



GRANBY RANCH METROPOLITAN DISTRICT
FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2005

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

February 17, 2006

The Board of Directors
Granby Ranch Metropolitan District

We have audited the accompanying financial statements of the governmental activities and each major fund of Granby Ranch Metropolitan District 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 Granby Ranch Metropolitan District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Granby Ranch Metropolitan District, as of December 31, 2005, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Granby Ranch Metropolitan District basic financial statements. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Chadwick, Steinkirchner, Davis & Co., P.C.

Granby Ranch Metropolitan District

Management's Discussion and Analysis
December 31, 2005

As management of Granby Ranch Metropolitan District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2005.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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

The Statement of Net Assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The governmental activity of the District is primarily financing construction, operation, and maintenance of the basic public infrastructure that is performed by Headwaters Metropolitan District. There are no business-type activities within the District.

The government-wide financial statements can be found on pages 6 and 7 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District currently has two funds, the General Fund and the Debt Service Fund which are governmental funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Management's Discussion and Analysis
December 31, 2005

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 11 through 19 of this report.

Government-wide Financial Analysis. A condensed comparative summary of the District's government-wide assets, liabilities, net assets, revenues and expenditures follows:

Granby Ranch Metropolitan District's Net Assets

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Assets		
Current and other assets	\$ 146,478	\$ —
Deposit on Infrastructure Assets	<u>1,227,237</u>	<u>—</u>
Total Assets	<u>1,373,715</u>	<u>—</u>
Liabilities		
Current and other liabilities	146,361	—
Long-term obligations payable	<u>1,422,789</u>	<u>225,993</u>
Total Liabilities	<u>1,569,150</u>	<u>225,993</u>
Net Assets:		
Unrestricted	<u>(195,435)</u>	<u>(225,993)</u>
Total Net Assets	<u>\$ (195,435)</u>	<u>\$ (225,993)</u>

Granby Ranch Metropolitan District's Change in Net Assets

Revenues		
General revenues:		
Taxes	\$ 91,055	\$ —
Intergovernmental	1,227,237	13,365
Interest and other revenue	<u>118</u>	<u>—</u>
Total Revenues	<u>1,318,410</u>	<u>13,365</u>
Expenses:		
General government	89,185	—
Intergovernmental	<u>1,198,667</u>	<u>185,902</u>
Total Expenses	<u>1,287,852</u>	<u>185,902</u>
Changes in Net Assets	30,558	(172,537)
Net Assets – Beginning	<u>(225,993)</u>	<u>(53,456)</u>
Net Assets – Ending	<u>\$ (195,435)</u>	<u>\$ (225,993)</u>

The District is the "Financing District" in a dual district structure whereby the District is having Headwaters Metropolitan District, the "Service District," construct the infrastructure of the District. Granby Ranch Metropolitan District will ultimately pay a "capital obligation" to Headwaters Metropolitan District to acquire the infrastructure. Some of this infrastructure will be conveyed to other municipalities such as the Town of Granby or the Granby Water and Sanitation District. All infrastructure not conveyed to another municipality will be operated and maintained by Headwaters until it is dissolved, at which time the remaining infrastructure will be conveyed to Granby Ranch. Granby Ranch will also pay a "Service Obligation" for the costs incurred by Headwaters Metropolitan District to operate and maintain the facilities until they are transferred. The majority of the District's assets consist of the deposit on the capital assets that are being constructed by Headwaters Metropolitan District and will ultimately be conveyed from Headwaters to the District. The District has an obligation to pay Headwaters for the cost of constructing and maintaining the infrastructure assets and those obligations are reflected as long-term obligations on the District's government-wide statement of net assets. The District will use the infrastructure assets to provide services to its citizens. Accordingly, these assets are not an available source for payment of future spending.

The District's primary revenue sources were capital grants and contributions and, property taxes collected. These revenues have been used to pay the general government expenses of the District. The majority of the District's expenses relate to increases in the Service and Capital Obligations payable to Headwaters Metropolitan District.

Financial Analysis of the District's Funds

As mentioned earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported a combined ending fund balance of \$117 which reflects an increase of \$117. This increase is the result of the current year revenues being slightly higher than expenditures.

Capital assets. As stated above, the infrastructure in the District is being constructed by Headwaters Metropolitan District and the District has recorded a capital deposit in the amount of \$1,227,237 on those assets. All assets not conveyed to other municipalities will ultimately be conveyed to the District when the District has fulfilled its obligation to pay Headwaters for the cost of constructing the assets which is not expected to occur for many years.

