

EDWARDS METROPOLITAN DISTRICT

FINANCIAL STATEMENTS

December 31, 2006

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Board of Directors
Edwards Metropolitan District
Eagle County, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Edwards Metropolitan District, as of and for the year ended December 31, 2006, which collectively comprise the basic financial statements of the District, as listed in the table of contents. These financial statements are the responsibility of the Edwards Metropolitan District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Edwards Metropolitan District, as of December 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 Edwards Metropolitan District's basic financial statements. The individual fund schedule listed in the table of contents is presented for purposes of 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 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.

June 18, 2007

EDWARDS METROPOLITAN DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2006

This management's discussion and analysis of the Edwards Metropolitan District's financial statements provides an overview of the District's financial activities for the fiscal year ended December 31, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; it should be read in conjunction with the basic financial statements and notes to enhance the reader's understanding of the District's overall financial performance.

USING THE BASIC FINANCIAL STATEMENTS

This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two types of information on the same statement that present different views of the District:

- *Government-wide financial statements* that provide both *long-term* and *short-term* information about the District's *overall* financial status.
- *Fund financial statements* that focus on *individual parts* of the District government, reporting the District's operations *in more detail* than the government-wide statements.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Additional supplemental information has also been included to enhance the reader's understanding of the financial statements.

Government-wide Statements

The government-wide statements consist of the Statement of Net Assets and the Statement of Activities. These statements report information about the District as a whole and include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in them. The District's net assets – the difference between assets and liabilities – are one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets is one indicator of whether its *financial health* is improving or deteriorating. Other non-financial factors, however, such as changes in the District's property tax base and the condition of the infrastructure, are needed to assess the *overall health* of the District.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant funds – not the District as a whole. The District's major governmental funds include the General Fund and the Debt Service Fund. Unlike government-wide financial statements, the focus of the fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental funds – The District's activity is reported as a governmental fund, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending in future periods. The funds are reported using an accounting method called *modified accrual* accounting,

EDWARDS METROPOLITAN DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
December 31, 2006

which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is provided in reconciliations following the fund financial statements.

THE DISTRICT AS A WHOLE

Statement of Net Assets

The perspective of the Statement of Net Assets is of the District as a whole. Following is a summary of the District's net assets for the fiscal years 2006 and 2005.

	<u>2006</u>	<u>2005</u>
<u>ASSETS:</u>		
Current and Other Assets	\$ 1,996,777	\$ 2,373,388
Capital Assets, Net	<u>709,655</u>	<u>709,655</u>
Total Assets	<u>2,706,432</u>	<u>3,083,043</u>
<u>LIABILITIES:</u>		
Current and Other Liabilities	303,243	278,004
Long-Term Obligations:		
Due within One Year	90,000	275,000
Due in More Than One Year	<u>305,000</u>	<u>395,000</u>
Total Liabilities	<u>698,243</u>	<u>948,004</u>
<u>NET ASSETS:</u>		
Invested in Capital Assets, Net of Related Debt	314,655	39,655
Restricted for Emergencies	7,496	6,805
Restricted for Debt Service	14,739	12,066
Unrestricted	<u>1,671,299</u>	<u>2,076,513</u>
Total Net Assets	<u>\$ 2,008,189</u>	<u>\$ 2,135,039</u>

Net assets decreased \$126,850 during 2006. The majority of this decrease is due to an expenditure towards the Edwards Area Roadway Study, and therefore was not capitalized, resulting in this decrease in net assets.

Statement of Activities

The perspective of the Statement of Activities is of the District as a whole. The statement of activities reflects the cost of program services and the charges for services and sales, grants and contributions offsetting those services. The following detail reflects the total cost of services supported by program revenues and general property taxes, as well as other general revenues, resulting in the overall change in net assets for the fiscal years 2006 and 2005.

