

**East Boulder County Water District
Management Discussion and Analysis
For the Year Ended December 31, 2006**

The discussion and analysis is designed to provide an analysis of the District's financial condition and operating results and to also inform the reader on District financial issues and activities.

The Management Discussion and Analysis (MD&A) should be read in conjunction with the District's basic financial statement (beginning on page 10).

2006 Highlights - Business-Type Activities

- In 2006, net assets were \$1,720,961 or an increase of \$94,580 (5.82%) when compared to 2005.
- Total operating revenues increased to \$135,467 during 2006, which was \$31,814 or 30.69% more when compared to 2005.
- Total operating expenses were \$136,812 or an increase of \$30,024 (28.16%) in 2006 when compared to 2005.
- Net capital assets were \$1,545,608 in 2006 compared to \$1,579,523 in 2005 for an decrease of \$33,915 or 2.15%.
- Long-term debt decreased to \$1,750,000 during 2006, which was \$70,000 or 3.85% less when compared to 2005.

Using this Annual Report

The financial statements included in this annual report are those of a quasi-municipal corporation and a political subdivision of the State of Colorado engaged only in a business-type activity. As an enterprise fund, the District's basic financial statements include:

Statements of Net Assets - reports the District's current financial resources (short-term spendable resources) with capital assets and long-term obligations. (See pages 10-11).

Statements of Revenues, Expenses and Changes in Fund Net Assets - reports the District's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions. (See page 12).

Statements of Cash Flows - reports the District's cash flows from operating activities, investing, capital and non-capital activities. (See pages 13-14).

Statement of Net Assets

Year Ending December 31	2006	2005
Current Assets	375,798	306,581
Capital Assets	1,545,608	1,579,523
Other Assets	1,757,704	1,761,504
<u>Total Assets</u>	3,679,110	3,647,608
Current Liabilities	288,149	271,227
Long-Term Debt	1,670,000	1,750,000
<u>Total Liabilities</u>	1,958,149	2,021,227
Net Assets		
Invested in Capital Assets, Net of Related Debt	(204,392)	(240,477)
Restricted:		
Debt Services	9,449	6,207
Storage Tank	57,586	30,591
TABOR Emergency Reserve	4,300	3,302
Unrestricted	1,854,018	1,826,758
<u>Total Net Assets</u>	<u>1,720,961</u>	<u>1,626,381</u>

The net assets of the District increased to \$1,720,961 during 2006, a \$94,580 increase over 2005. Capital assets decreased during 2006 from 2005 due to depreciation expense of \$33,915. Long-term debt decreased primarily as a result of the retirement of \$70,000 of bond principal on the 2000 General Obligation Bonds.

Review of Revenues

Year Ending December 31	2006	2005
Operating Revenues		
Water-Treated	134,604	102,479
Other Income	863	1,174
<u>Subtotal</u>	135,467	103,653
 Non-Operating Revenues		
Property Taxes	189,536	176,772
Specific Ownership Taxes	13,389	13,210
Earnings on Investments	7,852	6,408
Subtotal	210,777	196,390
 <u>Total Revenues</u>	 <u>346,244</u>	 <u>300,043</u>

Water sales were \$134,604 or 118.80% of budget and a increase of \$32,125 compared to 2005. Earnings on investments were up \$1,444 (22.53%) when compared to 2005. Total revenues were up \$46,201 from 2005 primarily due to an increase in water revenues and approximately a \$13,000 increase in tax revenues.

Review of Expense

Year Ending December 31	2006	2005
Operating Expenses		
Operating Expenses	84,580	63,535
Administrative and General Expenses	12,213	14,217
Engineering	6,104	-
Depreciation	33,915	29,036
 Total	 <u>136,812</u>	 <u>106,788</u>

Total District expenditures were 15.674% under budget and down 42.11% from the previous year (\$602,236) due primarily to no capital expenditures in 2006, \$21,493 increase in the cost of water purchased from Lafayette and a \$15,000 increase in principal paid on bonded debt. Operating expenses increased 33.12% in 2006 compared to 2005. Budget constraints held many costs even with the previous year or were down slightly.

Capital Contributions and Transfers

Year Ending December 31	2006	2005
Capital Contributions	60,914	93,259
Reimbursement of Contributions	(56,914)	(85,759)
<u>Net Contributions</u>	4,000	7,500

Tap sales were \$60,914 or 200.00% of budget and down \$32,345 from 2005.