Long-term debts. The District's remaining capital and service obligation to Headwaters for the balance of the cost of the infrastructure incurred through December 31, 2005 is \$1,422,789. Additional information can be found in the Notes to the Financial Statement on page 16 of this report.

Management's Discussion and Analysis
December 31, 2005

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Robertson & Marchetti, P.C., 28 Second Street, Suite 213, Edwards, CO 81632 or you may call (970) 926-6060.

Granby Ranch Metropolitan District

STATEMENT OF NET ASSETS

December 31, 2005

	Governmental Activities
ASSETS	
Cash	\$ 117
Receivables	
Due from County Treasurer	583
Property taxes receivable	145,778
Deposit on infrastructure assets	1,227,237
Total Assets	\$ 1,373,715
LIABILITIES AND NET ASSETS	
Liabilities	
Due to Headwaters Metropolitan District	\$ 583
Deferred property taxes	145,778
Capital obligation to Headwaters Metropolitan District	903,397
Service obligation to Headwaters Metropolitan District	519,392
Total Liabilities	1,569,150
Net Assets	
Unrestricted	(195,435)
Total Net Assets	(195,435)
Total Liabilities and Net Assets	\$ 1,373,715

The accompanying notes are an integral part of this statement.

Granby Ranch Metropolitan District

STATEMENT OF ACTIVITIES

Year ended December 31, 2005

Function/Programs	Expenses	Program Revenue Capital Grants and Contributions	Governmental Activities
Governmental activities			
General government	\$ 89,185	\$ -	\$ (89,185)
Intergovernmental	<u>1,198,667</u>	<u>1,227,237</u>	<u>28,570</u>
Total governmental activities	<u>\$ 1,287,852</u>	<u>\$ 1,227,237</u>	<u>(60,615)</u>
	General revenues		
	Property taxes		84,957
	Specific ownership taxes		6,098
	Interest earnings		<u>118</u>
	Total general revenues		<u>91,173</u>
	Change in net assets		30,558
	Net assets - beginning		<u>(225,993)</u>
	Net assets - ending		<u>\$ (195,435)</u>

The accompanying notes are an integral part of this statement.

Granby Ranch Metropolitan District

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2005

	<u>Debt Service</u>	<u>Total Governmental Funds</u>
ASSETS		
Cash	\$ 117	\$ 117
Receivables		
Due from County Treasurer	583	583
Property taxes receivable	<u>145,778</u>	<u>145,778</u>
Total Assets	<u>\$ 146,478</u>	<u>\$ 146,478</u>
LIABILITIES AND FUND EQUITY		
Liabilities		
Due to Headwaters Metro District	\$ 583	\$ 583
Deferred property taxes	<u>145,778</u>	<u>145,778</u>
Total Liabilities	146,361	146,361
Fund equity		
Unreserved, undesignated	<u>117</u>	<u>117</u>
Total Fund Balances	<u>117</u>	<u>117</u>
Total Liabilities and Fund Equity	<u>\$ 146,478</u>	<u>\$ 146,478</u>
	Fund balance (as reported above)	\$ 117
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Deposit on infrastructure assets not recorded in the funds		1,227,237
Long-term capital obligations are not due and payable in the current period and, therefore, are not reported in the funds		(903,397)
Long-term service obligations are not due and payable in the current period and, therefore, are not reported in the funds		<u>(519,392)</u>
	Net assets of governmental activities	<u>\$ (195,435)</u>

The accompanying notes are an integral part of this statement.

Granby Ranch Metropolitan District

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

Year ended December 31, 2005

	Debt Service	Total Governmental Funds
Revenues		
Property taxes	\$ 84,957	\$ 84,957
Specific ownership taxes	6,098	6,098
Interest income	118	118
Total revenues	91,173	91,173
Expenditures		
General	89,185	89,185
Intergovernmental		
Capital and service costs	1,871	1,871
Transfers to Headwaters	-	-
Total expenditures	91,056	91,056
Excess of Revenues Over (Under) Expenditures	117	117
Fund Balance - January 1	-	-
Fund Balance - December 31	\$ 117	\$ 117
Net Change in Fund Balance (above)		\$ 117
Amounts reported for governmental activities in the Statement of Activities are different because:		
Deposit on infrastructure reported in governmental activities		1,227,237
Capital obligation reported as debt in governmental activities		(916,762)
Service obligation reported as debt in governmental activities		(280,034)
Change in Net Assets of Governmental Activities		\$ 30,558

The accompanying notes are an integral part of this statement.

