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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Horizon Regional Municipal Utility District:

We have audited the accompanying financial statements of the governmental activities and each major fund of Horizon Regional Municipal Utility District (the "District") as of and for the year ended September 30, 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 management of the District. 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 the District as of September 30, 2006, and the respective changes in financial position 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 on pages 4 through 8 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.

Affiliated Companies:
ML&R PERSONNEL SOLUTIONS LLC
"The Resource for Direct Hire & Project Staffing"
ML&R WEALTH MANAGEMENT LLC
"A Registered Investment Advisor"
This firm is not a CPA firm

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the District. Such supplemental information 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 in relation to the basic financial statements taken as a whole.

Maxwell Locke + Ritter LLP

January 8, 2007

HORIZON REGIONAL MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis For the Year Ended September 30, 2006

In accordance with Governmental Accounting Standards Board Statement ("GASB") No. 34, the management of Horizon Regional Municipal Utility District (the "District") offers the following narrative on the financial performance of the District for the year ended September 30, 2006. Please read it in connection with the District's financial statements that follow.

For purposes of GASB No. 34, the District is considered a special purpose government. This allows the District to present the required fund and government-wide statements in a single schedule. The requirement for fund financial statements that are prepared on the modified accrual basis of accounting is met with the "Governmental Funds Total" column. An adjustment column includes those entries needed to convert to the full accrual basis government-wide statements. Government-wide statements are comprised of the Statement of Net Assets and the Statement of Activities.

Overview of the Basic Financial Statements

The District's reporting is comprised of two parts:

- *Management's Discussion and Analysis* (this section)
- *Basic Financial Statements*
 - *Statement of Net Assets and Governmental Funds Balance Sheet*
 - *Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances*
 - *Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund*
 - *Notes to Basic Financial Statements*

Other supplementary information is also included.

The *Statement of Net Assets and Governmental Funds Balance Sheet* includes a column (titled "Governmental Funds Total") that represents a balance sheet prepared using the modified accrual basis of accounting. The adjustments column converts those balances to a balance sheet that more closely reflects a private-sector business. Over time, increases or decreases in the District's net assets will indicate financial health.

The *Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances* includes a column (titled "Governmental Funds Total") that derives the change in fund balances resulting from current year revenues, expenditures, and other financing sources or uses. These amounts are prepared using the modified accrual basis of accounting. The adjustments column converts those activities to full accrual, a basis that more closely represents the income statement of a private-sector business.

The *Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund* presents a comparison statement between the District's adopted budget to its actual results.

The *Notes to Basic Financial Statements* provide additional information that is essential to a full understanding of the information presented in the *Statement of Net Assets and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances*.

Schedules required by the Texas Commission on Environmental Quality are presented immediately following the notes to basic financial statements.

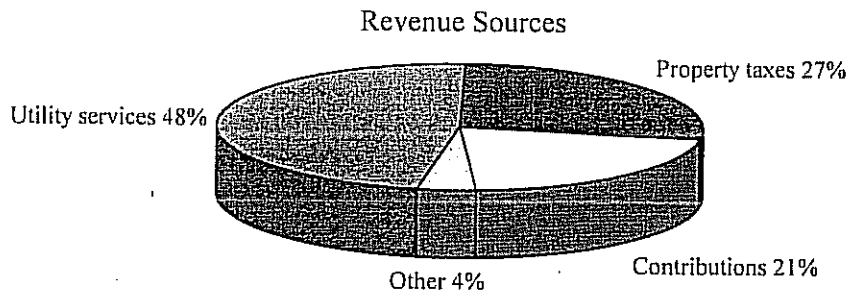
Comparative Financial Statements

Statement of Net Assets

	Governmental Activities		
	2006	2005	% Fluctuation
Current and other assets	\$ 8,650,433	\$ 12,055,749	(28.2%)
Capital and non-current assets	40,482,081	33,733,309	20.0%
Total assets	\$ 49,132,514	\$ 45,789,058	7.3%
Current liabilities	\$ 2,190,686	\$ 1,464,458	49.6%
Long-term liabilities	22,600,314	23,245,272	(2.8%)
Total liabilities	\$ 24,791,000	\$ 24,709,730	0.3%
Invested in capital assets net of related debt	\$ 18,949,601	\$ 16,294,358	16.3%
Restricted	1,938,145	1,615,773	20.0%
Unrestricted	3,453,768	3,169,197	9.0%
Total net assets	\$ 24,341,514	\$ 21,079,328	15.5%

The District's total assets were approximately \$49.1 million as of September 30, 2006. Of this amount, approximately \$40.0 million is accounted for by capital assets. The District had outstanding liabilities of approximately \$24.8 million of which \$23.3 million represent bonds and accretion payable.

The District's property tax assessed value in 2006 was about \$555.0 million compared to \$461.5 million in 2005. The tax rate is set after reviewing operations and maintenance requirements, interest-and sinking fund requirements, and proposed water and wastewater rates. The District's revenue sources are utility services and property taxes.