Capital Assets (Net of Depreciation) and Debt Administration

Year Ending December 31	2006	2005
Transmission and Distribution Lines	1,545,608	1,579,523
Construction in Progress	-	-
<u>Total</u>	1,545,608	1,579,523

Major additions in 2006 were:

There were no major construction projects during 2006.

Debt and Other Financial Obligations

The District long-term debt was \$1,750,000 and \$1,820,000 in 2006 and 2005, respectively. The decrease was due to the retirement of \$70,000 of the 2000 General Obligation Bonds. (see pages 19-20).

Customer Classification, Water Rates, Revenue and Consumption

The District currently provides water service to 103 taps, 100% of which are residential. All water service is metered and read electronically. The following table is a breakdown of water consumption and revenue collected by customer class in 2006 and 2005.

Customer Classification

Classification	Water Consumption		Percent of Total	Total Revenue Collected in		Percent of Total
	<u>2006</u>	<u>2005</u>		<u>2006</u>	<u>2005</u>	
Residential	16,868,000	13,312,000	100%	134,604	102,479	100%

Basic Service Fees, Rates and Changes

The District has established a schedule of rates, fees and charges for the connection to and use of District facilities. State law provides that, until paid, all such rates, fees, tolls and charges constitute a perpetual lien on and against the property served. User charges are billed according to customer classification and usage. Each customer is subject to a minimum monthly charge, which begins when the meter is set. If the meter is not set within 12 months after purchase of the tap, a monthly charge is assessed.

In establishing the current rate schedule, it was determined that the rate must both pay for increasing operating costs, including debt service, and allow for some system deferred maintenance funds while not overburdening District customers on the lower end of the usage scale with excessive rates. The follow table is a comparison of basic service fees for a residential tap (5/8"). The overall increase in the monthly minimum residential rates from 2004 to 2006 is 9.43%.

Comparative Residential System User Charges 2004-2006

	February 1, 2004	February 1, 2005	February 1, 2006
Monthly Minimum (MM)	47.06	48.35	51.50
Usage (Gallons):			
0 - 5,000			
5001 - 10,000	MM+2.89/thou	MM+3.06/thou	MM+3.24/thou
10,001 - 15,000	MM+3.47/thou	MM+3.70/thou	MM+3.94/thou
15,001 - 20,000	MM+4.29/thou	MM+4.59/thou	MM+4.91/thou
20,001 - 80,000	MM+5.47/thou	MM+5.87/thou	MM+6.31/thou
Over 80,000	MM+5.47/thou	MM+5.87/thou	MM+7.31/thou

Tap Fees

The District charges tap fees, most of which are passed on to the City of Lafayette under terms of the District's Intergovernmental Agreement (IGA) with Lafayette. The District retains \$2,000 of the tap fee payment to cover operations and maintenance. A tap fee is a one-time charge that must be paid by a new customer before connection to the system.

The following table sets forth a summary of the District's capital projects completed between 2001 and 2006 and proposed capital projects for 2006 through 2017.

Capital Projects Summary (Funded Projects) 2001-2006

	Year	Cost
Construction of District Water Infrastructure	2001	1,289,466
Pump Station Improvements	2002	40,412
Water Storage Tank	2005	365,883
<u>Grand Total</u>		1,695,761

Proposed Capital Project Plan for Future Years (in thousands)

Project	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Empire-Spring	27,702	27,702	27,702	27,702	27,702	27,702	27,702	-	-	-	-	-	-	-
Panorama-Springs	22,448	22,448	22,448	22,448	22,448	22,448	22,448	22,448	22,448	22,448	22,448	-	-	-
Benchmark	10,395	10,395	10,395	10,395	10,395	10,395	10,395	10,395	10,395	10,395	10,395	10,395	10,395	10,395
<u>Total</u>	60,545	60,545	60,545	60,545	60,545	60,545	60,545	32,843	32,843	32,843	32,843	10,395	10,395	10,395

Contracts and Agreements

The District is a party to several contracts and cooperative agreements concerning the financing, acquisition, construction, operation, maintenance, and use of certain water facilities. According to the general counsel for the District, to the best of his knowledge, with the exception of the contracts and agreements referenced hereafter or set forth below, there are no contracts or agreements in effect which would potentially have a material, pecuniary adverse effect on the District.

