



CATAMOUNT METROPOLITAN DISTRICT

**FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

December 31, 2005

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

March 17, 2006

The Board of Directors
Catamount Metropolitan District

We have audited the accompanying financial statements of the governmental activities, the business-type activity, and each major fund of Catamount 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 Catamount 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, the business-type activity, and each major fund of Catamount Metropolitan District, as of December 31, 2005, and the respective changes in financial position thereof and cash flows, where applicable, 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.

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

Catamount Metropolitan District

Management's Discussion and Analysis December 31, 2005

As management of Catamount Metropolitan District ("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 are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the 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. Current year to prior year comparisons are presented below to help users evaluate the results of the District over the past two years.

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.

During 2004, the District was the "financing district" in a dual district structure with Lake Catamount No. 1 Metropolitan District being the "service district". At the end of 2004, all of the assets and liabilities of Lake Catamount No. 1 Metropolitan District were transferred to the District and Lake Catamount No. 1 was dissolved. 2005 is the first year of having the operations of the District reported in Catamount Metropolitan District. The governmental activity of the District is the installation and operation of the roadway, lake, and other infrastructure systems in the District. The business-type activities of the District include domestic water treatment and distribution and, installation and operation of certain sewage disposal and septic systems. 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. All of the funds of the District can be divided into two categories: governmental funds and proprietary 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 spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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. The governmental funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Proprietary fund: With the transfer of all assets and liabilities from Lake Catamount No. 1 Metropolitan District to the District at the end of 2004, the District established a proprietary fund commonly known as an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses the enterprise fund to account for its water and sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the business-type services provided by the District.

The basic proprietary fund financial statements can be found on pages 13 through 14 of this report.

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 starting on page 15 of this report.

Government-wide Financial Analysis. The following table shows a condensed statement of net assets as of December 31, 2004 and December 31, 2005 derived from the government-wide financial statements.

**Catamount Metropolitan District
Net Assets**

	2005			2004		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Assets:						
Current and other assets	\$ 712,687	\$ 69,536	\$ 782,223	\$ 943,079	\$ 93,931	\$ 1,037,010
Capital assets	8,534,726	6,095,299	14,630,025	8,773,291	6,247,913	15,021,204
Total Assets	<u>9,247,413</u>	<u>6,164,835</u>	<u>15,412,248</u>	<u>9,716,370</u>	<u>6,341,844</u>	<u>16,058,214</u>
Liabilities:						
Current and other liabilities	388,438	-	388,438	624,733	-	624,733
Long-term liabilities	218,861	-	218,861	601,519	-	601,519
Total Liabilities	<u>607,299</u>	<u>-</u>	<u>607,299</u>	<u>1,226,252</u>	<u>-</u>	<u>1,226,252</u>
Net Assets:						
Invested in capital assets, net of related debt	8,331,952	6,095,299	14,427,251	8,190,677	6,247,913	14,438,590
Restricted for emergencies	12,179	-	12,179	13,495	-	13,495
Restricted for debt service	24,039	-	24,039	14,310	-	14,310
Unrestricted	271,944	69,536	341,480	271,636	93,931	365,567
Total Net Assets	<u>\$ 8,640,114</u>	<u>\$ 6,164,835</u>	<u>\$ 14,804,949</u>	<u>\$ 8,490,118</u>	<u>\$ 6,341,844</u>	<u>\$ 14,831,962</u>

The largest portion of the District's net assets is reflected in the investment in capital assets, net of related debt (i.e. land, buildings, vehicles, equipment, and infrastructure). The District uses these assets to provide services to its citizens. Accordingly, these assets are not an available source for payment of future spending. Of the remaining net assets, a small portion has been restricted for emergencies and future debt service and the balance of \$341,480 is unrestricted.

At the end of the current fiscal year, the District has positive net assets in all categories.