**EDWARDS METROPOLITAN DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
December 31, 2006**

	<u>2006</u>	<u>2005</u>
REVENUES:		
GENERAL REVENUES:		
Taxes	\$ 222,621	\$ 204,413
Investment Interest Income	89,394	68,322
Note Receivable Interest Income	19,600	22,600
Miscellaneous	11,499	10,673
PROGRAM REVENUES:		
Capital Grants and Contributions	224,096	367,194
Charges for Services	<u>4,800</u>	<u>4,800</u>
Total Revenues and Other Financing Sources	<u>572,010</u>	<u>678,002</u>
PROGRAM EXPENSES:		
General Government	280,551	863,217
Interest on Long-Term Debt	27,928	41,622
Water Activity	<u>390,381</u>	<u>38,933</u>
Total Expenses and Other Financing Uses	<u>698,860</u>	<u>943,772</u>
CHANGE IN NET ASSETS	(126,850)	(265,770)
Net Assets – beginning of year	<u>2,135,039</u>	<u>2,400,809</u>
Net Assets – end of year	<u>\$ 2,008,189</u>	<u>\$ 2,135,039</u>

The District's two primary sources of revenues are from taxes and from tap fees (which are reflected as capital grants and contributions). These revenues are used to pay the cost of the general government, the cost of the water activity and to pay the District's debt service. The District operated at a deficit in 2006 and 2005, which has resulted in a \$126,850 difference in the District's net assets.

THE DISTRICT'S FUNDS

The fund level financial statements focus on how services were financed in the short-term as well as what remains for future spending. The fund level financial statements are reported on the modified accrual basis of accounting.

At the fund level, under the modified accrual basis of accounting, depreciable assets and their related depreciation expense are not reflected as they are not a current period financial resource or use. In addition, at the fund level, inflows from operating loans are presented as a revenue item while outflows for capital outlay and debt service payments are presented as an expenditure item, as these items represent current period financial resources and uses.

The General Fund ending fund balance decreased from \$1,834,002 to \$1,463,803 during the fiscal year ended December 31, 2006 primarily due to a water line replacement and an expenditure towards the Edwards Area Roadway Study. This represents the deficit of current period revenues (financial resources) over current period expenditures (financial uses). The ending fund balance of \$1,463,803 is the amount of net resources available for future spending. Most of the financial resources came from property taxes and from tap fees.

The Debt Service Fund ending fund balance increased from \$12,066 to \$14,739 during the fiscal year ended December 31, 2006. This represents the excess of current period revenues (financial resources) over current period expenditures (financial uses). The ending fund balance of \$14,739 the amount of net

EDWARDS METROPOLITAN DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2006

resources available for future spending. Most of the available financial resources came from transfers in from the General Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

One budget amendment was adopted during 2006 to budget for costs related to water line replacements.

General Fund Resources (InFlows)

The District's actual budgetary revenues and other financing sources in the amount of \$605,733 were above budget expectations of \$446,874 by \$158,859, or 36%. The primary reason for this positive variance is due to investment and tap fee income being higher than expected.

General Fund Charges to Appropriations (Outflows)

The District's actual budgetary expenditures and other financing uses of \$975,932 were \$909,470 less than the final appropriated balance of \$1,885,402. This difference is due to a number of factors, the most significant of which is the deferral of expected costs related to the open space acquisition expenditures.

General Fund Unappropriated Fund Balance

The General Fund ending unappropriated budgetary fund balance carryover to fiscal year 2007 is \$1,463,803.

CAPITAL ASSETS

At the end of 2006, the District had a total of \$709,655 invested in capital assets of governmental activities. There were no capital asset additions or retirements in 2006. *See Note 4 Capital Assets*

DEBT ADMINISTRATION

The District paid down the outstanding balance of its long term debt by \$275,000 during 2006 resulting in an outstanding balance of \$395,000 at December 31, 2006. *See Note 5 – Long-term Liabilities* for a detail of the terms and annual requirements to amortize the District's long-term debt.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our residents, customers, taxpayers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions regarding this report or need additional financial information, please contact the Edwards Metropolitan District Manager, c/o Robertson & Marchetti, P.C., 28 Second Street, Suite 213, Edwards, CO 81632, Telephone (970) 926-6060, Fax: (970) 926-6040.

BASIC FINANCIAL STATEMENTS

EDWARDS METROPOLITAN DISTRICT

STATEMENT OF NET ASSETS

December 31, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and Investments	\$ 1,547,338	\$ 1,843,537
Accounts Receivable	13,433	67,677
Property Taxes Receivable	221,029	212,874
Notes Receivable	214,977	249,300
Capital Assets, Not Being Depreciated	<u>709,655</u>	<u>709,655</u>
TOTAL ASSETS	<u>2,706,432</u>	<u>3,083,043</u>
LIABILITIES		
Accounts Payable	82,214	64,130
Retainage Payable	-	1,000
Deferred Revenue - Property Taxes	221,029	212,874
Noncurrent Liabilities		
Due Within One Year	90,000	275,000
Due in More Than One Year	<u>305,000</u>	<u>395,000</u>
TOTAL LIABILITIES	<u>698,243</u>	<u>948,004</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	314,655	39,655
Restricted for Emergencies	7,496	6,805
Restricted for Debt Service	14,739	12,066
Unrestricted	<u>1,671,299</u>	<u>2,076,513</u>
TOTAL NET ASSETS	<u>\$ 2,008,189</u>	<u>\$ 2,135,039</u>