Granby Ranch Metropolitan District

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - GENERAL FUND

Year ended December 31, 2005

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Expenditures			
General government			
Insurance	\$ 900	\$ -	\$ 900
Membership and dues	200	-	200
Contingency	1,400	-	1,400
Total expenditures	<u>2,500</u>	<u>-</u>	<u>2,500</u>
Excess of Revenues Over (Under) Expenditures	(2,500)	-	2,500
Other Financing Sources (Uses)			
Transfers in (out)	<u>2,500</u>	<u>-</u>	<u>(2,500)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	-	-	-
Fund Balance - January 1	<u>450</u>	<u>-</u>	<u>(450)</u>
Fund Balance - December 31	<u>\$ 450</u>	<u>\$ -</u>	<u>\$ (450)</u>

The accompanying notes are an integral part of this statement.

Granby Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization

The Granby Ranch Metropolitan District (the “District”) was established on November 4, 2003, as a quasi-municipal corporation and political subdivision of the State of Colorado. The District was originally named SolVista Metropolitan District #2 and was part of the Sol Vista Golf and Ski Ranch development and overlapped with SolVista Metropolitan District which was established in 1999. The name Granby Ranch became effective October 23, 2004. Granby Ranch was organized to provide services, programs and facilities, including the financing of construction, completion, maintenance and operation of public infrastructure within the District.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District’s accounting policies are described below.

2. Reporting Entity

The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Consideration is also given to other organizations which are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria above, the District is not financially accountable for any other entity, nor is the District a component unit of any other government.

3. Government-wide and Fund Financial Statements

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. Currently, the District has only governmental activities.

Granby Ranch Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government-wide Financial Statements

In the government-wide Statement of Net Assets, the governmental activities column is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported as unrestricted net assets.

The government-wide focus is on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses.

The fund focus is on current available resources and budget compliance.

4. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. At this time the District only uses governmental funds.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The District reports the following major governmental funds:

Debt Service Fund – The Debt Service fund accounts for the servicing of general long-term debt including long-term contractual obligations approved by the District's electorate and revenues generated by property taxes that are required to be used in payment of long-term debt and contractual obligations.

Granby Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. Measurement Focus and Basis of Accounting

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues, expenditures, or expenses are recognized in the accounts and reported in the financial statements.

Long-Term Economic Focus and Accrual Basis

Governmental activities in the government-wide financial statements use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

Current Financial Focus and Modified Accrual Basis

The governmental fund financial statements use the current financial focus and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

6. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as contributions awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available.

7. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

8. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Granby Ranch Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

9. Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

In the Fall of each year, the District's Board of Directors formally adopts a budget with appropriations by fund for the ensuing year pursuant to the Colorado Local Budget Law. The budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles ("GAAP").

As required by the Colorado statutes, the District followed the following timetable in approving and enacting a budget for the ensuing years:

- (1) For the 2005 budget year, prior to August 23, 2004, the County Assessor sent the District the assessed valuation of all taxable property within the District's boundaries.
- (2) On or before October 15, 2004, the District's accountant submitted to the District's Board of Directors a recommended budget which detailed the necessary property taxes needed along with other available revenues to meet the District's operating requirements.
- (3) The Board held a public hearing on the proposed budget and capital program no later than 45 days prior to the close of the fiscal year.
- (4) For the 2005 budget, prior to December 15, 2004, the District computed and certified to the County Commissioners a rate of levy that derived the necessary property taxes as computed in the proposed budget.
- (5) For the 2005 budget, the final budget and appropriating resolution was adopted prior to December 31, 2004.
- (6) After adoption of the budget resolution, the District may make the following changes: a) it may transfer appropriated monies between funds or between spending agencies within a fund, as determined by the original appropriation level; b) supplemental appropriations to the extent of revenues in excess of those estimated in the budget; c) emergency appropriations; and d) reduction of appropriations for which originally estimated revenues are insufficient.

The level of control in the budget at which expenditures exceed appropriations is at the fund level. All appropriations lapse at year-end.

Granby Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE B - EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net assets as cash.

Investments

Colorado state statues authorize the District to invest in U.S. Treasury bills, obligations of any other U.S. agency, obligations of the World Bank, general obligation bonds of any state or any of their subdivisions, revenue bonds of any state or any of their subdivisions, bankers acceptance notes, commercial paper, repurchase agreements, money market funds and guaranteed investment contracts. All investments must be held by the District, in their name, or in custody of a third party on behalf of the local government.

As of December 31, 2005, the District had invested \$117 in the Colorado Surplus Asset Fund (CSAFE), an investment vehicle established for local government entities in Colorado to pool surplus funds. CSAFE operates similarly to a money market fund and each share is equal in value to \$1.00. A designated custodial bank provides safekeeping and depository services to CSAFE in connection with the direct investment and withdrawal functions of CSAFE. Substantially all securities owned by CSAFE are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by CSAFE. CSAFE funds carry a Standard & Poor's AAAM rating. There is no custodial, interest rate or foreign currency risk exposure.