The changes in net assets for the years ended December 31, 2004 and December 31, 2005 is summarized in the following table:

**Catamount Metropolitan District
Change in Net Assets**

	2005			2004		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenues:						
Charges for services	\$ -	\$ 85,535	\$ 85,535	\$ -	\$ -	\$ -
Operating grants and contributions	-	-	-	381,376	93,931	475,307
Capital grants and contributions	-	43,119	43,119	8,113,402	6,247,913	14,361,315
Special assessments	779,963	-	779,963	6,061	-	6,061
Interest and other income	26,421	-	26,421	40	-	40
Total Revenues	806,384	128,654	935,038	8,500,879	6,341,844	14,842,723
Expenses:						
General government	230,876	-	230,876	11,033	-	11,033
Public works	407,746	-	407,746	-	-	-
Water system	-	197,567	197,567	-	-	-
Sewer system	-	108,096	108,096	-	-	-
Interest expense	17,766	-	17,766	6,891	-	6,891
Total Expenses	656,388	305,663	962,051	17,924	-	17,924
Change in Net Assets	149,996	(177,009)	(27,013)	8,482,955	6,341,844	14,824,799
Net Assets, Beginning	8,490,118	6,341,844	14,831,962	7,163	-	7,163
Net Assets, Ending	\$ 8,640,114	\$ 6,164,835	\$ 14,804,949	\$ 8,490,118	\$ 6,341,844	\$ 14,831,962

Governmental activities:

The primary reason for the increase in net assets during 2005 for governmental activities was the special assessments collected which were used to pay off a significant portion of the District's bonds payable. The primary reason for the decrease in the business-type activities net assets during 2005 was depreciation expense taken on water and sewer system infrastructure. For 2004, the primary change in net assets, both for governmental and for business-type activities was the transfer from Lake Catamount No. 1 Metropolitan District of all of its net assets which are reflected as operating and capital grants and contributions in the table above.

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 spendable 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.

General Fund revenues were \$806,384 in 2005 and \$387,477 in 2004. The revenues were primarily from special assessments in 2005 and from a contribution from Lake Catamount No. 1 and the Developer related to the acquisition of the ranch parcels in 2004.

General Fund expenditures of \$797,663 in 2005 relate to the first year of the District supporting the operating costs of the District. Expenditures in 2004 of \$695,199 largely related to the purchase of the ranch parcels.

As of the end of 2005, the District's governmental fund reported an ending fund balance of \$308,162, an increase of \$8,721 over 2004, with such balance being reserved for emergencies, for future debt service and designated for future capital replacements.

Proprietary fund: The District's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

The District's Enterprise Fund was established on December 31, 2004 with the transfer of Lake Catamount No. 1 Metropolitan District's enterprise function and this transfer was the only activity reflected in the District's financial statements for 2004. In 2005, the enterprise fund net assets decreased by \$177,009. The majority of this deficit relates to depreciation expense of \$229,284 being higher than capital additions of \$76,670.

Budget variances: The most significant budget variances during 2005 were related to the repayment of the bonds issued to finance the acquisition of the ranch open space parcels during 2004. During 2005, fewer of the District's constituents elected to pay their entire assessment in 2005, which caused assessment revenues and debt repayments to be lower than budget. The only other significant budget variances were the postponement and cost savings of various capital projects in both the General and Enterprise funds. A budget to actual statement for the General Fund can be found on page 12 of this report and a summary of budget to actual expenditures of the Enterprise Fund can be found on page 23 of this report.

Capital assets: The District's net capital assets decreased by \$238,565 in the Governmental Activities and by \$152,614 in the Business-type Activities as a result of current year depreciation expense being higher than capital additions. Additional information as well as a detailed classification of the District's net capital assets can be found in the Notes to the Financial Statements on page 21 of this report.

Long-term debt: The District issued a bond in the amount of \$600,000 during 2004 in connection with the purchase of the ranch parcels. Principal payments on this bond were higher than required during 2005 as the District used excess special assessments to reduce this debt. The District also issued an additional \$650,000 of bonds subsequent to year-end, which will be used to finance water treatment systems within the District. Details regarding the District's long-term debt are located in Note D on page 22 and Note G on page 23 of this report.

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 the Catamount Metropolitan District, c/o Robertson & Marchetti, P.C., 28 Second Street, Suite 213, Edwards, CO 81632, (970) 926-6060.

