 were \$139,865 and \$619,852.

The District has entered into various agreements and assignments of rights with the Developer, all of which were satisfied as of December 31, 2006.

**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 received the water rights for a minimum of 250 acre feet of water at a rate of \$175 per acre foot in 2005 and \$200 per acre foot in 2006, with minimum annual payments of \$45,500 and \$52,000, respectively, payable on January 1 each year.

Effective January 1, 2007, the District renewed its two Water Lease Agreements with Coors Brewing Company (Coors), both now terminating on December 31, 2011 (initial term). Both Agreements may be renewed for an additional five year term after the initial term.

Under the terms of the first Agreement, the District will receive the water rights for 100 acre feet of Leased Water at the following per acre foot rates: 2007, \$225; 2008, \$250; 2009, \$275; 2010, \$300; and 2011, \$325. The minimal annual payments are as follow: 2007, \$22,500; 2008, \$25,000; 2009, \$27,500; 2010, \$30,000; and 2011, \$32,500, payable on January 1 each year.

**Todd Creek Farms Metropolitan District No. 1**

**NOTES TO THE FINANCIAL STATEMENTS  
(continued)  
December 31, 2006**

Under the terms of the second Agreement, the District will receive the water rights for 250 acre feet of Leased Water at the following per acre foot rates: 2007, \$225; 2008, \$250; 2009, \$275; 2010, \$300; and 2011, \$325. The District agrees to pay a minimum amount each year equal to the cost of 160 acre feet of Leased Water. The minimal annual payments are as follow: 2007, \$36,000; 2008, \$40,000; 2009, \$44,000; 2010, \$48,000; and 2011, \$52,000, payable on January 1 each year.

**Note 11 – Commitments and contingencies**

Construction commitments

The District had active construction projects as of December 31, 2006 and 2005. Commitments under these projects totaled \$2,038,383 and \$603,575 at December 31, 2006 and 2005.

**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.

**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.

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**SUPPLEMENTAL INFORMATION**

Todd Creek Farms Metropolitan District No. 1

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

For the Year Ended December 31, 2006

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>ENTERPRISE:</b>				
<b>Revenues</b>				
Water revenue	\$ 810,560	\$ 1,687,847	\$ 1,259,502	\$ (428,345)
Meters	255,200	200,000	210,350	10,350
Inspection fees	80,750	60,000	56,600	(3,400)
Tap fees	695,200	637,100	657,100	20,000
Investment earnings	18,000	100,000	142,482	42,482
Sale of fixed assets	-	-	500,000	500,000
Developer advance repayments	-	475,000	-	(475,000)
<b>Total revenues</b>	<u>1,859,710</u>	<u>3,159,947</u>	<u>2,826,034</u>	<u>(333,913)</u>
<b>Expenditures</b>				
Accounting and audit	15,000	8,395	8,395	-
Administration	85,000	85,000	64,717	20,283
Credit enhancement fee	-	188,025	188,025	-
Contingency and emergency reserve	193,610	-	-	-
Directors fees	5,100	5,100	3,375	1,725
District management	384,000	549,000	565,000	(16,000)
Engineering	65,000	65,000	64,463	537
Insurance	5,000	5,000	330	4,670
Interest	30,000	80,000	355,805	(275,805)
Issuance costs	5,500	2,000	1,428	572
Lease payment	-	260,000	-	260,000
Legal	110,000	420,000	422,024	(2,024)
Miscellaneous	-	-	65,535	(65,535)
MXU system	255,200	122,000	108,903	13,097
Paying agent fees	-	-	1,650	(1,650)
Raw water acquisition	762,847	154,000	-	154,000
Repairs and maintenance	260,000	260,000	264,025	(4,025)
Utilities	165,600	165,600	130,995	34,605
Water treatment	30,000	30,000	29,167	833
<b>Total expenditures</b>	<u>2,371,857</u>	<u>2,399,120</u>	<u>2,273,837</u>	<u>125,283</u>
<b>Excess of enterprise revenues over (under) enterprise expenditures</b>	(512,147)	760,827	552,197	(208,630)
<b>Funds available (deficit) - beginning enterprise fund</b>	<u>512,147</u>	<u>(1,489,730)</u>	<u>(1,489,730)</u>	<u>-</u>
<b>Funds available (deficit) - ending enterprise fund</b>	<u>\$ -</u>	<u>\$ (728,903)</u>	<u>\$ (937,533)</u>	<u>\$ (208,630)</u>

(continued)

