

**FALCON HIGHLANDS METROPOLITAN DISTRICT**

**Financial Statements**

**For the Years Ended December 31, 2007 and 2006**

**And**

**Independent Auditors' Report**

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Falcon Highlands Metropolitan District

We have audited the accompanying statements of net assets of Falcon Highlands Metropolitan District (District) as of December 31, 2007 and 2006, and the accompanying statements of activities and changes in net assets, and of cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Falcon Highlands Metropolitan District at December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of activities compared to budget is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This schedule is the responsibility of the District's management. Such schedule has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.



July 15, 2008

# FALCON HIGHLANDS METROPOLITAN DISTRICT

## STATEMENTS OF NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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	2007	2006
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents		
Nonrestricted	\$ 49,166	\$ 69,450
Restricted	1,350,605	718,957
Property taxes receivable	<u>287,717</u>	<u>102,035</u>
Total current assets	<u>1,687,488</u>	<u>890,442</u>
<b>NON-CURRENT ASSETS</b>		
Capital assets – net	<u>15,559,625</u>	<u>15,625,920</u>
<b>OTHER NONCURRENT ASSETS</b>		
Water rights	338,186	333,186
Bond issuance costs – net	<u>621,580</u>	<u>361,472</u>
Total other noncurrent assets	<u>959,766</u>	<u>694,658</u>
<b>TOTAL</b>	<u>\$ 18,206,879</u>	<u>\$ 17,211,020</u>
 <b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 133,146	\$ 3,188,701
Accrued interest	150,500	75,500
Advances payable to related parties	3,358,845	2,846,659
Deferred property tax revenue	287,717	102,035
Current portion of bonds payable — net	490,000	475,000
Current portion of lease payable	<u>6,162</u>	<u>6,162</u>
Total	4,426,370	6,694,057
<b>NON-CURRENT LIABILITIES</b>		
Bonds payable — net	15,243,837	10,794,114
Lease payable	<u>14,178</u>	<u>23,623</u>
Total liabilities	<u>19,684,385</u>	<u>17,511,794</u>
<b>NET ASSETS (DEFICIT)</b>		
Restricted for capital projects	5,480	1,280
Restricted for debt service	959,801	717,637
Restricted for interest	385,324	
Unrestricted deficit	<u>(2,828,111)</u>	<u>(1,019,691)</u>
Total net assets (deficit)	<u>(1,477,506)</u>	<u>(300,774)</u>
<b>TOTAL</b>	<u>\$ 18,206,879</u>	<u>\$ 17,211,020</u>

See notes to financial statements.

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# FALCON HIGHLANDS METROPOLITAN DISTRICT

## STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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	2007	2006
OPERATING REVENUE		
Water revenue	\$ 209,291	\$ 81,214
Other income	<u>30,646</u>	<u>19,315</u>
Total operating revenue	<u>239,937</u>	<u>100,529</u>
OPERATING EXPENSES		
Depreciation and amortization	711,946	489,732
Contract labor and repairs	165,390	149,702
Professional fees	49,301	39,744
Utilities	39,595	28,254
Insurance	13,091	10,588
Miscellaneous	<u>150,645</u>	<u>75,708</u>
Total operating expenses	<u>1,129,968</u>	<u>793,728</u>
LOSS FROM OPERATIONS	<u>(890,031)</u>	<u>(693,199)</u>
NON-OPERATING REVENUE (EXPENSE)		
Water tap fees	511,500	475,250
Infrastructure fees	217,557	368,195
Interest income	77,238	97,166
Property taxes	112,840	5,641
Interest expense	<u>(1,205,836)</u>	<u>(707,359)</u>
Total non-operating revenue	<u>(286,701)</u>	<u>238,893</u>
CHANGE IN NET ASSETS	(1,176,732)	(454,306)
ACCUMULATED NET ASSETS (DEFICIT), Beginning of year	<u>(300,774)</u>	<u>153,532</u>
ACCUMULATED NET ASSETS (DEFICIT), End of year	<u>\$ (1,477,506)</u>	<u>\$ (300,774)</u>

See notes to financial statements.