City of Lafayette Agreement - Pursuant to a declaration of understanding with the City of Lafayette, Colorado, executed in May 2000, and amended in December, 2000, the City will provide the District with potable water via a master meter arrangement. The District will pay per tap for water taps pursuant to the Lafayette City Code and will pay in-city rates for water used through the master meter. The agreement provides for the City to withdraw from the agreement only after a lengthy Notice Period. The District may include additional properties and the City will provide water for them, provided they are within the boundaries of the original service area as described in the IGA. The original service area contains approximately 125 properties and is entirely residential single-family (or vacant land zone for such use). The December 2000 amendment specifies certain improvements the District will undertake and a schedule for those improvements. The improvements include additional storage tank capacity and the construction of some line connection loops.

Economic and Other Factors

Overall, the District has shown minor fluctuations in water revenues as a result of weather and economic demand. Water taps have been sold where new homes are constructed or infill inclusions are processed. The District's water rate structure is primarily organized on the

principle of sufficiently marking up Lafayette's water rates so as to ensure the District will continue as a financially sound entity. Operating expenses have been consistent over the last few years and reflect only limited increases. Construction costs are primarily driven by the need to meet the aforementioned demands of the Lafayette IGA as well as to ensure stability of domestic and emergency supply.

Financial Contract

The District's financial statements are designed to present users (customers, citizens, creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions about the report or need additional financial information please contact the District at East Boulder County Water District, P.O. Box 18641, Boulder, Colorado 80308.

Report
On The Audit Of

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado

For the Years Ended
December 31, 2006 and 2005

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INDEPENDENT AUDITOR'S REPORT

April 20, 2007

Board of Directors
East Boulder County Water District
Boulder, Colorado

We have audited the accompanying basic financial statements of the East Boulder County Water District as of and for the years ended December 31, 2006 and 2005, as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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, the basic financial statements referred to above present fairly, in all material respects, the financial position of the East Boulder County Water District at December 31, 2006 and 2005, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires 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 audits were made for the purpose of forming an opinion on the basic financial statements. The financial supplemental information listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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.

Respectfully submitted,

Watkins & Schommer, Inc.
Certified Public Accountants

BASIC FINANCIAL STATEMENTS

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Statements of Net Assets
December 31, 2006 and 2005

	<u>ASSETS</u>	<u>2005</u>
<u>Current Assets</u>		
Cash and Cash Equivalents	57,410	110,440
Investments	116,494	-
Accounts Receivable	6,564	7,183
Property Taxes Receivable	194,846	188,792
Prepaid Items	484	166
<u>Total Current Assets</u>	375,798	306,581
<u>Non-Current Assets</u>		
<u>Capital Assets</u>		
Distribution System	1,695,760	1,695,760
Less: Accumulated Depreciation	(150,152)	(116,237)
<u>Total Capital Assets</u>	1,545,608	1,579,523
<u>Other Assets</u>		
System Inclusion Fee	1,693,757	1,693,757
Bond Issuance Costs - Net	63,947	66,505
Revegetation Escrow	-	1,242
<u>Total Other Assets</u>	1,757,704	1,761,504
<u>Total Assets</u>	3,679,110	3,647,608

The accompanying notes are an integral part of these financial statements.

Exhibit 1

	<u>2005</u>	
<u>LIABILITIES</u>		
<u>Current Liabilities</u>		
Current Portion of Long-Term Liabilities	80,000	70,000
Accounts Payable	4,167	2,966
Accrued Interest Payable	9,136	9,469
Deferred Revenue	194,846	188,792
<u>Total Current Liabilities</u>	288,149	271,227
<u>Non-Current Liabilities</u>		
General Obligation Bonds Payable	1,670,000	1,750,000
<u>Total Liabilities</u>	1,958,149	2,021,227
<u>NET ASSETS</u>		
<u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	(204,392)	(240,477)
Restricted		
TABOR Emergency Reserve	4,300	3,302
Capital Improvements	57,586	30,591
Debt Service	9,449	6,207
Unrestricted	1,854,018	1,826,758
<u>Total Net Assets</u>	1,720,961	1,626,381