A reconciliation of the carrying value of deposits and investments reported above to the Statement of Net Assets is as follows:

CSAFE	\$ 117
Total Cash	<u>\$ 117</u>

NOTE C - INTERGOVERNMENTAL AGREEMENTS

The District has entered into the following intergovernmental agreements:

In March of 2003 the initial service plan for the District was adopted. The service plan allowed for the creation of two separate districts designating Granby Ranch as the tax district and Headwaters Metro District as the service district. Under the plan, Headwaters is to construct, manage and operate public facilities and services throughout the development. Granby Ranch is to operate as the tax district and produce property taxes and other revenue sufficient to pay the costs of operations and debt service expenditures incurred for the improvement of public infrastructure. The use of a dual district structure provides for the issuance of bonds in a timely manner that is consistent with the construction of development improvements when needed. The service plan also outlined a financial plan for the districts entitling Headwaters Metro District to all Granby Ranch revenues in order to pay all costs associated with the operations and management of the development. The service plan was subject to approval from the Town of Granby and was approved on July 22, 2003.

Granby Ranch Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE C – INTERGOVERNMENTAL AGREEMENTS – CONTINUED

On December 9, 2003, Granby Ranch and Headwaters Metro District (acting jointly) entered into an agreement with the Town of Granby in an effort to promote the coordinated development of the districts. The agreement states that all infrastructure and improvements will be designed and constructed in accordance with Town standards. As defined by the service plan, Headwaters Metro District has the primary responsibility for meeting the Town's standards. All streets, roadways, traffic and safety protection, transportation, parks and recreation, storm-water drainage, mosquito control and non-potable water facilities are to be owned, maintained and operated by the districts. The sanitary sewer and potable water systems will be conveyed to the Town of Granby or Granby Sanitation District, upon acceptance. The agreement limits the aggregate bonded debt amount to \$40,000,000 with a maximum effective interest rate of 14% (per annum), a maximum maturity term of 40 years from the date of issuance and a 25 year term limit on debt measured from the date of election. The agreement was amended May 20, 2005 to increase the aggregate bonded debt limit to \$64,000,000. The agreement also contains a revenue sharing agreement subject to terms of a separate annexation agreement. Furthermore, the Town is to receive 8% of the District's total bond proceeds for jointly funded public infrastructure improvements such as streets, water, sanitation, sewer, transportation, parks and recreation and landscaping.

On December 10, 2003, Granby Ranch Metro District and Headwaters Metro District entered into a master intergovernmental agreement. The agreement is to coordinate the financing, processing of construction, and operation and maintenance of the development infrastructure. All tax and other revenues collected by Granby Ranch Metro District (the tax district) will be remitted to Headwaters Metro District (the service district). The Districts are empowered to enter into contracts and agreements with one another to provide intergovernmental services and facilities. Under the agreement, Granby Ranch shall certify the required tax levy and assign all revenues including taxes, fees, user charges and interest to Headwaters Metro District. Granby Ranch is to issue bonds at the request of Headwaters Metro District.

Under this Agreement, the District has an obligation to fund all capital costs incurred by Headwaters (the capital obligation). This Agreement does not establish specific payment dates for this obligation. The capital obligation had a prepaid balance of \$13,365 at December 31, 2004 and a balance owed of \$903,397 at December 31, 2005.

The District also has an obligation to Headwaters to fund all service costs incurred by Headwaters (the service obligation). This agreement does not establish specific payment dates for this obligation. The service obligation was \$239,358 at December 31, 2004 and \$519,392 at December 31, 2005.

Granby Ranch Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE D – COMMITMENTS AND CONTINGENCIES

During the normal course of business, the District may incur claims and other assertions against it from various agencies and individuals. Management of the District and its legal representatives have disclosed that there are no material outstanding claims against the District at December 31, 2005.

NOTE E – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to or destruction of assets; injuries to employees, or acts of God.

The District has elected to participate in the Colorado Special Districts Property and Liability Pool (the Pool) which is sponsored by the Special District Association of Colorado. The Pool provides property and general liability, automobile physical damage and liability, public official's liability and machinery coverage to its members. Members of the Pool are required to make additional surplus contributions. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula. During the year ended December 31, 2005 the Pool made no distributions to the District.