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# FALCON HIGHLANDS METROPOLITAN DISTRICT

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers	\$ 239,937	\$ 100,529
Cash payments for goods and services	<u>(440,637)</u>	<u>(307,214)</u>
Net cash used in operating activities	<u>(200,700)</u>	<u>(206,685)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Cash provided by non-capital financing activities –		
Property taxes received	<u>112,840</u>	<u>5,641</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(3,651,051)	(5,260,903)
Proceeds from advances from related parties	1,012,186	705,990
Payment of advances payable to related parties	(500,000)	
Bond proceeds (restricted) released from restriction	(631,648)	3,394,826
Bond proceeds	4,935,000	1,500,000
Bond issuance costs	(287,925)	
Tap fees, net	511,500	475,250
Infrastructure fees	217,557	368,195
Payment of bonds payable	(475,000)	(490,000)
Interest paid on bonds payable	(1,130,836)	(579,350)
Repayment of capital lease obligations	<u>(9,445)</u>	<u>(1,027)</u>
Net cash provided by (used in) capital and related financing activities	<u>(9,662)</u>	<u>112,981</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Cash provided by investing activities — Interest income	<u>77,238</u>	<u>97,166</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	(20,284)	9,103
CASH AND CASH EQUIVALENTS, Beginning of year	<u>69,450</u>	<u>60,347</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 49,166</u>	<u>\$ 69,450</u>

(Continued)

See notes to financial statements.

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# FALCON HIGHLANDS METROPOLITAN DISTRICT

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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	2007	2006
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH USED IN OPERATING ACTIVITIES:		
Loss from operations	\$ (890,031)	\$ (693,199)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation and amortization	711,946	489,732
Other	(5,000)	
Changes in operating assets and liabilities —		
Property taxes receivable	(185,682)	(102,035)
Deferred property tax revenue	185,682	102,035
Accounts payable and accrued expenses	<u>(17,615)</u>	<u>(3,218)</u>
Net cash used in operating activities	<u>\$ (200,700)</u>	<u>\$ (206,685)</u>
 SUPPLEMENTAL NON-CASH CAPITAL AND RELATED FINANCING ACTIVITY		
Capital assets acquired under leases		<u>\$ 30,812</u>

(Concluded)

See notes to financial statements.

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# FALCON HIGHLANDS METROPOLITAN DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Falcon Highlands Metropolitan District of El Paso County, Colorado (the District) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies consistently applied in the preparation of the District's financial statements.

The District was organized to provide water and waste water services to the property within its boundaries and to construct and maintain roads and bridges on the property.

**Reporting Entity** — The District was organized on November 12, 2002 and is governed by an elected Board of Directors. As required by generally accepted accounting principles, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District supplies water and waste water services to its geographical service area. The District has no component units as defined by the Governmental Accounting Standards Board (GASB).

**Basis of Accounting** — The financial statements of the District are accounted for on a flow of economic resources measurement focus. Under this method, revenue is recorded when earned and expenses are recorded at the time liabilities are incurred. The District is accounted for as an enterprise fund and has elected to implement the provisions of GASB Statement No. 20 with regard to the application of Financial Accounting Standards Board (FASB) Pronouncements to its proprietary funds. In accordance with the provisions of GASB Statement No. 20, the District has elected not to apply those FASB Statements and Interpretations issued after November 30, 1989. An enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business enterprise; (a) where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body 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.

**Net Assets** — The Districts net assets are classified in the following three components:

- Invested in capital assets, net of related debt — This component consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds. At December 31, 2007 and 2006 debt related to investment in capital assets was in excess of the capital assets.
- Restricted — This component consists of net assets which have constraints placed on the use of the assets through external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net assets — This component consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

**Budgets** — In the fall, the District manager is required to submit to the Board of Directors a budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted at the District to obtain taxpayer comments. Prior to December 31, the budget is legally enacted by the Board. The manager is authorized to transfer budgeted amounts between line items of the District; however, any revisions that alter the total expenditures of the District must be approved by the Board of Directors. During 2007, actual operating expenses were less than budgeted operating expenses.

**Capital Assets** — All development costs in excess of \$500 which have a useful life of greater than one year and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the lives of assets are capitalized. Capital assets are recorded at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets, which range from five to fifty years.

**Cash and Cash Equivalents** — Cash, consisting of demand deposits, money market accounts and cash on hand are deemed to be cash equivalents for the purpose of the statement of cash flows.