Exhibit 1

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31, 2006 and 2005

		<u>2005</u>
<u>Operating Revenues</u>		
Water Sales	134,604	102,479
Other Income	863	1,174
<u>Total Operating Revenues</u>	135,467	103,653
<u>Operating Expenses</u>		
Operating Expenses	84,580	63,535
Administrative and General Expenses	12,213	14,217
Engineering	6,104	-
Depreciation	33,915	29,036
<u>Total Operating Expenses</u>	136,812	106,788
<u>Operating Loss</u>	(1,345)	(3,135)
<u>Nonoperating Revenues (Expenses)</u>		
Property Taxes	189,536	176,772
Specific Ownership Taxes	13,389	13,210
Earnings on Investments	7,852	6,408
Interest Expense	(113,295)	(116,476)
County Treasurer Fees	(2,849)	(2,657)
Paying Agent Fees	(150)	(150)
Amortization	(2,558)	(2,010)
<u>Total Nonoperating Revenues(Expenses)</u>	91,925	75,097
<u>Income Before Contributions</u>	90,580	71,962
<u>Capital Contributions</u>	4,000	7,500
<u>Change in Net Assets</u>	94,580	79,462
<u>Net Assets at Beginning of Year</u>	1,626,381	1,546,919
<u>Net Assets at End of Year</u>	1,720,961	1,626,381

The accompanying notes are an integral part of these financial statements.

Exhibit 2

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Statements of Cash Flows
For the Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>Cash Flows From Operating Activities</u>		
Cash Received From Customers	135,223	102,310
Cash Paid to Suppliers	(93,553)	(91,615)
Cash Paid to Employees	(7,552)	(10,990)
Other Operating Revenues	863	1,174
<u>Net Cash Provided by Operating Activities</u>	34,981	879
<u>Cash Flows From Noncapital Financing Activities</u>		
Taxes	202,925	189,982
County Treasurer Fees	(2,849)	(2,657)
<u>Net Cash Provided by Noncapital Financing Activities</u>	200,076	187,325
<u>Cash Flows From Capital and Related Financing Activities</u>		
Contributed Capital	4,000	7,500
Interest Expense	(113,295)	(116,476)
Principal Paid on Long-Term Debt	(70,000)	(55,000)
Acquisition of Capital Assets	-	(262,432)
Paying Agent Fees	(150)	(150)
<u>Net Cash Used by Capital and Related Financing Activities</u>	(179,445)	(426,558)
<u>Cash Flows From Investing Activities</u>		
Increase in Investments	(116,494)	100,537
Earnings on Investments	7,852	6,408
<u>Net Cash Provided (Used) by Investing Activities</u>	(108,642)	106,945
<u>Net Change in Cash and Cash Equivalents</u>	(53,030)	(131,409)
<u>Cash and Cash Equivalents at Beginning of Year</u>	110,440	241,849
<u>Cash and Cash Equivalents at End of Year</u>	57,410	110,440

Exhibit 3 (Continued)

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Statements of Cash Flows
For the Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>		
Operating Loss	(1,345)	(3,135)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities		
Depreciation	33,915	29,036
Changes in Assets and Liabilities:		
Receivables	(5,435)	(12,755)
Prepaid Items	(318)	2,201
Revegetation Escrow	1,242	-
Accounts Payable	1,201	(26,794)
Accrued Interest Payable	(333)	(260)
Deferred Revenue	6,054	12,586
<u>Net Cash Provided by Operating Activities</u>	34,981	879

Noncash Investing, Capital, and Financing Activities:

The noncash financing activities for 2006 and 2005 represents the amortization of the District bond issuance costs. The amount of the amortization was \$2,558 in 2006 and \$2,010 2005.

The accompanying notes are an integral part of these financial statements.

Exhibit 3

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Notes to Financial Statements
December 31, 2006

Note 1 - Summary of Significant Accounting Policies

The financial statements of East Boulder County Water District have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

Form of Organization

East Boulder County Water District (the District) is organized under the provisions of Section 32-1-305 (6) C.R.S. It is a quasi-municipal corporation and a political subdivision of the State of Colorado with all powers thereof which included the power to levy taxes against property within the District.

Financial Reporting Entity

For financial reporting purposes, management has considered all potential component units. The District meets the criteria of an "other stand alone government" as defined in GASB NO. 14.

Basis Financial Statements

The District is a special-purpose government engaged only in business-type activities. For these governments, only enterprise fund financial statements are presented.

Basic of Accounting

The District accounts for its financial operations as a proprietary fund recognizing assets, liabilities, revenues and expenses on the accrual basis of accounting. Accordingly, revenues and expenses are recognized in the period earned or incurred.