Todd Creek Farms Metropolitan District No. 1

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

For the Year Ended December 31, 2006

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with Final Budget - Favorable (Unfavorable)</u>
<b>GENERAL GOVERNMENT:</b>				
<b>Revenues</b>				
Tap fees	\$ 3,279,505	\$ 3,362,313	\$ 3,370,313	\$ 8,000
Investment earnings	80,000	195,000	380,726	185,726
<b>Total revenues</b>	<u>3,359,505</u>	<u>3,557,313</u>	<u>3,751,039</u>	<u>193,726</u>
<b>Expenditures</b>				
<b>Debt service:</b>				
Interest	1,375,500	1,275,127	1,275,013	114
Principal	2,000,000	2,235,000	2,235,000	-
<b>Capital Outlay:</b>				
Water rights	456,709	2,600,000	2,540,310	59,690
Delivery system and storage	<u>1,709,032</u>	<u>2,010,959</u>	<u>1,948,892</u>	<u>62,067</u>
<b>Total expenditures</b>	<u>5,541,241</u>	<u>8,121,086</u>	<u>7,999,215</u>	<u>121,871</u>
<b>Excess of general government revenues over (under) general government expenditures</b>	(2,181,736)	(4,563,773)	(4,248,176)	315,597
<b>Funds available (deficit) - beginning general government</b>	<u>3,046,024</u>	<u>6,729,905</u>	<u>6,729,905</u>	<u>-</u>
<b>Funds available (deficit) - ending general government</b>	<u>\$ 864,288</u>	<u>\$ 2,166,132</u>	<u>\$ 2,481,729</u>	<u>\$ 315,597</u>
<b>Total district revenues</b>	\$ 5,219,215	\$ 6,717,260	\$ 6,577,073	(140,187)
<b>Total district expenditures</b>	<u>7,913,098</u>	<u>10,520,206</u>	<u>10,273,052</u>	<u>247,154</u>
<b>Total excess of revenue over (under) expenditures</b>	(2,693,883)	(3,802,946)	(3,695,979)	106,967
<b>Funds available (deficit) - beginning</b>	<u>3,558,171</u>	<u>5,240,175</u>	<u>5,240,175</u>	<u>-</u>
<b>Funds available (deficit) - ending</b>	<u>\$ 864,288</u>	<u>\$ 1,437,229</u>	<u>\$ 1,544,196</u>	<u>\$ 106,967</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, 2006

REVENUE (BUDGETARY BASIS)	\$ 6,577,073
Add:	
Contributed assets	7,249,947
Less:	
Cost of assets sold	<u>(192,065)</u>
Total revenue (GAAP basis)	<u>13,634,955</u>
EXPENDITURES (BUDGETARY BASIS)	10,273,052
Add:	
Depreciation	593,547
Amortization	398,836
Less:	
Principal paid	(2,235,000)
Capital outlay	<u>(4,489,202)</u>
Total expenses (GAAP basis)	<u>4,541,233</u>
CHANGE IN NET ASSETS PER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	<u>\$ 9,093,722</u>

Todd Creek Farms Metropolitan District No. 1

DEBT SERVICE REQUIREMENTS TO MATURITY

December 31, 2006

Bonds and Certificates 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		\$8,660,000 Certificates of Participation Dated May 25, 2006 Base rentals are due May 15 and November 15 Principal Payable on June 1 and December 1		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	-	\$ 1,275,013	\$ -	\$ 521,688	\$ -	\$ 1,796,701
2008	-	1,275,013	-	521,688	-	1,796,701
2009	7,660,000	1,275,013	-	521,688	7,660,000	1,796,701
2010	-	805,000	415,000	521,688	415,000	1,326,688
2011	-	805,000	440,000	497,825	440,000	1,302,825
2012	-	805,000	465,000	472,525	465,000	1,277,525
2013	-	805,000	490,000	445,788	490,000	1,250,788
2014	7,375,000	805,000	520,000	417,613	7,895,000	1,222,613
2015	-	392,000	550,000	387,713	550,000	779,713
2016	-	392,000	585,000	354,025	585,000	746,025
2017	-	392,000	620,000	318,194	620,000	710,194
2018	-	392,000	655,000	280,219	655,000	672,219
2019	6,400,000	392,000	695,000	240,100	7,095,000	632,100
2020	-	-	740,000	197,531	740,000	197,531
2021	-	-	785,000	152,206	785,000	152,206
2022	-	-	1,700,000	104,121	1,700,000	104,121
	<u>\$ 21,435,000</u>	<u>\$ 9,810,039</u>	<u>\$ 8,660,000</u>	<u>\$ 5,954,612</u>	<u>\$ 30,095,000</u>	<u>\$ 15,764,651</u>
						<u>\$ 45,859,651</u>