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

EDWARDS METROPOLITAN DISTRICT

STATEMENT OF ACTIVITIES

Year Ended December 31, 2006

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS</u>	
		<u>CHARGES FOR SERVICES</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>GOVERNMENTAL ACTIVITIES</u>	
				<u>2006</u>	<u>2005</u>
Governmental Activities					
General Governmental	\$ 280,551	\$ -	\$ -	\$ (280,551)	\$ (863,217)
Water Activity	390,381	4,800	224,096	(161,485)	333,061
Interest on Long-Term Debt	27,928	-	-	(27,928)	(41,622)
Total Governmental Activities	\$ 698,860	\$ 4,800	\$ 224,096	(469,964)	(571,778)
GENERAL REVENUES					
Property Taxes				208,708	191,913
Specific Ownership Taxes				13,913	12,500
Investment Income				89,394	68,322
Interest Income - Notes Receivable				19,600	22,600
Miscellaneous				11,499	10,673
TOTAL GENERAL REVENUES				343,114	306,008
CHANGE IN NET ASSETS				(126,850)	(265,770)
NET ASSETS, Beginning				2,135,039	2,400,809
NET ASSETS, Ending				\$ 2,008,189	\$ 2,135,039

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

EDWARDS METROPOLITAN DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

December 31, 2006

	GENERAL FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS	
			2006	2005
ASSETS				
Cash and Investments	\$ 1,532,599	\$ 14,739	\$ 1,547,338	\$ 1,843,537
Accounts Receivable	13,433	-	13,433	67,677
Property Taxes Receivable	221,029	-	221,029	212,874
Notes Receivable	214,977	-	214,977	249,300
TOTAL ASSETS	\$ 1,982,038	\$ 14,739	\$ 1,996,777	\$ 2,373,388
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	82,214	-	82,214	64,130
Retainage Payable	-	-	-	1,000
Deferred Revenue - Property Taxes	221,029	-	221,029	212,874
Deferred Revenues	214,992	-	214,992	249,316
TOTAL LIABILITIES	518,235	-	518,235	527,320
FUND BALANCES				
Reserved for Emergencies	7,496	-	7,496	6,805
Unreserved, Reported in				
General Fund	1,456,307	-	1,456,307	1,827,197
Debt Service Fund	-	14,739	14,739	12,066
TOTAL FUND BALANCES	1,463,803	14,739	1,478,542	1,846,068
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,982,038	\$ 14,739		

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 in the funds.	709,655	709,655
Other long-term assets are not available to pay for current year expenditures and, therefore, are deferred in the funds.	214,992	249,316
Long-term liabilities, including long term debt, are not due and payable in the current year and, therefore, are not reported in the funds.	(395,000)	(670,000)
Net Assets of Governmental Activities	\$ 2,008,189	\$ 2,135,039

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

EDWARDS METROPOLITAN DISTRICT

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
 Year Ended December 31, 2006

	GENERAL FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS	
			2006	2005
REVENUES				
Property Taxes	\$ 208,708	\$ -	\$ 208,708	\$ 191,913
Specific Ownership Taxes	13,913	-	13,913	12,500
Investment Income	88,793	601	89,394	68,322
Water Charges	4,800	-	4,800	4,800
Tap Fees	212,531	-	212,531	367,194
Notes Receivable Principal and Interest	65,488	-	65,488	61,175
Miscellaneous	11,500	-	11,500	10,675
TOTAL REVENUES	605,733	601	606,334	716,579
EXPENDITURES				
General Government	280,551	-	280,551	863,217
Water Activity	390,381	-	390,381	38,933
Debt Service				
Principal	-	275,000	275,000	255,000
Interest and Fiscal Charges	-	27,928	27,928	41,622
TOTAL EXPENDITURES	670,932	302,928	973,860	1,198,772
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(65,199)	(302,327)	(367,526)	(482,193)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	305,000	305,000	297,846
Transfers Out	(305,000)	-	(305,000)	(297,846)
TOTAL OTHER FINANCING SOURCES (USES)	(305,000)	305,000	-	-
NET CHANGE IN FUND BALANCES	(370,199)	2,673	(367,526)	(482,193)
FUND BALANCES, Beginning	1,834,002	12,066	1,846,068	2,328,261
FUND BALANCES, Ending	\$ 1,463,803	\$ 14,739	\$ 1,478,542	\$ 1,846,068

