

**PERRY PARK
WATER AND SANITATION DISTRICT
Douglas County, Colorado**

**FINANCIAL STATEMENTS
December 31, 2006**

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Mark E. Wagner, CPA
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Independent Auditors' Report

Board of Directors
Perry Park Water and Sanitation District
Arapahoe County, Colorado

We have audited the accompanying basic financial statements of Perry Park Water and Sanitation District, as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our 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 the 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 opinion.

The District has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Perry Park Water and Sanitation District as of December 31, 2006, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying financial information listed as supplemental information 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 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.

Wagner, Burke & Barnes, LLP

Golden, Colorado
May 15, 2007

I

Wagner, Burke & Barnes, LLP

BASIC FINANCIAL STATEMENTS

PERRY PARK WATER AND SANITATION DISTRICT
STATEMENT OF NET ASSETS
December 31, 2006

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 3,776,764
Accounts receivable (net of allowance for uncollectibles)	70,989
Due from County Treasurer	3,798
Property taxes receivable	652,858
Total current assets	4,504,409

RESTRICTED CURRENT ASSETS

Cash and cash equivalents	303,484
Total restricted current assets	303,484

CAPITAL ASSETS, NET

17,466,016

OTHER ASSETS

Debt issue costs (net of accumulated amortization)	22,934
Total other assets	22,934

TOTAL ASSETS

\$ 22,296,843

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 114,582
Accrued compensated absences	1,846
Deferred property tax revenue	652,858
Deposits	2,500
Current portion of long-term obligations	350,000
Total current liabilities	1,121,786

LONG-TERM OBLIGATIONS

Bonds payable	603,238
	603,238

NET ASSETS

Invested in capital assets, net of related debt	16,535,712
Restricted for:	
Emergency reserves	15,000
Debt service	288,484
Unrestricted	3,732,623
Total net assets	20,571,819

TOTAL LIABILITIES AND NET ASSETS

\$ 22,296,843

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

PERRY PARK WATER AND SANITATION DISTRICT
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
Year Ended December 31, 2006

WATER AND SEWER OPERATIONS	
Water and sewer income	\$ 864,639
Direct water and sewer expenses	<u>(1,565,853)</u>
TOTAL GROSS (LOSS) FROM OPERATIONS	<u>(701,214)</u>
GENERAL AND ADMINISTRATIVE EXPENSES	<u>292,804</u>
OPERATING (LOSS)	<u>(994,018)</u>
NONOPERATING REVENUE	
Property taxes	631,931
Specific ownership taxes	68,086
Water and sewer availability fees	65,437
Net investment income	150,681
Miscellaneous	<u>40,100</u>
Total nonoperating revenue	<u>956,235</u>
NONOPERATING EXPENSES	
County Treasurer's fees	11,195
Paying agent fees and other expenses	250
Bond interest expense	57,374
Depreciation and amortization	<u>36,426</u>
Total nonoperating expenses	<u>105,245</u>
(LOSS) BEFORE CONTRIBUTIONS	<u>(143,028)</u>
CAPITAL CONTRIBUTIONS	
Water and sewer tap and expansion fees	879,100
Contributed facilities from developers	<u>45,158</u>
Total capital contributions	<u>924,258</u>
CHANGE IN NET ASSETS	781,230
TOTAL NET ASSETS - BEGINNING OF YEAR	<u>19,790,589</u>
TOTAL NET ASSETS - END OF YEAR	<u><u>\$ 20,571,819</u></u>

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

PERRY PARK WATER AND SANITATION DISTRICT
STATEMENT OF CASH FLOWS
Year Ended December 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 857,347
Payments to suppliers	(838,295)
Payments to employees and related expenses	(126,873)
Other receipts	18,273
Net cash (required) by operating activities	(89,548)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Property tax collections	628,132
Specific ownership taxes	68,086
Water and sewer availability fees	65,437
Miscellaneous income	40,100
County Treasurer's fees	(11,195)
Net cash provided by noncapital financing activities	790,560

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Water and sewer tap and expansion fees	879,100
Acquisition of property, plant and equipment (net of contributed lines of \$45,158)	(205,485)
Interest on debt	(57,374)
Bond principal reduction	(330,000)
Paying agent fees and other expenses	(250)
Net cash provided by capital and related financing activities	285,991

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	150,681
Net cash provided (required) by investing activities	150,681

(Continued)

PERRY PARK WATER AND SANITATION DISTRICT
STATEMENT OF CASH FLOWS
Year Ended December 31, 2006
(Continued)

