VDW METROPOLITAN DISTRICT NO. 1
Larimer County, Colorado

FINANCIAL STATEMENTS
December 31, 2006

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Report of Independent Certified Public Accountants

Board of Directors
VDW Metropolitan District No. 1

We have audited the accompanying financial statements of the governmental activities and each major fund of VDW Metropolitan District No. 1 (District) as of and for the year ended December 31, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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 VDW Metropolitan District No. 1, as of December 31, 2006, and the respective changes in it's 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 presented for purposes of additional analysis and 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 District's basic financial statements. The other supplementary information presented on page 17 is presented for purposes of additional analysis and is also not a required part of the basic financial statements. This 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.

Reynolds Henrie + Associates, P.C.

May 25, 2007

Management's Discussion and Analysis

As management of VDW Metropolitan District No. 1 (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, 2006.

Financial Highlights

- Liabilities exceeded assets by $6,657,695 at the end of the fiscal year. This deficit of net assets was created by acquiring $3,219,382 in infrastructure assets that were dedicated to other governments in 2005 and $3,140,193 in infrastructure assets that were dedicated to other governments in 2006.
- As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $10,268.
- Total net assets decreased by $3,224,985. This decrease is mainly attributable to the District's dedication of infrastructure assets to other governments.
- Total cash and investments increased by $4,087 as compared to the prior year.
- General fund expenditures were $96,766 for the year ending December 31, 2006. The expenditures included in the General Fund are those costs incurred to provide the administration of the District and include accounting, legal, management, insurance, utilities, landscape maintenance and other costs.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was $9,368, or 10% of total General Fund expenditures.

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 financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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 of 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.

Both of the government-wide financial statements identify functions of the District that are principally to be supported by ad valorem taxes *(governmental activities)*. The governmental activities of the District include the financing, construction of, and maintenance of governmental infrastructure including streets, water, sewer, storm, park and recreation, and transportation and traffic improvements constructed or acquired by the District.

The government-wide financial statements can be found on pages 1-2 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 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 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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for each of the funds - General Fund and Capital Projects Fund - both of which are considered to be major funds.

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

The basic governmental fund financial statements can be found on pages 3-6 of this report.

Notes to 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 financial statements can be found on pages 7-14 of this report.

Other information. The report includes individual fund schedules. A budgetary comparison statement has been provided in this section for the Capital Projects Fund to demonstrate compliance with these budgets. The budget statements are found after the *basic financial statements* on page 17 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The District's liabilities exceeded assets by $6,657,695 at the close of the most recent fiscal year.

Net Assets

	December 31, 2006	December 31, 2005
Current assets	$ 16,116	$ 9,405
Capital assets	174,507	29,652
Total assets	190,623	39,057
Current liabilities	5,848	4,394
Long-term obligations	6,842,470	3,467,373
Total liabilities	6,848,318	3,471,767
Invested in capital assets, net of related debt	174,507	29,652
Restricted net assets	900	6
Unrestricted net assets	(6,833,102)	(3,462,368)
Total net assets	$ (6,657,695)	$ (3,432,710)

During 2006, the District's capital assets increased by $144,855 due to the District purchasing $3,293,566 in infrastructure assets from the Developer, and the District dedicated $3,140,193 of these assets to other governments. The District incurred debt in the amount of $3,293,566 during 2006 to finance the purchase of infrastructure assets.

Change in Net Assets

	December 31, 2006	December 31, 2005
Revenue		
Service fees - District 3	$ 28,321	$ 199
Expenses		
General government	(113,113)	(86,116)
Dedication of capital assets to other governments	(3,140,193)	(3,219,382)
Total expenses	(3,253,306)	(3,305,498)
Change in net assets	(3,224,985)	(3,305,299)
Net assets - Beginning	(3,432,710)	(127,411)
Net assets - Ending	$ (6,657,695)	$ (3,432,710)

The District's main revenue source for 2006 was service fees earned. The majority of the expenses for general government were legal, accounting and management fees, which totaled $76,557.

Financial Analysis of the Government's Funds

As noted 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.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $10,268. This amount represents unreserved fund balance that is available for spending at the government's discretion.

General Fund Budgetary Highlights

The District's total expenditures for 2006 did not exceed the original budgeted appropriation. The difference between the final budgeted developer advances of $128,936 and the actual of $81,531 was $47,405. The difference between the original budgeted expenditures of $140,030 and the actual expenditures of $96,766 was $43,264. Notable savings were achieved in almost every expense category. The District's primary focus in 2006 was the acquisition of infrastructure, therefore, the administration of the District was focused on that and the majority of these costs were charged to the Capital Projects Fund.