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Net Change in Fund Balances - Governmental Funds	\$ (367,526)	\$ (482,193)
Revenues that do not provide current financial resources are deferred in the governmental funds. This amount represents notes receivable principal payments (\$45,888), additional notes receivable issued \$11,565 and miscellaneous income (\$1).	(34,324)	(38,577)
Repayments of bond and loan principal are expenditures in the governmental funds, but they reduce long-term liabilities in the statement of net assets and do not affect the statement of activities.	275,000	255,000
Change in Net Assets of Governmental Activities	\$ (126,850)	\$ (265,770)

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

EDWARDS METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Edwards Metropolitan District (the "District") is a quasi-municipal corporation formed in 1980 to provide water, street improvements, safety protection, transportation services and fire protection services within its boundaries. The District is governed by a five-member Board of Directors elected by the property owners and residents. Fire protection services are provided by Eagle River Fire Protection District and water services are provided by Upper Eagle Regional Water Authority.

The accounting policies of the District conform to generally accepted accounting principles as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following is a summary of the more significant policies.

Reporting Entity

The financial reporting entity consists of the District and organizations for which the District is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the District. In addition, any legally separate organizations for which the District is financially accountable are considered part of the reporting entity. Financial accountability exists if the District appoints a voting majority of the organization's governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens on the District.

Based on the application of this criteria, no additional organizations are includable within the District's reporting entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report all activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges for interfund services that are reasonably equivalent to the services provided. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported in a single column.

The statement of activities demonstrates the degree to which the direct expenses of the 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*.

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

EDWARDS METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied and used.

In the fund financial statements, 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 District, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for resources accumulated for, and payments made on, long-term debt obligations of the District.

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 collected within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current year.

Property taxes, specific ownership taxes, grants, and interest associated with the current year are all considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

Assets, Liabilities and Net Assets/Fund Balance

Investments – Investments are reported at fair value.

Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

EDWARDS METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets/Fund Balance (Continued)

Capital Assets – Capital assets, which include property and water rights, are reported in the governmental activities 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 and an estimated useful life in excess of one year. 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.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Land, parks and water rights of the District are not depreciated.

Deferred Revenues – In the fund financial statements, deferred revenues arise when a potential revenue does not meet both the *measurable* and *available* criteria for recognition in the current year. In subsequent years when the District has a legal claim to the resources, as when principal installments of the notes receivable become available, the liability for the deferred revenue is removed, and revenue is recognized.

Long-Term Debt – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

In the fund financial statements, governmental funds recognize debt premiums and discounts, as well as debt issuance costs, during the current year. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets/Fund Balance – In the government-wide financial statements, net assets are restricted when constraints placed on the net assets are externally imposed. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Property Taxes

Property taxes attach as an enforceable lien on property on January 1 and are levied the following January 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15. The County Treasurer's Office collects property taxes and remits to the District on a monthly basis.

Since property tax revenues are collected in arrears during the succeeding year, a receivable and corresponding deferred revenue are recorded at December 31.

EDWARDS METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Information

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. However, complete comparative data in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to read. Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 2: CASH AND INVESTMENTS

A summary of cash and investments as of December 31, 2006, follows:

Cash Deposits	\$ 1,377,504
Investments	<u>169,834</u>
Total	<u>\$ 1,547,338</u>

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 regulations. At December 31, 2006, the State regulatory commissioners had indicated that all financial institutions holding deposits for the District are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. 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 uninsured deposits. At December 31, 2006, the District had bank deposits of \$1,149,401 collateralized with securities held by the financial institutions' agents but not in the District's name.

Investments

The District is required to comply with State statutes which specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest, which include the following. State statutes do not address custodial risk.

- Obligations of the United States and certain U.S. agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Local government investment pools

EDWARDS METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE 2: CASH AND INVESTMENTS (Continued)

Investments (Continued)

- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

At December 31, 2006, the District had \$169,834 invested in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces the requirements of creating and operating Colotrust. Colotrust operates similarly to a money market fund with each share is equal in value to \$1.00. Colotrust is rated AAAM by Standard and Poor's. Investments of Colotrust are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned are held by the Federal Reserve Bank in an account maintained for the custodial bank. The custodians' internal records identify the investments owned by the participating governments.