**Property Taxes Receivable** — Management has determined that property taxes receivable are collectible and no allowance for doubtful accounts is deemed necessary.

**Water Rights** — During 2005, a developer within the District, who also serves on the District’s Board of Directors, donated certain water rights to the District. These rights were recorded by the District at their estimated fair market value. A limited market exists for the sale of water rights. As a result, the recorded value of the water rights could differ materially from their actual value.

**Fair Value of Financial Instruments** — The District’s financial instruments include cash and cash equivalents, accounts payable, and advances payable. The District estimates that the fair value of all financial instruments at December 31, 2007 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

**Operating Revenue and Expenses** — Operating revenue and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Use of Estimates** — Preparation of the District’s financial statements in conformity with accounting principles generally accepted in the United States of America 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 amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

## 2. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2007 and 2006 is as follows:

	Balance at January 1, 2007	Increases	Decreases	Balance at December 31, 2007
Land	\$ 1,345,302			\$ 1,345,302
Equipment and systems	6,352,318	\$ 228,620		6,580,938
Roads and drainage	8,468,818	372,491		8,841,309
Vehicles	<u>59,236</u>	<u>12,000</u>	<u>          </u>	<u>71,236</u>
Total capital assets	16,225,674	613,111		16,838,785
Total accumulated depreciation	<u>(599,754)</u>	<u>(679,406)</u>	<u>          </u>	<u>1,279,160</u>
Capital assets, net	<u>\$ 15,625,920</u>	<u>\$ (66,295)</u>	<u>\$ —</u>	<u>\$ 15,559,625</u>

	Balance at January 1, 2006	Increases	Decreases	Balance at December 31, 2006
Land	\$ 1,345,302			\$ 1,345,302
Equipment and systems	4,716,653	\$ 1,635,665		6,352,318
Roads and drainage	2,010,992	6,457,826		8,468,818
Vehicles	<u>28,424</u>	<u>30,812</u>	<u>          </u>	<u>59,236</u>
Total capital assets	8,101,371	8,124,303		16,225,674
Total accumulated depreciation	<u>(135,144)</u>	<u>(464,610)</u>	<u>          </u>	<u>(599,754)</u>
Capital assets, net	<u>\$ 7,966,227</u>	<u>\$ 7,659,693</u>	<u>\$ —</u>	<u>\$ 15,625,920</u>

The District capitalizes interest as a component of the cost of its capital assets. In 2006, the District incurred interest of \$758,556, of which \$51,197 was capitalized.

The District has entered into a capital lease for a vehicle. Future minimum lease principal payments are due as follows:

2008	\$ 6,162
2009	6,162
2010	6,162
2011	<u>1,854</u>
Total	<u>\$ 20,340</u>

### 3. GENERAL OBLIGATION LIMITED TAX BONDS

A summary of bonds payable for the years ended December 31, 2007 and 2006 is as follows:

	Balance at 12/31/06	Increase	Decrease	Balance at 12/31/07	Amounts Due Within One Year
General Obligation Limited Tax Bonds Series 2004 A — \$9,465,000 originally issued with 7.625% interest	\$ 8,855,000		\$ 475,000	\$ 8,380,000	\$ 490,000
Series 2004 B-1 Notes to related parties	1,000,000			1,000,000	
Series 2004 B-2 Notes to related parties	1,500,000			1,500,000	
General Obligation Limited Tax Subordinate Bonds Series 2007 — \$4,935,000 originally issued with 8.5% interest		\$ 4,935,000		4,935,000	
Unamortized portion of original issue discount	<u>(85,886)</u>	<u>4,723</u>		<u>(81,163)</u>	
Total	<u>\$ 11,269,114</u>	<u>\$ 4,939,723</u>	<u>\$ 475,000</u>	<u>\$ 15,733,837</u>	<u>\$ 490,000</u>