Budgets and Budgetary Accounting

An annual budget and appropriation resolution is adopted by the Board of Directors in accordance with the State Statutes. The budget is prepared on a basis consistent with generally accepted accounting principles except that capital asset additions and principal payments are budgeted as expenditures and debt proceeds are budgeted as revenues.

1. On or about October 15, the Water District staff submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at regular Board meetings to

obtain taxpayer comments.

3. Prior to December 15, the budget is legally adopted by the Board of Directors.

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Notes to Financial Statements
December 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Continued)

4. Unused appropriations lapse at the end of each year.

5. Budgeted amounts reported in the accompanying financial statements are as originally adopted and as amended by the Board of Directors throughout the year. Following is a summary of the original budget, total revisions and revised budget for 2006:

	<u>Original Budget</u>	<u>Total Revisions</u>	<u>Revised Budget</u>
Enterprise Fund	225,923	-	225,923
Debt Service Fund	<u>188,835</u>	<u>-</u>	<u>188,835</u>
<u>District Total</u>	<u>414,758</u>	<u>-</u>	<u>414,758</u>

The following is a reconciliation of GAAP basis Change in Net Assets to budget basis Change in Net Assets:

	<u>2006</u>	<u>2005</u>
<u>Change in Net Assets</u>	94,580	79,462
Add: Depreciation	33,915	29,036
Amortization of Organization Costs	-	-
Less: Capital Outlay	-	(262,432)
Debt Principal Paid	(70,000)	(55,000)
<u>Budget Basis Revenues Over (Under)</u>		
<u>Budget Basis Expenditures</u>	58,495	(208,934)

Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Investments

The District's investments are carried at fair value plus accrued interest with net appreciation or depreciation on investments included in earnings on investments.

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Notes to Financial Statements
December 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost. Expenditures for maintenance and repairs are charged to operations as incurred. Property replacements and improvements, which extend the lives of assets, are capitalized and subsequently depreciated. Contributed assets are reported at their fair market value at the date received. Additions to capital assets during 2006 include no capitalized interest.

The provision for depreciation is computed using the straight-line method over the estimated useful lives of the assets. The lives used are as follows:

	<u>Years</u>
Distribution System	50

Depreciation expense total \$33,915, and \$29,036 for the years ended December 31, 2006 and 2005, respectively.

Intangible Assets

Issuance costs and discounts related to the 2000 general obligation bonds have been capitalized and are being amortized over the life of the bonds using the straight-line method based upon the amount of principal retired each year. Amortization of such fees totaled \$2,558 and \$2,010 for the years ended December 31, 2006 and 2005 respectively.

Note 2 - Cash and Investments

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 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 the aggregate uninsured

deposits.

Investments are stated at fair value as required by Governmental Accounting Standards Board Statement 31.

The CPDPA requires financial institutions to pledge collateral having a market value of at least 102% of the aggregate public deposits not insured by federal depository insurance. Eligible collateral includes municipal bonds, U.S. government securities, mortgages and deeds of trust.

The District's investment policy authorizes the District to invest in bonds or other interest bearing obligations of the United States of America or its agencies thereof; bonds or other interest-bearing obligations of the State of Colorado or its agencies thereof; banker acceptance issued by state or national bank, commercial paper; repurchase agreements; money market funds; guaranteed investment contract; and local investment pools.

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Notes to Financial Statements
December 31, 2006

Note 2 - Cash and Investments (Continued)

Credit Risk - The Water District's investment policy follows Colorado Revised State Statutes.

At December 31, 2006 and 2005, the District owned the following investments:

<u>December 31</u>	<u>2006</u>		<u>2005</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Colostrust	<u>116,494</u>	<u>116,494</u>	<u>78,375</u>	<u>78,375</u>
<u>Total</u>	<u>116,494</u>	<u>116,494</u>	<u>78,375</u>	<u>78,375</u>

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. The District's bank accounts at year-end were entirely covered by federal depository insurance or by collateral held by the District's custodial banks in the name of the District under provisions of the Colorado Public Deposit Protection Act (CPDPA).

Interest Rate Risk - Colorado Revised Statutes limit investment maturities to 5 years or less from the date of purchase. This limit on investment maturities is a means of limiting exposure to fair values arising from increasing interest rates.