Catamount Metropolitan District

STATEMENT OF NET ASSETS

December 31, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Equity in pooled cash	\$ 341,264	\$ 49,374	\$ 390,638
Accounts receivable	2,050	20,162	22,212
Property taxes receivable	86,189	-	86,189
Assessments receivable	225,274	-	225,274
Prepaid expenses	41,823	-	41,823
Unamortized bond issue costs	16,087	-	16,087
Capital assets, net			
Land	402,344	-	402,344
Buildings	247,429	-	247,429
Vehicles and equipment	20,859	-	20,859
Infrastructure	7,864,094	6,095,299	13,959,393
Total Assets	<u>\$ 9,247,413</u>	<u>\$ 6,164,835</u>	<u>\$ 15,412,248</u>
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable	\$ 72,394	\$ -	\$ 72,394
Accrued liabilities	909	-	909
Due to other governments	124	-	124
Deferred revenue	315,011	-	315,011
Non-current liabilities, due within one year			
Bonds	85,714	-	85,714
Non-current liabilities, due in more than one year			
Bonds	133,147	-	133,147
Total Liabilities	<u>607,299</u>	<u>-</u>	<u>607,299</u>
Net Assets			
Invested in capital assets, net of related debt	8,331,952	6,095,299	14,427,251
Restricted for emergencies	12,179	-	12,179
Restricted for debt service	24,039	-	24,039
Unrestricted	271,944	69,536	341,480
Total Net Assets	<u>8,640,114</u>	<u>6,164,835</u>	<u>14,804,949</u>
Total Liabilities and Net Assets	<u>\$ 9,247,413</u>	<u>\$ 6,164,835</u>	<u>\$ 15,412,248</u>

The accompanying notes are an integral part of this statement.

Catamount Metropolitan District

STATEMENT OF ACTIVITIES

Year ended December 31, 2005

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities		
Governmental activities:								
General government	\$ 230,876	\$ -	\$ -	-	\$ (230,876)		\$ (230,876)	
Public works	407,746	-	-	-	(407,746)		(407,746)	
Interest expense	17,766	-	-	-	(17,766)		(17,766)	
Total governmental activities	656,388	-	-	-	(656,388)		(656,388)	
Business-type activities:								
Water system	197,567	43,535	-	43,119		\$ (110,913)	(110,913)	
Sewer system	108,096	42,000	-	-		(66,096)	(66,096)	
Total business-type activities	305,663	85,535	-	43,119	-	(177,009)	(177,009)	
Total	\$ 962,051	\$ 85,535	\$ -	\$ 43,119	(656,388)	(177,009)	(833,397)	
General revenues:								
Special assessments					779,963	-	779,963	
Interest earnings					18,595	-	18,595	
Other income					7,826	-	7,826	
Total general revenues					806,384	-	806,384	
Change in net assets					149,996	(177,009)	(27,013)	
Net assets - beginning					8,559,118	6,272,844	14,831,962	
Prior period adjustment					(69,000)	69,000	-	
Net assets - beginning, restated					8,490,118	6,341,844	14,831,962	
Net assets - ending					\$ 8,640,114	\$ 6,164,835	\$ 14,804,949	

The accompanying notes are an integral part of this statement.

Catamount Metropolitan District

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2005

	<u>General</u>
ASSETS	
Equity in pooled cash	\$ 341,264
Accounts receivables	2,050
Property taxes receivable	86,189
Assessments receivable	225,274
Prepaid expenses	41,823
	<hr/>
Total Assets	\$ 696,600
	<hr/> <hr/>
LIABILITIES AND FUND EQUITY	
Liabilities	
Accounts payable	\$ 72,394
Accrued liabilities	909
Due to other governments	124
Deferred revenues	315,011
	<hr/>
Total Liabilities	388,438
Fund equity	
Reserved for emergencies	12,179
Reserved for debt service	24,039
Unreserved, designated for future replacements	271,944
Unreserved, undesignated	-
	<hr/>
Total Fund Equity	308,162
	<hr/> <hr/>
Total Liabilities and Fund Equity	\$ 696,600

The accompanying notes are an integral part of this statement.