NOTE 3: NOTES RECEIVABLE

In October 2006 and April 1995, the District received promissory notes from developers for tap fees in the original amounts of \$11,565 and \$560,000, respectively. Principal and interest at 0% and 8%, respectively, are due annually in varying amounts through 2010.

Annual principal and interest to be received by the District are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 48,388	\$ 16,200	\$ 64,588
2008	50,888	12,600	63,488
2009	58,388	8,800	67,188
2010	<u>57,313</u>	<u>4,400</u>	<u>61,713</u>
Total	<u>\$ 214,977</u>	<u>\$ 42,000</u>	<u>\$ 256,977</u>

EDWARDS METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE 4: CAPITAL ASSETS

Activity for capital assets of the District is summarized below:

	<u>Balances</u> <u>12/31/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>12/31/06</u>
Capital Assets, Not Being Depreciated				
Land and Parks	\$ 501,875	\$ -	\$ -	\$ 501,875
Water Rights	<u>207,780</u>	<u>-</u>	<u>-</u>	<u>207,780</u>
 Total Capital Assets	 <u>\$ 709,655</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 709,655</u>

NOTE 5: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended December 31, 2006.

	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/06</u>	<u>Due Within</u> <u>One Year</u>
2002 General Obligation Refunding Bonds	\$ 190,000	\$ -	\$ 190,000	\$ -	\$ -
Colorado Water Resources and Power Development Authority Loan	<u>480,000</u>	<u>-</u>	<u>85,000</u>	<u>395,000</u>	<u>90,000</u>
 Total	 <u>\$ 670,000</u>	 <u>\$ -</u>	 <u>\$ 275,000</u>	 <u>\$ 395,000</u>	 <u>\$ 90,000</u>

2002 General Obligation Refunding Bonds were issued by the District to refinance the District's Series 1995 General Obligation Refunding Bonds. Principal payments are due annually on December 1. Interest payments are due semi-annually on June 1 and December 1, through 2006. Interest accrues at rates ranging from 1.9% to 3.05%. The bonds were paid in full during 2006.

During 1997, the District obtained a loan from the Colorado Water Resources and Power Development Authority to refinance a portion of the 1991 loan. Monthly principal and interest payments are due through October 1, 2010. Interest accrues at rates ranging from 3.8% to 4.9%.

Future Debt Service Requirements

Annual debt service requirements for the outstanding bonds and loans at December 31, 2006, are as follows.

EDWARDS METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE 5: LONG-TERM DEBT (Continued)

Future Debt Service Requirements (Continued)

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 90,000	\$ 18,308	\$ 108,308
2008	95,000	14,212	109,212
2009	100,000	9,842	109,842
2010	<u>110,000</u>	<u>93</u>	<u>110,093</u>
Total	<u>\$ 395,000</u>	<u>\$ 42,455</u>	<u>\$ 437,455</u>

NOTE 6: INTERFUND TRANSFERS

During the year ended December 31, 2006, the General Fund transferred \$305,000 to the Debt Service Fund to fund debt service expenditures.

NOTE 7: RISK MANAGEMENT

Public Entity Risk Pool

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets. The District plans to provide for or restore the economic damages of those losses through risk transfer. The District participates in the Special District Association Insurance Pool (the "Pool").

The purposes of the Pool are to provide members defined liability, property, and workers compensation coverages and to assist members in preventing and reducing losses and injuries to property and to persons or property which might result in claims being made against members of the Pool, their employees and officers.

It is the intent of the members of the Pool to create an entity in perpetuity which will administer and use funds contributed by the members to defend and indemnify, in accordance with the bylaws, any member of the Pool against stated liability of loss, to the limit of the financial resources of the Pool. It is also the intent of the members to have the Pool provide continuing stability and availability of needed coverages at reasonable costs. All income and assets of the Pool shall be at all times dedicated to the exclusive benefit of its members. The Pool is a separate legal entity and the District does not approve budgets nor does it have the ability to significantly affect the operations of the Pool.