Capital Assets

The District invested $3,293,566 in capital assets for its governmental activities for the period ended December 31, 2006. This investment in capital assets includes construction of streets, traffic and safety controls, water, sewer, storm sewer, park and recreation. Of these infrastructure assets, $3,140,193 were ultimately conveyed to other governments that will maintain these infrastructure assets in the future.

Additional information on the District's capital assets can be found in Note 4 of this report.

Long-Term Debt

The District had a long-term liability to the Developer of $6,842,470 as a result of funding provided by the Developer to the District for operations and capital improvement costs.

Additional information on the District's long-term debt can be found on Note 5 of this report.

Next Year's Budgets and Rates

Budgeted expenditures for 2007 are $278,038 and are anticipated to be primarily funded by service fees.

Requests for Information

This financial report is designed to provide a general overview of the finances for VDW Metropolitan District No. 1. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: VDW Metropolitan District No. 1, 6399 South Fiddler's Green Circle, Suite 100, Greenwood Village, CO 80111.

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BASIC FINANCIAL STATEMENTS

VDW METROPOLITAN DISTRICT NO. 1
STATEMENT OF NET ASSETS
December 31, 2006

	Governmental Activities
ASSETS	
Cash and investments	$ 3,583
Cash and investments - Restricted	900
Other receivables	175
Developer advance receivable	5,847
Prepaid expense	5,611
Capital assets	
Parks and recreation	174,507
Total assets	190,623
LIABILITIES	
Accounts payable	5,848
Noncurrent liabilities	
Due in more than one year	6,842,470
Total liabilities	6,848,318
NET ASSETS	
Invested in capital assets, net of related debt	174,507
Restricted for:	
Emergency reserves	900
Unrestricted	(6,833,102)
Total net assets	$ (6,657,695)

These financial statements should be read only in connection with the accompanying notes to financial statements.

VDW METROPOLITAN DISTRICT NO. 1
STATEMENT OF ACTIVITIES
Year Ended December 31, 2006

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Primary government:					
Government activities:					
General government	$ 113,113	$ -	$ -	$ -	$ (113,113)
Dedication of capital assets to other government	3,140,193	-	-	-	(3,140,193)
	$ 3,253,306	$ -	$ -	$ -	(3,253,306)
General revenues:					
Property taxes - District 3					28,321
Total general revenues					28,321
Change in net assets					(3,224,985)
Net assets - Beginning					(3,432,710)
Net assets - Ending					$ (6,657,695)

These financial statements should be read only in connection with the accompanying notes to financial statements.

VDW METROPOLITAN DISTRICT NO. 1
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2006

	General	Capital Projects	Total Governmental Funds
ASSETS			
Cash and investments	$ 3,583	$ -	$ 3,583
Cash and investments - Restricted	900	-	900
Service Fees - District 3 receivable	175	-	175
Developer advance receivable	5,847	-	5,847
Prepaid expense	5,611	-	5,611
TOTAL ASSETS	$ 16,116	$ -	$ 16,116
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	$ 5,848	$ -	$ 5,848
Total liabilities	5,848	-	5,848
FUND BALANCES			
Reserved			
Emergency reserve	900	-	900
Unreserved, reported in:			
General fund	9,368	-	9,368
Total fund balances	10,268	-	10,268
TOTAL LIABILITIES AND FUND BALANCES	$ 16,116	$ -	

Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the funds.	174,507
Long-term liabilities, including developer advances, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	(6,842,470)
Net assets of governmental activities	$ (6,657,695)

These financial statements should be read only in connection with the accompanying notes to financial statements.

VDW METROPOLITAN DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year Ended December 31, 2006

	General	Capital Projects	Total Governmental Funds
REVENUES			
Service fees - District 3	$ 28,321	$ -	$ 28,321
Total revenues	28,321	-	28,321
EXPENDITURES			
Current			
Accounting and audit	18,609	-	18,609
Engineering	5,062	1,166	6,228
Legal	12,812	158	12,970
Management	38,473	6,505	44,978
Insurance and bonds	4,523	-	4,523
Landscape maintenance	8,035	-	8,035
Office expense/miscellaneous	1,295	-	1,295
Utilities	7,957	-	7,957
Capital outlay	-	3,293,566	3,293,566
Total expenditures	96,766	3,301,395	3,398,161
EXCESS OF REVENUE (UNDER) EXPENDITURES	(68,445)	(3,301,395)	(3,369,840)
OTHER FINANCING SOURCES			
Developer advance	81,531	3,293,566	3,375,097
Transfer to other fund	(7,829)	-	(7,829)
Transfer from other fund	-	7,829	7,829
Total other financing sources	73,702	3,301,395	3,375,097
NET CHANGE IN FUND BALANCE	5,257	-	5,257
FUND BALANCE - BEGINNING OF YEAR	5,011	-	5,011
FUND BALANCE - END OF YEAR	$ 10,268	$ -	$ 10,268

These financial statements should be read only in connection with the accompanying notes to financial statements.