Catamount Metropolitan District

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

December 31, 2005

Amounts reported for governmental activities in the Statement of Activities
are different because:

Total fund balance - governmental funds	\$ 308,162
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	8,534,726
Bond issue costs are not reported as assets in the funds, but are shown as an asset and amortized over the life of the bonds in the statement of net assets.	16,087
Long-term liabilities such as bonds are not due and payable in the current period and, therefore, are not reported in the funds	<u>(218,861)</u>
Change in Net Assets of Governmental Activities	<u>\$ 8,640,114</u>

The accompanying notes are an integral part of this statement.

Catamount Metropolitan District

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

Year ended December 31, 2005

	General
Revenues	
Assessments	\$ 779,963
Interest earnings	18,595
Other income	7,826
Total revenues	806,384
Expenditures	
General government	228,058
Public works	169,181
Debt service	
Principal	382,658
Interest	17,766
Total expenditures	797,663
Excess of Revenues Over (Under) Expenditures	8,721
Fund Balance - beginning	368,441
Prior period adjustment	(69,000)
Fund Balance - beginning, restated	299,441
Fund Balance - ending	\$ 308,162

The accompanying notes are an integral part of this statement.

Catamount Metropolitan District

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

Year ended December 31, 2005

Amounts reported for governmental activities in the Statement of Activities are different because:

Net Change in Fund Balances - Governmental Funds	\$ 8,721
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period (\$326,108 - \$87,543.)	(238,565)
Governmental funds report the repayment of principal on long-term debt as expenditures. However, these repayments are not reported as expenses in the statement of activities, but rather a reduction of debt in the statement of net assets. This amount is the effect of the difference in the treatment of these repayments.	382,658
Governmental funds report bond issuance costs as expenditures. However, in the statement of activities the cost of obtaining the debt is allocated over the life of the related bonds and reported as amortization expense. This is the current year amortization expense.	<u>(2,818)</u>
Change in Net Assets of Governmental Activities	<u>\$ 149,996</u>

The accompanying notes are an integral part of this statement.

Catamount Metropolitan District

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

Year ended December 31, 2005

	Original and Final Budgeted Amounts	Actual	Variance With Budget Favorable (Unfavorable)
Revenues			
Operating assessments	\$ 413,930	\$ 410,231	\$ (3,699)
Parcel purchase assessments	600,000	369,732	(230,268)
Interest earnings	6,000	18,595	12,595
Other income	17,300	7,826	(9,474)
Total revenues	<u>1,037,230</u>	<u>806,384</u>	<u>(230,846)</u>
Expenditures			
General government			
Personnel costs	82,573	80,735	1,838
Professional fees	57,000	65,774	(8,774)
Insurance	57,530	56,383	1,147
Office	30,000	25,166	4,834
Public works			
Road repairs and maintenance	102,000	94,454	7,546
Lake and dam maintenance	16,000	12,605	3,395
Signage and landscaping	11,000	12,223	(1,223)
Vehicles and equipment	22,000	20,199	1,801
Building removal	40,000	27,844	12,156
Other	14,500	1,856	12,644
Debt service			
Principal	591,000	382,658	208,342
Interest	18,000	17,766	234
Capital outlay - vehicles	35,000	-	35,000
Total expenditures	<u>1,076,603</u>	<u>797,663</u>	<u>278,940</u>
Excess of Revenues Over (Under) Expenditures	(39,373)	8,721	48,094
Other financing sources			
Lease purchase proceeds	35,000	-	(35,000)
Excess of Revenues and Other Sources Over (Under) Expenditures	(4,373)	8,721	13,094
Fund Balance - beginning	1,570	368,441	366,871
Prior period adjustment	-	(69,000)	(69,000)
Fund Balance - beginning, restated	1,570	299,441	297,871
Fund Balance - ending	<u>\$ (2,803)</u>	<u>\$ 308,162</u>	<u>\$ 310,965</u>

The accompanying notes are an integral part of this statement.