Statement of Activities

	Governmental Activities		
	2006	2005	% Fluctuation
Utility services	\$ 4,486,224	\$ 3,762,492	19.2%
Contributions	2,014,207	2,575,451	(21.8%)
Property taxes	2,576,352	2,178,094	18.3%
Other	368,024	259,371	41.9%
Total revenues	9,444,807	8,775,408	7.6%
Solid waste disposal	1,179,410	1,030,428	14.5%
Contracted services	1,207,226	1,074,577	12.3%
Utilities	802,781	526,584	52.5%
Repairs, maintenance and chemicals	613,237	498,455	23.0%
Professional fees	147,804	124,902	18.3%
Administrative and other	184,792	153,405	20.5%
Debt service	1,233,169	1,256,239	(1.8%)
Depreciation	814,202	723,675	12.5%
Total expenses	6,182,621	5,388,265	14.7%
Change in net assets	3,262,186	3,387,143	(3.7%)
Beginning net assets	21,079,328	17,692,185	19.1%
Ending net assets	\$ 24,341,514	\$ 21,079,328	15.5%

Operating revenues increased by approximately \$0.7 million to approximately \$9.4 million for the fiscal year ended September 30, 2006. Water, wastewater and garbage service provides approximately \$4.5 million and property taxes generated approximately \$2.6 million in revenues. Contributions from developers totaled approximately \$2.0 million.

Total expenses increased approximately \$0.8 million to approximately \$6.2 million for the fiscal year ended September 30, 2006 of which approximately \$4.1 million was related to operations and approximately \$2.0 million was related to debt service and depreciation. Net assets increased approximately \$3.3 million for the fiscal year ended September 30, 2006 primarily due to capital assets contributed by developers.

Analysis of Governmental Funds

	2006	2005	2004
Cash	\$ 2,997,562	\$ 4,118,853	\$ 2,597,109
Investments	4,747,280	7,125,742	9,481,688
Receivables	905,591	811,154	668,055
Interfund receivable	97,638	89,519	46,256
Total Assets	\$ 8,748,071	\$ 12,145,268	\$ 12,793,108
Accounts payable	\$ 998,482	\$ 357,700	\$ 392,356
Refundable deposits	344,050	314,207	325,993
Deferred revenue	206,692	199,504	223,945
Interfund payable	97,638	89,519	46,256
Total Liabilities	1,646,862	960,930	988,550
Reserved for debt service	1,837,076	1,615,773	1,585,185
Reserved for capital projects	1,171,325	5,899,854	7,640,151
Unreserved	4,092,808	3,668,711	2,579,222
Total Fund Balances	7,101,209	11,184,338	11,804,558
Total Liabilities and Fund Balances	\$ 8,748,071	\$ 12,145,268	\$ 12,793,108

The *General Fund* pays for daily operating expenditures. Actual revenues exceeded budget by approximately \$966,000 due to utility services. Actual expenditures exceeded budget by approximately \$329,000 due to more capital outlay than expected. More detailed information about the District's budgetary comparison is presented in the financial statements.

The *Debt Service Fund* remitted bond principal of \$635,000 and interest of approximately \$1,157,000. More detailed information about the District's debt is presented in the Notes to Basic Financial Statements.

The *Capital Project Fund* purchases primarily the District's infrastructure including approximately \$5,104,000 of capital outlay. More detailed information about the District's capital assets is presented in the Notes to Basic Financial Statements.

Capital Assets Activity

	2006	2005
Land	\$ 376,087	\$ 429,130
Water and wastewater systems	44,091,290	38,904,466
Construction in progress	2,719,061	279,600
Buildings	228,242	213,270
Other	337,500	337,500
Subtotal	47,752,180	40,163,966
Accumulated depreciation	(7,711,797)	(6,897,595)
Total	\$ 40,040,383	\$ 33,266,371

More detailed information about the District's capital assets is presented in the Notes to Basic Financial Statements.

Long-Term Debt Activity

	2006	2005
Tax and revenue bonds	\$ 14,643,805	\$ 15,068,805
Revenue bonds	8,060,000	8,270,000
Accretion payable	591,509	541,467
Total	<u>\$ 23,295,314</u>	<u>\$ 23,880,272</u>

The District owes approximately \$23.3 million to bond holders. During the year, the principal balance was reduced by approximately \$0.6 million. More detailed information about the District's long-term debt is presented in the Notes to Basic Financial Statements.

Currently Known Facts, Decisions, or Conditions

The tax rate for tax year 2006 has been set at \$0.468693 per \$100 of assessed valuation. Approximately 46% of the property tax will fund general operating expenses, and around 54% of the property tax will be set aside for debt service. The adopted budget for 2007 does not project an increase in the fund balance of the General Fund. When compared to the 2006 budget, revenues are expected to increase by approximately 39.8% with expenditures expected to increase 7.6%.

Requests for Information

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District at 1539 Pawling Drive, Horizon City, Texas 79928.