VDW METROPOLITAN DISTRICT NO. 1
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2006

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

Net change in fund balance - Total governmental funds	$ 5,257
Governmental funds report capital outlays as expenditures. In the Statement of Activities capital outlay is not reported as an expenditure. However, the Statement of Activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful life of the asset. Therefore, this is the amount of capital outlay, net of depreciation, in the current period.	
Capital outlay	3,293,566
Dedication of infrastructure to other governments	(3,140,193)
Depreciation	(8,518)
Long-term debt (e.g., developer advance) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	
Developer advance during the year	(3,375,097)
Changes in net assets of governmental activities	$ (3,224,985)

These financial statements should be read only in connection with the accompanying notes to financial statements.

VDW METROPOLITAN DISTRICT NO. 1
GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2006

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUE			
Service fees - District 3	$ 27,878	$ 28,321	$ 443
Interest income	16	-	(16)
Total revenue	27,894	28,321	427
EXPENDITURES			
Current			
Accounting and audit	31,000	18,609	12,391
Engineering	1,500	5,062	(3,562)
Legal	17,500	12,812	4,688
Management	33,000	38,473	(5,473)
Election costs	2,500	-	2,500
Insurance and bonds	5,000	4,523	477
Landscape maintenance	30,000	8,035	21,965
Office expense/miscellaneous	2,000	1,295	705
Utilities	4,800	7,957	(3,157)
Contingency	12,730	-	12,730
Total expenditures	140,030	96,766	43,264
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(112,136)	(68,445)	43,691
OTHER FINANCING SOURCES (USES)			
Developer advance	128,936	81,531	(47,405)
Transfer to other fund	(15,000)	(7,829)	7,171
Total other financing sources (uses)	113,936	73,702	(40,234)
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES	1,800	5,257	3,457
FUND BALANCE - BEGINNING OF YEAR	2,400	5,011	2,611
FUND BALANCE - END OF YEAR	$ 4,200	$ 10,268	$ 6,068

These financial statements should be read only in connection with the accompanying notes to financial statements.

VDW METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 1 - DEFINITION OF REPORTING ENTITY

VDW Metropolitan District No. 1 (District), a quasi-municipal corporation was organized on June 6, 2002, and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in the City of Loveland (City), Larimer County, Colorado. The District was established to provide construction, installation, financing and operation of public improvements, including streets, traffic and safety controls, water, sanitation, storm drainage, transportation, television relay and translator, park and recreation facilities, and mosquito and pest control. The District's service plan was approved by the City. Pursuant to the consolidated service plan for VDW Metropolitan Districts No. 1-3, the District operates as the Service District related to VDW Metropolitan District No. 2 (Residential District) and VDW Metropolitan District No. 3 (Commercial District).

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

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

The District is not financially accountable for any other organization, including VDW Metropolitan Districts No. 2-3, nor is the District a component unit of any other primary governmental entity, including the City.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These financial statements include all of the activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The statement of net assets reports all financial and capital resources of the District. The difference between the assets and liabilities of the District is reported as net assets.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Depreciation is computed and recorded as an operating expense. Expenditures for property, plant and equipment are shown as increases in assets and redemption of bonds and notes are recorded as a reduction in liabilities.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are developer advances and service fees. Expenditures, other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation paid. All other revenue items are considered to be measurable and available only when cash is received by the District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of capital equipment and facilities.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The total appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

Pooled Cash and Investments

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single bank account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

Investments are carried at fair value.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Assets included in construction in progress that the District will convey to other entities are not included in the calculation of invested in capital assets, net of related debt.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation expense is recorded in the function or program where the capital asset is recorded.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are legally segregated or are not subject to future appropriation. Designations of unreserved fund balances indicate management's intention for future utilization of such funds and are subject to change by management.

NOTE 3 - CASH AND INVESTMENTS

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

Statement of net assets:		
Cash and investments	$	3,583
Cash and investments - Restricted		900
Total cash and investments	$	4,483

Cash and investments as of December 31, 2006, consist of the following:

Deposits with financial institutions	$	4,483
Investments		-
Total cash and investments	$	4,483

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 the aggregate uninsured deposits.

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2006, the District's cash deposits had a bank balance of $11,253 that was federally insured and a carrying balance of $4,483.

NOTE 4 - CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2006, follows:

	Balance at January 1, 2006	Increases	Decreases	Balance at December 31, 2006
Governmental Activities:				
Capital assets, not being depreciated:				
Capital assets	$ -	$ 3,140,193	$ 3,140,193	$ -
Capital assets, being depreciated:				
Parks and recreation	29,776	153,373	-	183,149
Less accumulated depreciation for:				
Parks and recreation	124	8,518	-	8,642
Total capital assets, being depreciated	29,652	144,855	-	174,507
Total capital assets	$ 29,652	$ 3,285,048	$ 3,140,193	$ 174,507

During 2006, $3,140,193 in infrastructure assets were dedicated to another government.