Catamount Metropolitan District

STATEMENT OF REVENUE, EXPENSES AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS

Year ended December 31, 2005

	<u>Business-type Activities- Enterprise Fund</u>
	<u>Water and Sewer</u>
Revenues	
Water service fees	\$ 42,335
Sewer service fees	42,000
Meters	1,200
Total revenues	<u>85,535</u>
Expenses	
Water operations	
Personnel costs	20,000
Water testing	13,972
Repairs and maintenance	1,474
Utilities	7,658
Meter purchases	2,733
Depreciation	151,730
Total water operations expenses	<u>197,567</u>
Sewer operations	
Personnel costs	5,000
Repairs and maintenance	4,051
Sewer testing	7,217
Utilities	14,274
Depreciation	77,554
Total sewer operations expenses	<u>108,096</u>
Total expenses	<u>305,663</u>
	Operating income (loss) (220,128)
Capital contributions - tap fees	<u>43,119</u>
	Change in net assets (177,009)
Total net assets - beginning	6,272,844
Prior period adjustment	69,000
Net assets - beginning, restated	<u>6,341,844</u>
Total net assets - ending	<u>\$ 6,164,835</u>

The accompanying notes are an integral part of this statement.

Catamount Metropolitan District
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

Year ended December 31, 2005

	Business-type Activities- Enterprise Fund
	Water and Sewer
Cash flows from operating activities	
Cash received from customers and users	\$ 88,787
Cash paid to suppliers	(51,379)
Cash paid to and for employees	(25,000)
Net cash provided (used) by operating activities	12,408
Cash flows from capital and related financing activities	
Tap fees	43,119
Acquisition of capital assets	(76,670)
Net cash provided (used) by capital and related financing activities	(33,551)
Net increase (decrease) in cash	(21,143)
Cash - beginning	1,517
Prior period adjustment	69,000
Cash - beginning, restated	70,517
Cash - ending	\$ 49,374
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (220,128)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	229,284
(Increase) decrease in accounts receivable	3,252
Total adjustments	232,536
Net cash provided (used) by operating activities	\$ 12,408

The accompanying notes are an integral part of this statement.

Catamount Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization

Catamount Metropolitan District (the District) is a quasi-municipal corporation organized by a court order dated February 17, 1989 and governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Routt County, Colorado. The District was established to fund and assist in the coordination of facilities for water, sanitation, roadway, parks and recreation, transportation, cable television and translation and mosquito control facilities.

Originally, there were six Catamount Districts. During 1999, all of the land area within Districts No. 3 through No. 6 was excluded through an order of the District Court and simultaneously included into either District No. 1 or District No. 2. The District was formed to finance operations and possibly a portion of future infrastructure constructed by District No. 1. The District was not responsible for reimbursing District No. 1 for any capital outlay related to initial subdivision infrastructure improvements. These infrastructure improvements were funded by contributions from Catamount Development, Inc. (the Developer). During 2004, Lake Catamount District No. 1 was dissolved and merged with No. 2 to form Catamount Metropolitan District.

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 both governmental and business-type activities.

Catamount 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 in four parts: net assets restricted for debt service, net assets restricted for emergencies, invested in capital assets net of related debt, and 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 uses governmental funds and proprietary 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 equity.

The District reports the following major governmental funds:

General Fund – The General Fund is used to account for all financial resources of the District except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Colorado and the bylaws of the District.

Catamount Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Proprietary Fund

Water and Sewer Enterprise Fund – The Enterprise Fund accounts for operations that are financed and operated in a manner where the intent of the District is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the District has decided that periodic determination of revenue earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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.

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 long-term debt, if any, is recognized when due.

The accrual basis of accounting is utilized in the proprietary fund type. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense and expenditures for property and equipment are shown as increases in assets.

Catamount Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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. Special Assessments

The principal portions of special assessments are recognized as revenue when cash is received. The full amount of the receivable is offset by an equal deferred revenue account. This is in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 6.

8. 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.

9. 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.

10. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are defined as liquid investments with original maturity dates of ninety days or less.

11. Property Taxes

Property taxes are not due and payable until after the assessment year has ended, and are not included in the budget or Statement of Revenues, Expenditures, and Changes in Fund Balance of the assessment year. Property taxes are recorded as deferred revenue in the year they are levied and measurable. Property tax revenues are recorded as revenue in the year they are available or collected. Property taxes are levied on or before December 15 of each year and attach as an enforceable lien on the property on January 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15.