	Balance at 12/31/05	Increase	Decrease	Balance at 12/31/06	Amounts Due Within One Year
General Obligation Limited Tax Bonds Series 2004 A — \$9,465,000 originally issued with 7.625% interest	\$ 9,345,000		\$ 490,000	\$ 8,855,000	\$ 475,000
Series 2004 B-1 Notes to related parties	1,000,000			1,000,000	
Series 2004 B-2 Notes to related parties		\$ 1,500,000		1,500,000	
Unamortized portion of original issue discount	<u>(90,873)</u>	<u>4,987</u>		<u>(85,886)</u>	
Total	<u>\$ 10,254,127</u>	<u>\$ 1,504,987</u>	<u>\$ 490,000</u>	<u>\$ 11,269,114</u>	<u>\$ 475,000</u>

Payment of the principal and interest on the bonds is anticipated to come from water tap fees, infrastructure fees and facility fees as the District develops. After the majority of properties in the District have been sold, homes, commercial facilities and other improvements have been constructed and the District's tax base has had time to develop, the source of payment of debt service on the Bonds will be primarily paid from the limited mill levy to be levied on the taxable property within the District.

The Series 2004 B-1 Notes and the Series 2004 B-2 Notes are held by two companies that are each owned in part by one or more members of the Board of Directors of the District.

The following is a summary of mandatory sinking fund payments and interest requirements on the Bonds:

<b>Year Ending December 31,</b>	<b>Series 2004 Bonds</b>	<b>Series 2004 B-1 Notes</b>	<b>Series 2004 B-2 Notes</b>	<b>Series 2007 Bonds</b>	<b>Total</b>
2008	\$ 1,143,975	\$ 30,000	\$ 45,000	\$ 419,475	\$ 1,638,450
2009	920,469	30,000	45,000	419,475	1,414,944
2010	721,069	40,000	45,000	419,475	1,225,544
2011	570,013	40,000	60,000	419,475	1,089,488
2012	594,631	40,000	60,000	419,475	1,114,106
2013-2017	3,417,594	235,000	337,500	2,097,375	6,087,469
2018-2022	3,423,063	275,000	397,500	2,097,375	6,192,938
2023-2027	3,418,613	315,000	465,000	2,097,375	6,295,988
2028-2032	3,418,625	360,000	525,000	2,097,375	6,401,000
2033-2037	<u>2,311,067</u>	<u>1,205,800</u>	<u>1,951,400</u>	<u>6,408,900</u>	<u>11,877,167</u>
Total	19,939,119	2,570,800	3,931,400	16,895,775	<u>\$ 43,337,094</u>
Less interest	<u>11,559,119</u>	<u>1,570,800</u>	<u>2,431,400</u>	<u>11,960,775</u>	
Outstanding principal	<u>\$ 8,380,000</u>	<u>\$ 1,000,000</u>	<u>\$ 1,500,000</u>	<u>\$ 4,935,000</u>	

In addition to the Bonds, the District simultaneously issued Subordinated General Obligation Limited Tax Notes, designated "Series 2004 B-1 Notes", in the amount of \$1,000,000 to the developer and the primary property owner in partial exchange for sums expended, or to be expended, on behalf of the District for organizational costs and infrastructure improvements. The Series 2004 B-1 Notes mature December 15, 2035. In February 2006, the District issued additional Subordinated General Obligation Limited Tax Notes, designated "Series 2004 B-2 Notes", in the amount of \$1,500,000 to the developer and primary property owner for the same purpose. The Series 2004 B-2 Notes mature December 15, 2037.

Payment of debt service on the Series 2004 B-1 and B-2 Notes is subordinate to payment of debt service on the Bonds. Interest on the Notes is payable on December 15 of each year first from revenues of the District pledged to the payment of debt service on the Bonds and secondly from moneys not pledged to the payment of debt service on the bonds. Unpaid interest will accrue in years when available funds of the District are not sufficient to pay interest on the Notes, and will be paid only after all debt service on the Bonds due and to become due through maturity of the Bonds has been paid.

During 2007 the District issued \$4,935,000 General Obligation Limited Tax Subordinate Bonds. These Series 2007 Bonds are subordinate to the Series 2004A Bonds. Payments on the Series 2007 Bonds of principal and interest will only be made from revenues that are in excess of the debt service requirements of the 2004A Bonds or from sources not pledged to the payment of the Series 2004A Bonds. All unpaid principal and interest will accrue on the Series 2007 Bonds until the Series 2004A Bonds are paid in full.