Condensed financial statement data for the Colorado Special Districts Property and Liability Pool as of December 31, 2004 (the most recent information available) is as follows:

	<u>Colorado Special Districts Property and Liability Pool</u>
Assets	\$ <u>11,487,396</u>
Liabilities	\$ 5,476,513
Net Assets	<u>6,010,883</u>
	<u>\$ 11,487,396</u>
Revenue	\$ 6,305,838
Investment Income and Other	<u>187,018</u>
Total Revenue	6,492,856
Expenses	<u>4,710,139</u>
Excess of Revenues Over Expenses	<u>\$ 1,782,717</u>

Granby Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE F – TABOR AMENDMENT

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer’s Bill of Rights (“TABOR”). TABOR contains revenue, spending, tax and debt limitations which apply to the State of Colorado and local governments. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that of the prior year, extension of any expiring tax, or tax policy change directly causing a new tax revenue gain to any local government. Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple fiscal year or other financial obligation unless adequate present cash reserves are pledged irrevocable and held for payments in future years.

TABOR also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves are required to be 3% or more of the fiscal year spending (excluding bonded debt service) for fiscal years ended after December 31, 1994. At December 31, 2005, the emergency reserve was \$0.

Under TABOR, the initial base for local government spending and revenue limits is December 31, 1992 fiscal year spending. Future spending and revenue limits are determined based on the prior year’s fiscal year spending adjusted for inflation in the prior calendar year plus annual local growth. Fiscal year spending is generally defined as expenditures and reserve increases with certain exceptions. Revenue, if any, in excess of the fiscal year spending limit must be refunded in the next fiscal year unless voters approve retention of such revenue.

On November 4, 2003 and November 2, 2004 the voters of the District authorized increases in debt as follows:

Authorized Debt	Maximum Annual Taxes	Purpose
\$ 18,500,000 600,000 11,000,000 6,000,000 2,500,000 1,000,000 400,000	\$ 14,800,000 480,000 8,800,000 4,800,000 2,000,000 800,000 320,000	<u>November 4, 2003</u> Street Improvements Traffic and Safety Control Potable & Non-Potable Water Systems Sanitary Sewer Systems Parks and Recreation Facilities Public Transportation Facilities and Systems Mosquito Control
20,000,000 4,000,000	2,130,000 430,000	<u>November 2, 2004</u> Parks and Recreation Sanitary Sewer Systems
\$ 64,000,000	\$ 34,560,000	

Granby Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE F – TABOR AMENDMENT – CONTINUED

The electorate of the District also authorized property taxes to be increased up to \$2,875,000 in 2003 and each year thereafter to pay the District's operations, maintenance, and other expenses, such amounts to increase annually in an amount not to exceed the applicable limitations of Article X, Section 20 of the Colorado Constitution and Colorado Law.

The District's management believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions, including the interpretation of how to calculate fiscal year spending limits, will require judicial interpretation.

NOTE G – RELATED PARTIES

All of the members of the Board of Directors of the District are employees or have substantial business interests with the developer.

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SUPPLEMENTARY INFORMATION

Granby Ranch Metropolitan District

SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND

Year ended December 31, 2005

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes	\$ 84,937	\$ 84,957	\$ 20
Specific ownership taxes	6,795	6,098	(697)
Interest income	-	118	118
Total revenues	<u>91,732</u>	<u>91,173</u>	<u>(559)</u>
Expenditures			
General government			
Treasurer's fees	2,548	4,248	(1,700)
Return of property taxes	-	84,937	(84,937)
Intergovernmental			
Service and capital costs	84,937	1,871	83,066
Debt service			
Transfer bond proceeds to			
Headwaters Metro District	1,150,000	-	1,150,000
Interest	37,500	-	37,500
Total expenditures	<u>1,274,985</u>	<u>91,056</u>	<u>1,183,929</u>
Excess of Revenues Over (Under) Expenditures			
	(1,183,253)	117	1,183,370
Other Financing Sources (Uses)			
Bond proceeds	1,250,000	-	(1,250,000)
Bond issuance costs	(62,500)	-	62,500
Transfers in (out)	(2,500)	-	2,500
	<u>1,185,000</u>	<u>-</u>	<u>(1,185,000)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses			
	1,747	117	(1,630)
Fund Balance - January 1	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 1,747</u>	<u>\$ 117</u>	<u>\$ (1,630)</u>

Granby Ranch Metropolitan District

SCHEDULE OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED

December 31, 2005

Calendar Year Ended December 31	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied	Total Property Taxes		Percent Collected to Levied
			Levied	Collected	
2005	\$ 1,698,740	50	\$ 84,937	\$ 84,957	100.1%
2006	2,915,550	50	145,778		

Note:

Property taxes collected in any one year include collection of delinquent property taxes levied in prior years. Information received from the County Treasurer does not permit identification of specific year of levy.