Catamount Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

12. Operating Revenues and Expenses

The District's proprietary fund distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the District's water and sewer fund consist of charges for services and the costs of providing those services, including depreciation. All other revenues (including tap fees) and expenses are reported as nonoperating.

13. Capital Assets

Capital assets are defined by the District as assets with an initial cost of \$5,000 or more. Such assets are valued at their historical cost or estimated fair value if donated, and depreciated over their estimated useful lives using the straight-line method. Estimated useful lives of asset types are as follows:

	<u>Estimated lives</u>
Buildings	30 years
Machinery and equipment	7 years
Infrastructure	30 years

14. 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.

Catamount Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

14. Stewardship, Compliance, and Accountability - Continued

- (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.

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 "Equity in pooled cash."

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits. As of December 31, 2005, the District had cash deposits of \$392,339, of which \$246,423 was covered by federal depository insurance. The remainder was collateralized as explained above.

State statutes authorize the College to invest in obligations of the U.S. Treasury and U.S. agencies, obligations of the State of Colorado or of any county, school district, and certain towns and cities therein, notes or bonds secured by insured mortgages or trust deeds, obligations of national mortgage associations, certain repurchase agreements, and local government investment pools.

Catamount Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE C – CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 402,344	\$ —	\$ —	\$ 402,344
Capital assets being depreciated				
Vehicles and equipment	85,341	—	—	85,341
Buildings	257,907	—	—	257,907
Infrastructure				
Roadway landscaping entry features	1,603,887	—	—	1,603,887
Roads and roadway landscaping	5,609,289	87,543	—	5,696,832
Drainage	396,007	—	—	396,007
Planning and engineering	1,255,138	—	—	1,255,138
Lake infrastructure	<u>251,485</u>	<u>—</u>	<u>—</u>	<u>251,485</u>
Total capital assets being depreciated	9,459,054	87,543	—	9,546,597
Less accumulated depreciation for:				
Machinery and equipment	52,290	12,192	—	64,482
Buildings	1,881	8,597	—	10,478
Infrastructure				
Roadway landscaping entry				
Features	179,186	53,463	—	232,649
Roads and roadway landscaping	636,543	188,435	—	824,978
Drainage	45,077	13,200	—	58,277
Planning and engineering	143,790	41,838	—	185,628
Lake infrastructure	<u>29,340</u>	<u>8,383</u>	<u>—</u>	<u>37,723</u>
Total accumulated depreciation	<u>1,088,107</u>	<u>326,108</u>	<u>—</u>	<u>1,414,215</u>
Total capital assets being depreciated, net	<u>8,370,947</u>	<u>(238,565)</u>	<u>—</u>	<u>8,132,382</u>
Governmental activities capital assets, net	<u>\$8,773,291</u>	<u>\$ (238,565)</u>	<u>\$ —</u>	<u>\$8,534,726</u>
Business-type activities				
Capital assets being depreciated				
Water system	\$4,513,577	\$ 76,670	\$ —	\$4,590,247
Sewer system	<u>2,326,601</u>	<u>—</u>	<u>—</u>	<u>2,326,601</u>
Total capital assets being depreciated	6,840,178	76,670	—	6,916,848
Less accumulated depreciation for:				
Water system	398,382	151,730	—	550,112
Sewer system	<u>193,883</u>	<u>77,554</u>	<u>—</u>	<u>271,437</u>
Total accumulated depreciation	<u>592,265</u>	<u>229,284</u>	<u>—</u>	<u>821,549</u>
Business-type activities capital assets, net	<u>\$6,247,913</u>	<u>\$ (152,614)</u>	<u>\$ —</u>	<u>\$6,095,299</u>

Catamount Metropolitan District
 NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE D – LONG-TERM DEBT

The following is a schedule of changes in long-term debt during 2005:

	<u>December 31,</u> <u>2004</u>	<u>Additions</u>	<u>Payments</u>	<u>December 31,</u> <u>2005</u>
Vehicle note payable	\$ 1,519	\$ –	\$ 1,519	\$ –
Bonds payable	<u>600,000</u>	<u>–</u>	<u>381,139</u>	<u>218,861</u>
Total long-term debt	<u>\$ 601,519</u>	<u>\$ –</u>	<u>\$ 382,658</u>	<u>\$ 218,861</u>

In January 2002, the District entered into a \$27,342 note payable with a financing corporation. The note was paid in full during 2005.