NET INCREASE IN CASH AND CASH EQUIVALENTS	1,137,684
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>2,942,564</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 4,080,248</u></u>
 Reconciliation of operating (loss) to net cash provided by operating activities	
Operating (loss)	\$ (994,018)
Adjustments to reconcile operating (loss) to net cash provided by operating activities	
Depreciation	670,583
Abandonment of reservoir design plans	89,645
(Increase) decrease in	
Accounts receivable	7,181
Prepaid expenses	575
Inventories	132,999
Increase (decrease) in	
Accounts payable and accrued expenses	987
Deposits	2,500
Net cash (required) by operating activities	<u><u>\$ (89,548)</u></u>
 Non-Cash Transactions	
Assets contributed by Developers	<u><u>\$ 45,158</u></u>

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

PERRY PARK WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 1 - DEFINITION OF REPORTING ENTITY

Perry Park Water and Sanitation District (District), a quasi-municipal corporation, was organized in 1969, and is governed pursuant to provisions of the Colorado Special District Act. The District exists to provide water and sanitary sewer facilities and services to the Perry Park area of Douglas County, Colorado. A portion of the District is included in the Town of Larkspur.

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

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units accounted for as a proprietary enterprise fund. The enterprise fund is used since the District's powers are related to those operated in a manner similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

The District has elected to follow Governmental Accounting Standards Board pronouncements. Therefore, statements issued by the Financial Accounting Standards Board after November 30, 1989 are not applied.

Basis of Accounting

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets, and redemption of bonds and loans are recorded as a reduction in liabilities. Tap fees and contributed assets from developers are recorded as capital contributions when received.

PERRY PARK WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenues and Expenses

The District distinguishes between operating revenues and expenses and nonoperating items in the Statements of Revenue, Expenses and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing water and sanitation services to its customers. Operating revenues consist of charges to customers for service provided. Operating expenses include the cost of service, administrative expenses, and depreciation of assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

Budgets

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

Cash Equivalents

For purposes of the statement of cash flows, the District considers cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred revenue in the year they are levied and measurable. The deferred property tax revenues are recorded as revenue in the year they are available or collected.

PERRY PARK WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are shown net of an allowance for uncollectibles. Accounts receivables are expensed as bad debts at the time they are determined to be uncollectible. The allowance for uncollectibles is approximately 4% of the outstanding balance at December 31, 2006.

Capital Assets

Capital assets, which include land, water rights, buildings, distribution and collection systems and machinery and equipment are reported by the District. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation or at the developers' cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation expense has been computed using the straight-line method over the estimated economic useful lives:

Buildings	35 years
Distribution and collection systems	35 years
Machinery and equipment	3-10 years

Tap Fees and Capital Contributions

Tap and development fees are recorded as capital contributions when received. Water and sewer lines contributed to the District by developers are recorded as capital contributions and additions to the systems at the developers' cost or at estimated fair market value when received. The District records the contributions at the time the lines are conveyed to the District for preliminary acceptance.

Water Rights

The cost of water rights includes acquisition cost, legal and engineering costs related to the development and augmentation of those rights. Since the rights have a perpetual life, they are not amortized. All other costs, including costs incurred for the protection of those rights, are expensed.

PERRY PARK WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bond Issue Costs and Original Issue Discount/Premium

Bond issuance costs and bond premiums and discounts are amortized over the respective terms of the bonds using the straight-line method.

Deferred Cost on Bond Refunding

The deferred cost on bond refunding is being amortized using the straight-line method over the life of the new bonds. The amortization amount is a component of interest expense and the unamortized deferred cost is reflected as a reduction of bonds payable.

Compensated Absences

The District's employees are entitled to certain compensated absences based on their length of employment. The District has accrued \$1,846 as of December 31, 2006 for future payment of this earned leave.

NOTE 3 - CASH AND INVESTMENTS

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

Statement of net assets:

Cash and cash equivalents	\$ 3,776,764
Cash and cash equivalents - Restricted	<u>303,484</u>
Total cash and investments	<u>\$ 4,080,248</u>

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

Deposits with financial institutions	\$ 992,291
Investments	<u>3,087,957</u>
Total cash and investments	<u>\$ 4,080,248</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 regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to the aggregate uninsured deposits.

PERRY PARK WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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

At December 31, 2006, the District's cash deposits had a bank balance of \$1,011,104 and a carrying balance of \$992,291.

Investments

The District has not adopted a formal investment policy, however, the District follows State statutes regarding investments.

The District generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk; minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

- * Obligations of the United States, certain U.S. government agency securities and securities of the World Bank
- . General obligation and revenue bonds of U.S. local government entities
- . Bankers' acceptances of certain banks
- . Commercial paper
- * Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- . Certain money market funds
- . Guaranteed investment contracts
- * Local government investment pools

The local government investment pools, which include the Colorado Surplus Asset Fund Trust (CSAFE) and the Colorado local Government Liquid Asset Trust (Colotrust) are both rated AAAM by Standard & Poor's.