EDWARDS METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE 8: COMMITMENTS AND CONTINGENCIES

Tabor Amendment

In 1992, Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local government. The District's management believes a significant portion of its operations qualifies for the "Enterprise" exclusion under Article X, Section 20 of the State Constitution. In May 1998, voters within the District authorized the District to collect, retain or spend all revenue and other funds collected effective January 1, 1998, and continuing thereafter, provided that the District's general operating property tax levy rate shall not be increased without voter approval, without any regard to any limitations under Article X, Section 20 of the State Constitution.

The District has established an emergency reserve, representing 3% of qualifying expenditures, as required by the Amendment. At December 31, 2006, the emergency reserve of \$7,496 was recorded as a reservation of fund balance in the General Fund.

Cost Recovery Agreements

The District has cost recovery agreements to refund costs of lines contributed by developers. The recovery amounts are generated from tap fees for water connections to the contributed lines. The agreements state that the reimbursement of cost recovery amounts collected by the District will be made at such times and in such amounts as the District, in its sole discretion, shall determine. The District's current policy is that the maximum annual amount remitted to developers would be determined by the Board of Directors. The District incurred cost recovery expenditures of \$40,381 for the year ended December 31, 2006.

The District's remaining commitment under the cost recovery agreements at December 31, 2006, follows:

Original Obligations Under Cost Recovery Agreements	\$ 2,213,993
Tap Fees Collected and Paid Per Agreements	<u>(586,654)</u>
Remaining Cost Recovery Commitment	<u>\$ 1,627,339</u>

Although the cost recovery commitment at December 31, 2006, is \$1,627,339, the District does not expect to collect sufficient tap fees for connections to the contributed lines to pay the full amount of the cost recovery commitment. Therefore, the commitment is not reported in the financial statements. The cost recovery agreements expire in 2019.

NOTE 9: SERVICE AGREEMENT - UPPER EAGLE REGIONAL WATER AUTHORITY

The District is a participant in the Upper Eagle Regional Water Authority. The Authority was formed in 1984 by an agreement between participating local governmental entities to supply water to the participants and develop water resources and facilities in a portion of Eagle County, Colorado.

EDWARDS METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE 9: SERVICE AGREEMENT - UPPER EAGLE REGIONAL WATER AUTHORITY (Continued)

The Authority's participants are as follows:

Arrowhead Metropolitan District
Town of Avon
Beaver Creek Metropolitan District
Berry Creek Metropolitan District
Eagle-Vail Metropolitan District
Edwards Metropolitan District

The District has a service agreement with the Authority by which the Authority will provide and bill residents of the District for water service. Also, as part of the agreement, the District subleased all of its water rights, associated easements and improvements to the Authority at no cost. In return the Authority has agreed to protect the District's plan for augmentation and water decrees at no cost to the District.

On January 1, 1998, the Authority participants approved an Amended and Restated Service Contract which required the following in addition to the above:

- Convey individual water systems to the Authority.
- All customers of the District become customers of the Authority.
- Tap fees and water surcharges will remain revenues of the individual participants.
- Maintenance of each participants existing water system became the Authority's responsibility.
- Construction of new lines or extension of existing lines is the responsibility of the individual participants.
- The participants retain ownership of water rights and an interest in assets, including rights to capacity in the system to the extent necessary to assure service to their service areas.

Upon dissolution of the Authority all assets shall immediately vest in the participating local governmental entities, subject to any outstanding liens, mortgages or other pledges of such assets. The interest in the assets of the Authority shall be that proportion which the average annual amount of treated water sold within each participant's service area to the average annual total amount of all treated water sold by the Authority.