In addition, the District had invested \$116,494 in COLOTRUST an investment vehicles established for local government entities in Colorado to pool surplus funds for investment purposes. COLOTRUST operates similarly to a money market fund and each share is equal in value to \$1.00.

The designated custodial bank of Colotrust provides safekeeping and depository services in connection with the direct investment and withdrawal functions of Colotrust. All securities owned by Colotrust are held by the Federal Reserve Bank in the account maintained for the custodial bank.

Investments of Colotrust consist of U.S. Treasury bills, notes and note strips and repurchase agreements collateralized by U.S. Treasury Notes. The final maturity of any and all securities purchased by Colotrust may not exceed one year. Colotrust is rated AAAM by Standard & Poor's. The investment policy of Colotrust does not include investing in derivatives.

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Notes to Financial Statements
December 31, 2006

Note 3 - Capital Assets

The following is a summary of Capital Assets as of December 31, 2006:

	<u>Capital Assets 12/31/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Capital Assets 12/31/06</u>
Capital Assets, Not Being Depreciated:				
Construction in Progress	-	-	-	-
Total Capital Assets, Not Being Depreciated	-	-	-	-
Capital Assets, Being Depreciated:				
Distribution System	1,695,760	-	-	1,695,760
Total Capital Assets, Being Depreciated	1,695,760	-	-	1,695,760
Less Accumulated Depreciation for:				
Distribution System	(116,237)	(33,915)	-	(150,152)

Total Accumulated Depreciation	(116,237)	(33,915)	- (150,152)
Total Capital Assets, Being Depreciated, Net	1,579,523	(33,915)	-1,545,608
Capital Assets, Net	1,579,523	(33,915)	-1,545,608

Note 4 - Long-Term Debt

\$1,995,000 March 1, 2000, general obligation bonds due in installments of \$80,000 in 2007, increasing to \$190,000 in 2019. Interest varies from 5.00% to 6.50%.

Balance December 31, 2006 \$1,750,000

A summary of changes in debt is as follows:

	<u>Balance</u> <u>12-31-05</u>	<u>Additions</u>	<u>Debt</u> <u>Retired</u>	<u>Balance</u> <u>12-31-06</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
2000 Revenue Bonds	1,820,000	-	70,000	1,750,000	80,000

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Notes to Financial Statements
December 31, 2006

Note 4 - Long-Term Debt (Continued)

Future annual principal and interest requirements are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	80,000	109,638	189,638
2008	95,000	105,038	200,038
2009	110,000	99,528	209,528
2010	110,000	93,038	203,038
2011	115,000	86,438	201,438
2012-2016	700,000	314,933	1,014,933
2017-2019	<u>540,000</u>	<u>71,500</u>	<u>611,500</u>
<u>Total</u>	<u>1,750,000</u>	<u>880,113</u>	<u>2,630,113</u>

Note 5 - Risk Management

The District is exposed to various risks of loss 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 all risks of loss, including worker's compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage.

Note 6 - TABOR Compliance

In November 1992, Colorado voter passed an amendment (Amendment One) to the State Constitution (Article X, Section 20) which limits the revenue raising and spending abilities of state and local governments. The limits on property taxes, revenue, and "fiscal year spending" include allowable annual increases tied to inflation and local growth in construction valuation. Fiscal year spending, as defined by the amendment, excludes spending from certain revenue and financing sources such as federal funds, gifts, property sales, fund transfers, damage awards, and fund reserves (balances). The amendment requires voter approval for any increase in mill levy or tax rates, new taxes, or creation of multi-year debt. Revenue earned in excess of the "spending limit" must be refunded or approved to be retained by the District under specified voting requirements by the entire electorate.

The amendment also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by the amendment, excludes economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves are required to be 3% or more of fiscal year spending (excluding bonded debt service). The District has set aside \$4,300 for emergencies as defined by TABOR.

The District believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions will require judicial interpretation.