NOTE 5 - LONG-TERM OBLIGATIONS

The District's outstanding long-term obligations at December 31, 2006, were as follows:

	Balance at January 1, 2006	Additions	Reductions	Balance at December 31, 2006	Due Within One Year
Developer advances	$ 3,467,373	$ 3,375,097	$ -	$ 6,842,470	$ -

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

The detail of the District's long-term obligations is as follows:

Developer Advances

The District had a long-term liability to the Developer of $6,842,470 as a result of funding provided by the Developer to the District for operations and capital improvement costs.

Operations and Maintenance Funding Agreement

The District has entered into an Amended and Restated Funding Agreement for Operations and Maintenance Costs with the Developer, VDW Properties, LLC. This agreement is in effect until December 31, 2007, and requires the Developer to fund operation and maintenance costs up to a maximum of $500,000. These advances will be repaid out of future property tax revenue receipts. As of December 31, 2006, $287,558 had been advanced, which does not include interest. Interest on these advances may only be repaid in the event the District generates sufficient cash flow to pay such interest annually.

Improvements Acquisition Agreement

The District entered into an improvements acquisition agreement with the Developer on December 1, 2005. Under the terms of this agreement, the District has agreed to acquire completed public improvements from the Developer. During 2006, the District acquired $3,293,566 in completed public improvements.

Debt Authorization

On May 7, 2002, a majority of the qualified electors of the VDW Metropolitan District No. 1 authorized the issuance of indebtedness in an amount not to exceed $32,944,452 at an interest rate not to exceed 12% per annum. At December 31, 2006, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

Streets	$ 7,418,250
Traffic safety	500,000
Water supply system	1,641,366
Sanitary sewer system	4,662,610
Parks and recreation	500,000
Public transportation	500,000
Television relay system	500,000
Mosquito control	500,000
Bond refunding	16,222,226
Operations and maintenance	500,000
	$ 32,944,452

Per the Service Plan, the District is limited to issuing $16,000,000 in debt. In addition, the maximum mill levy for the combination of both debt service and operation and maintenance for the District is 40.000 mills. As of December 31, 2006, the adjusted maximum mill levy is 45.780 mills.

NOTE 6 - RELATED PARTY

The members of the Board of Directors are employees, owners or are otherwise associated with VDW Properties, LLC (Developer) and may have conflicts of interest in dealing with the District.

NOTE 7 - ECONOMIC DEPENDENCY

The District has not yet established a revenue base sufficient to pay the District's operational expenditures. Until an independent revenue base is established, continuation of operations of the District will be dependent upon funding by the Developer.

NOTE 8 - 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.

NOTE 8 - RISK MANAGEMENT (CONTINUED)

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2006. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property, public officials liability and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. 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.

NOTE 9 - TAX, SPENDING AND DEBT LIMITATIONS

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

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

On May 7, 2002, the District voters passed an election question to increase property taxes $500,000 annually, without limitation of rate, to pay the District's operations, maintenance, and other expenses.

On May 7, 2002, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all current and future levied taxes and fees of the District, up to the amounts specified in the May 2002 election, without regard to any limitations under TABOR.

NOTE 9 - TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

SUPPLEMENTAL INFORMATION

VDW METROPOLITAN DISTRICT NO. 1
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2006

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUE			
Miscellaneous	$ -	$ -	$ -
Total revenue	-	-	-
EXPENDITURES			
Current			
Engineering	5,000	1,166	3,834
Legal	5,000	158	4,842
Management	5,000	6,505	(1,505)
Capital outlay			
Water	803,000	423,144	379,856
Streets	3,000,000	1,904,749	1,095,251
Traffic and safety	500,000	243,419	256,581
Park and recreation	470,000	155,709	314,291
Sewer and storm sewer	2,203,000	566,545	1,636,455
Contingency	150,000	-	150,000
Total expenditures	7,141,000	3,301,395	3,839,605
EXCESS OF REVENUE (UNDER) EXPENDITURES	(7,141,000)	(3,301,395)	3,839,605
OTHER FINANCING SOURCES (USES)			
Developer advance	7,126,000	3,293,566	(3,832,434)
Transfer from other fund	15,000	7,829	(7,171)
Total other financing sources	7,141,000	3,301,395	(3,839,605)
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	-	-	-
FUND BALANCE - BEGINNING OF YEAR	-	-	-
FUND BALANCE - END OF YEAR	$ -	$ -	$ -