REQUIRED SUPPLEMENTARY INFORMATION

EDWARDS METROPOLITAN DISTRICT

BUDGETARY COMPARISON SCHEDULEGENERAL FUND

Year Ended December 31, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)	2005 ACTUAL
REVENUES					
General Government					
Property Taxes	\$ 212,874	\$ 212,874	\$ 208,708	\$ (4,166)	\$ 191,913
Specific Ownership Taxes	12,772	12,772	13,913	1,141	12,500
Investment Income	5,642	5,642	15,153	9,511	11,120
Miscellaneous	9,210	9,210	11,500	2,290	10,675
Total General Government	<u>240,498</u>	<u>240,498</u>	<u>249,274</u>	<u>8,776</u>	<u>226,208</u>
Water Activity					
Water Charges	4,800	4,800	4,800	-	4,800
Tap Fees	100,000	100,000	212,531	112,531	367,194
Note Receivable Principal and Interest	63,175	63,175	65,488	2,313	61,175
Investment Income	38,401	38,401	73,640	35,239	56,580
Total Water Activity	<u>206,376</u>	<u>206,376</u>	<u>356,459</u>	<u>150,083</u>	<u>489,749</u>
TOTAL REVENUES	<u>446,874</u>	<u>446,874</u>	<u>605,733</u>	<u>158,859</u>	<u>715,957</u>
EXPENDITURES					
General Government					
Accounting and Administration	31,200	31,200	36,542	(5,342)	31,746
Legal	18,720	18,720	15,606	3,114	10,341
Audit	5,855	5,855	4,800	1,055	4,900
Insurance	8,081	8,081	2,852	5,229	2,696
County Treasurer's Fees	6,386	6,386	6,273	113	5,767
Mosquito Control	12,280	12,280	12,280	-	11,922
Directors' Expenses	1,040	1,040	361	679	380
Directors' Fees	6,000	6,000	4,725	1,275	4,125
Elections	2,000	2,000	540	1,460	-
Office Supplies	2,600	2,600	2,942	(342)	2,603
General Property Maintenance	-	-	1,960	(1,960)	465
Trail Maintenance	50,000	50,000	9,170	40,830	8,218
Open Space Acquisition	-	817,500	-	817,500	750,005
Recreation Projects	1,000,000	182,500	182,500	-	30,049
Contingency	6,240	6,240	-	6,240	-
Total General Government	<u>1,150,402</u>	<u>1,150,402</u>	<u>280,551</u>	<u>869,851</u>	<u>863,217</u>
Water Activity					
Water Line Replacement	-	350,000	350,000	-	-
Cost Recovery	60,000	60,000	40,381	19,619	38,933
Contingency	20,000	20,000	-	20,000	-
Total Water Activity	<u>80,000</u>	<u>430,000</u>	<u>390,381</u>	<u>39,619</u>	<u>38,933</u>
TOTAL EXPENDITURES	<u>1,230,402</u>	<u>1,580,402</u>	<u>670,932</u>	<u>909,470</u>	<u>902,150</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(783,528)	(1,133,528)	(65,199)	1,068,329	(186,193)
OTHER FINANCING USES					
Transfers Out	<u>(305,000)</u>	<u>(305,000)</u>	<u>(305,000)</u>	<u>-</u>	<u>(297,846)</u>
NET CHANGE IN FUND BALANCE	(1,088,528)	(1,438,528)	(370,199)	1,068,329	(484,039)
FUND BALANCE, Beginning	<u>1,656,119</u>	<u>1,834,002</u>	<u>1,834,002</u>	<u>-</u>	<u>2,318,041</u>
FUND BALANCE, Ending	<u>\$ 567,591</u>	<u>\$ 395,474</u>	<u>\$ 1,463,803</u>	<u>\$ 1,068,329</u>	<u>\$ 1,834,002</u>

See the accompanying Independent Auditors' Report.

EDWARDS METROPOLITAN DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2006

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- In October, the District Administration 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.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to December 31, the budget is legally enacted through passage of a resolution.
- District Administration is authorized to transfer budgeted amounts between departments within any fund. However, any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.
- Budgets are legally adopted for all funds of the District. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- Budgeted amounts in the financial statements are as originally adopted or as amended by the Board of Directors. All appropriations lapse at year end. Colorado governments may not exceed budgeted appropriations at the fund level.

INDIVIDUAL FUND SCHEDULE

EDWARDS METROPOLITAN DISTRICT

BUDGETARY COMPARISON SCHEDULE

DEBT SERVICE FUND

Year Ended December 31, 2006

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)	2005 ACTUAL
REVENUES				
Investment Income	\$ 36	\$ 601	\$ 565	\$ 622
EXPENDITURES				
Debt Service				
Principal	275,000	275,000	-	255,000
Interest and Fiscal Charges	28,178	27,928	250	41,622
Contingency	5,000	-	5,000	-
TOTAL EXPENDITURES	308,178	302,928	5,250	296,622
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(308,142)	(302,327)	5,815	(296,000)
OTHER FINANCING SOURCES				
Transfers In	305,000	305,000	-	297,846
NET CHANGE IN FUND BALANCE	(3,142)	2,673	5,815	1,846
FUND BALANCE, Beginning	13,660	12,066	(1,594)	10,220
FUND BALANCE, Ending	\$ 10,518	\$ 14,739	\$ 4,221	\$ 12,066

See the accompanying Independent Auditors' Report.