#### **4. INTERGOVERNMENTAL AGREEMENT**

In April 2003, the District entered into an Intergovernmental Agreement with the Woodmen Hills Metropolitan District (Woodmen Hills), for the purpose of the District acquiring waste water services from Woodmen Hills. Under the terms of the agreement, the District is responsible for the design, construction, installation, maintenance, and financing of a complete municipal waste water collection system. Woodmen Hills will provide all waste water services to the properties within the District's boundaries, up to 754 single family equivalent users. Woodmen Hills will retain all sewer tap fees and monthly sewer service charges. The District is responsible for the replacement, upgrade, and improvements to the infrastructure.

#### **5. ADVANCES PAYABLE TO RELATED PARTIES**

Certain members of the Board of Directors of the District, and entities controlled by the Board members, have advanced funds to the District. The advances as of December 31, 2007 and 2006 are short-term, unsecured, and bear interest at 8 percent.

#### **6. DEPOSITS**

The Colorado Public Deposit Protection Act, (PDPA) requires that all units of local government deposit cash into eligible public depositories as determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA which 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 102% of the aggregate uninsured deposits. At December 31, 2007 and 2006, the carrying amount of the District's cash was \$1,399,771 and \$788,407 and the bank balances were \$58,125 and \$69,450. All of the bank balances were covered by federal depository insurance and \$1,341,646 and \$718,957 is required by Colorado Statutes to be collateralized with securities held by the pledging financing institution's trust department in the District's name.

#### **7. RISK MANAGEMENT**

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for these risks of loss. There were no claims resulting from these risks that exceeded commercial insurance coverage during 2007 and 2006.

**8. TAX, SPENDING AND DEBT LIMITATIONS**

In 1992 Colorado voters approved Amendment 1 to the state Constitution which is commonly known as the Taxpayer's Bill of Rights or the TABOR Amendment. The amendment applies to all units of local governments and limits taxes, spending, revenue, and multi-year debt (excepting bond refundings to lower interest rates and adding employees to pension plans). The District believes that it is in compliance with the provisions of TABOR, as it is currently understood. Many of the provisions may not become fully understood without judicial review.

**FALCON HIGHLANDS METROPOLITAN DISTRICT**

**SUPPLEMENTAL SCHEDULE**

# FALCON HIGHLANDS METROPOLITAN DISTRICT

## SUPPLEMENTAL SCHEDULE OF ACTIVITIES COMPARED TO BUDGET FOR THE YEAR ENDED DECEMBER 31, 2007

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	Original and Final Budget <sup>(1)</sup>	Actual	Variance
<b>OPERATING REVENUES</b>			
Water treatment and usage fees	\$ 1,214,101	\$ 209,291	\$ (1,004,810)
Other income	<u>62,540</u>	<u>30,646</u>	<u>(31,894)</u>
Total operating revenues	<u>1,276,641</u>	<u>239,937</u>	<u>(1,036,704)</u>
<b>OPERATING EXPENSES</b>			
Contract labor, repairs and insurance	500,000	165,390	334,610
Professional fees	32,000	49,301	(17,301)
Utilities	106,839	39,595	67,244
Miscellaneous	<u>1,296,711</u>	<u>163,736</u>	<u>1,132,975</u>
Total operating expenses	<u>1,935,550</u>	<u>418,022</u>	<u>1,517,528</u>
LOSS FROM OPERATIONS	<u>(658,909)</u>	<u>(178,085)</u>	<u>480,824</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>			
Water tap and infrastructure fees	1,644,000	729,057	(914,943)
Interest income	50,000	77,238	27,238
Property taxes	55,566	112,840	57,274
Interest expense	<u>(675,194)</u>	<u>(1,205,836)</u>	<u>(530,642)</u>
Total nonoperating revenue	<u>1,074,372</u>	<u>(286,701)</u>	<u>(1,361,073)</u>
EXCESS (DEFICIT OF) REVENUE OVER EXPENDITURES	<u>\$ 415,463</u>	(464,786)	<u>\$ (880,249)</u>
<b>GAAP ADJUSTMENTS</b>			
Depreciation and amortization		<u>711,946</u>	
CHANGE IN NET ASSETS		<u>\$ (1,176,732)</u>	

<sup>(1)</sup>Original budget and final budget are the same; there were no amendments to the 2007 budget.