On September 15, 2004 the District issued \$600,000 of general obligation bonds to purchase land and property from the Developer within the District. The bonds have a fixed interest rate of 4.77% and are payable over a seven-year period. The bonds require interest only payments on the 15th of each month and equal principal payments on July 15th of each year. The bonds are subject to prior redemption at the amount of remaining principal plus accrued interest.

The future minimum payments on the bonds is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 85,714	\$ 8,736	\$ 94,450
2007	85,714	4,648	90,362
2008	<u>47,433</u>	<u>1,320</u>	<u>48,753</u>
Total	<u>\$ 218,861</u>	<u>\$ 14,704</u>	<u>\$ 233,565</u>

NOTE E – EMPLOYEE RETIREMENT PLAN

The District provides a defined contribution money purchase plan and trust (the Plan) administered by the ICMA Retirement Corporation. All full-time, year-round employees of the District are eligible for the Plan. Under terms of the Plan, the District and each participant are required to contribute 6.2% of the participant's earnings. Contributions are fully vested immediately and loans to participants are allowed.

District contributions to the Plan during the year ended December 31, 2005 were \$5,554.

Catamount Metropolitan District
 NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE F – INTERGOVERNMENTAL AGREEMENTS

Catamount Ranch Pipeline Project

In July 2000, the District entered into an agreement with Routt County, Colorado authorizing the District to construct a water pipeline to transport water from the Yampa River to Catamount Ranch. Catamount Ranch may use the water for irrigation, recreation, fishing, and aesthetic purposes. The District may also provide water by exchange to neighboring landowners for irrigation.

Agreement with City of Steamboat Springs

In May 2001, the District entered into an agreement with the Developer and the City of Steamboat Springs (the City) to deliver supplemental irrigation water to the City. Delivery is to include only water rights owned or leased by the City in accordance with the administration of Yampa River water rights. The District agrees to make available to the City one cubic foot out of the total ten cubic feet of the capacity within the District's pipeline. The City will reimburse the District for electrical pumping costs for deliver of the water.

NOTE G – SUBSEQUENT EVENT

On February 15, 2006, the District issued \$650,000 of General Obligation Water Bonds, Series 2006, which are to be advanced as requested by the District in increments of not less than \$100,000. The bonds, which were issued to finance the expansion of the water treatment plants, have interest due semiannually, on June 30 and December 31 of each year, commencing on June 30, 2006. The bonds mature in various amounts through 2016 and bear interest at 5.25%. The bonds are general obligations of the District. All of the taxable property within the District is subject to the levy of general ad valorem property taxes to pay principal and interest on the bonds.

NOTE H – BUDGET TO ACTUAL PRESENTATION – PROPRIETARY FUND

	<u>Original and Final Budget</u>	<u>Expenditures Reported on the Basis of GAAP</u>	<u>Adjustments to Budgetary Basis</u>	<u>Expenditures on the Budgetary Basis</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Enterprise Fund					
Total expenditures	\$ 238,000	\$ 305,663	\$ (152,614)	\$ 153,049	\$ 84,951

NOTE I – 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.

Catamount Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE J – 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 has elected to participate in the Colorado Special District 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
Capital and surplus	<u>6,010,883</u>
Total	<u>\$ 11,487,396</u>
Revenue	\$ 6,305,838
Investment income and other	<u>187,018</u>
Total revenue	<u>6,492,856</u>
Expenses	<u>4,710,139</u>
Excess of revenues over expenses	<u>\$ 1,782,717</u>

NOTE K – 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 irrevocably and held for payments in future years.

Catamount Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE K – TABOR AMENDMENT – CONTINUED

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 District had the required 3% or \$12,179 reserved for emergencies.

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.

NOTE L – PRIOR PERIOD ADJUSTMENT

During 2005, management determined that \$69,000 of the fund balance reported in the General Fund was actually designated for future capital projects in the Water and Sewer Fund. Therefore, a prior period adjustment was recorded between the two funds.