OTHER SUPPLEMENTARY INFORMATION

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Schedules of Expenses
For the Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>Operating Expenses</u>		
Meter Reading	2,528	2,100
Miscellaneous		-
System Maintenance	1,335	3,156
Maintenance Labor	4,469	4,008
Utilities	2,963	2,479
Water Purchased	73,285	51,792
<u>Total Operating Expenses</u>	<u>84,580</u>	<u>63,535</u>
<u>Administrative and General Expenses</u>		
Audit	2,350	3,000
Bank Service Charges	188	158
Bookkeeping Fees	3,743	3,735
Due and Subscriptions	336	414
Election Expense	95	-
Insurance	2,091	2,475
Legal	792	836
Meeting Expense	800	800
Office Expense	1,147	780
Payroll Taxes	596	874
Professional Development	75	1,145
<u>Total Administrative and General Expenses</u>	<u>12,213</u>	<u>14,217</u>

Schedule 1

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Schedule of Revenues and Expenses (Non-GAAP Budgetary Basis)
Year Ended December 31, 2006
With Comparative Actual Amounts for the Year Ended December 31, 2005

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>2006 Variance with Final Budget Positive (Negative)</u>	<u>2005 Actual</u>
<u>Water Enterprise Operations</u>				
<u>Revenues</u>				
Tap Fees	30,457	60,914	30,457	93,259
Standby Fee	4,800	5,113	313	5,350
Usage Charges	108,500	129,491	20,991	97,129
Other Fees and Charges	10,000	798	(9,202)	1,174
Interest Income	2,000	7,802	5,802	6,335
Other Tax Revenue	600	13,454	12,854	13,210
<u>Total Revenues</u>	156,357	217,572	61,215	216,457
<u>Expenditures</u>				
Audit	3,000	2,350	-	3,000
Bank Charges	150	188	(38)	158
Bookkeeping	4,200	3,743	457	3,735
Dues and Subscriptions	500	336	164	414
Election Expense	200	95	-	-
Insurance	2,600	2,091	509	2,475
Legal	1,000	792	208	836
Maintenance	4,000	1,335	2,665	3,156
Maintenance Labor	6,000	4,469	1,531	4,008
Meetings	800	800	-	800
Meter Reading	2,880	2,528	-	2,100
Miscellaneous	54,056	-	54,056	-
Office	1,000	1,147	(147)	780
Payroll Taxes	480	596	(116)	874
Professional Development	100	75	25	1,145
Tap Fees - Lafayette Share	28,457	56,914	(28,457)	85,759
Utilities	5,000	2,963	2,037	2,479
Water Purchase	56,500	73,285	(16,785)	51,792
<u>Total Expenditures</u>	170,923	153,707	16,109	163,511
<u>Excess (Deficiency) of Water</u>				
<u>Enterprise Operating Revenues</u>				
<u>Over Water Enterprise</u>				
<u>Operating Expenditures</u>	(14,566)	63,865	77,324	52,946
<u>Capital</u>				
<u>Revenues</u>				
Transfer from Reserves	55,000	-	(55,000)	-
<u>Total Revenues</u>	55,000	-	(55,000)	-

Schedule 2

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Schedule of Revenues and Expenses (Non-GAAP Budgetary Basis)
For the Year Ended December 31, 2006
With Comparative Actual Amounts For Year Ended December 31, 2005

	Original and Final Budget	Actual	2006 Variance with Final Budget Positive (Negative)	2005 Actual
<u>Capital (Continued)</u>				
<u>Expenditures</u>				
Engineering	-	6,104	(6,104)	15,661
System Construction`	500	-	500	246,771
Reserves	54,500	-	54,500	-
<u> Total Expenditures</u>	55,000	6,104	48,896	262,432
<u>Excess (Deficiency) of Capital Revenues Over Capital Expenditures</u>	-	(6,104)	(6,104)	(262,432)
<u>Debt Service</u>				
<u>Revenues</u>				
Taxes	188,792	189,536	744	176,772
Interest Income	43	50	-	73
<u> Total Debt Service Revenues</u>	188,835	189,586	744	176,845
<u>Expenditures</u>				
Treasurer Fees	2,832	2,849	(17)	2,657
Paying Agent Fees	150	150	-	150
Amortization of Bond Issuance Costs	2,558	2,558	-	2,010
Interest Expense	113,295	113,295	-	116,476
Principal Paid	70,000	70,000	-	55,000
<u> Total Debt Service Expenditures</u>	188,835	188,852	(17)	176,293
<u>Excess of Debt Service Revenues Over Debt Service Expenditures</u>	-	734	734	552
<u>Total District Revenues</u>	400,192	407,158	6,959	393,302
<u>Total District Expenditures</u>	414,758	348,663	64,988	602,236
<u>Excess (Deficiency) of District Revenues Over District Expenditures</u>	(14,566)	58,495	71,947	(208,934)