**PERRY PARK WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2006**

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

As of December 31, 2006, the District had the following investments:

Investment	Maturity	Fair Value
Colorado Surplus Asset Fund Trust (CSAFE)	Less than one year	\$ 731,177
Colorado Liquid Asset Trust (Colotrust)	Less than one year	436,450
Wells Fargo Sweep Repo	Less than one year	<u>1,920,330</u>
		<u>\$ 3,087,957</u>

COLOTRUST

During 2006, the District invested in the Colorado Local Government Liquid Asset Trust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. As of December 31, 2006, the District had \$436,450 invested in COLOTRUST PRIME.

CSAFE

During 2006, the District invested in the Colorado Surplus Asset Fund Trust (CSAFE), which is an investment vehicle established by State statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, highest rated commercial paper and repurchase agreements collateralized by U.S. Treasury securities. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. As of December 31, 2006, the District had \$731,177 invested in CSAFE.

PERRY PARK WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Repurchase Agreement

At December 31, 2006, the District had \$1,920,330 invested in a repurchase agreement that matured on January 2, 2007, which was collateralized by Federal Home Loan Bank securities.

Cash and investments are restricted for the following purposes:

Debt Service

Cash and investments in the amount of \$288,484 at December 31, 2006 is restricted for debt service.

Emergency Reserve

Cash and investments of \$15,000 are restricted as Emergency Reserves as required by Article X, Section 20 of the Constitution of the State of Colorado at December 31, 2006 (see Note 10).

PERRY PARK WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 4 - CAPITAL ASSETS

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

	Balance at December 31, 2005	Increases	Decreases	Balance at December 31, 2006
Capital assets, not being depreciated:				
Land	\$ 295,352	\$ 1,904	\$ -	\$ 297,256
Water rights	491,398	2,937	87,747	406,588
Construction in progress	-	8,388	-	8,388
Total capital assets, not being depreciated	<u>786,750</u>	<u>13,229</u>	<u>87,747</u>	<u>712,232</u>
Capital assets, being depreciated:				
Water system	13,634,746	120,670	-	13,755,416
Sewer system	9,617,272	97,734	-	9,715,006
Office building	423,494	20,914	-	444,408
Equipment and vehicles	183,714	-	-	183,714
Total capital assets, being depreciated	<u>23,859,226</u>	<u>239,318</u>	<u>-</u>	<u>24,098,544</u>
Less accumulated depreciation for:				
Water system	3,410,810	393,012	-	3,803,822
Sewer system	3,007,416	277,571	-	3,284,987
Office building	64,679	12,521	-	77,200
Equipment and vehicles	182,113	3,637	6,999	178,751
Total accumulated depreciation	<u>6,665,018</u>	<u>686,741</u>	<u>6,999</u>	<u>7,344,760</u>
Total capital assets, being depreciated, net	<u>17,194,208</u>	<u>(447,423)</u>	<u>(6,999)</u>	<u>16,753,784</u>
Capital assets, net	<u>\$ 17,980,958</u>	<u>\$ (434,194)</u>	<u>\$ 80,748</u>	<u>\$ 17,466,016</u>

Depreciation expense for the year ended December 31, 2006 was charged to the following:

Water	\$ 393,012
Sewer	277,571
General and administrative	9,159
	<u>\$ 679,742</u>

PERRY PARK WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 5 - LONG-TERM OBLIGATIONS

The following is an analysis of the changes in the District's long-term obligations for the year ended December 31, 2006:

	<u>Balance December 31, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2006</u>	<u>Amounts Due Within One Year</u>
2004 General Obligation					
Refunding Bonds	\$ 1,310,000	\$ -	\$ 330,000	\$ 980,000	\$ 350,000
Bond Premium	14,261	-	4,075	10,186	-
Cost of refunding	(59,118)	-	(22,170)	(36,948)	-
Total long-term obligations	<u>\$ 1,265,143</u>	<u>\$ -</u>	<u>\$ 311,905</u>	<u>\$ 953,238</u>	<u>\$ 350,000</u>

The detail of the District's bonds payable is as follows:

\$1,635,000 General Obligation Refunding Bonds, Series 2004, dated June 29, 2004, with interest of 2.25% to 3.50%, consisting of serial bonds due annually through July 1, 2009. Interest on the bonds is payable semi-annually on January 1 and July 1 each year, commencing on January 1, 2005. The bonds are not subject to redemption prior to their respective maturities. Payment of principal and interest on the bonds is insured by Ambac Assurance Corporation.

The District's debt will mature as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 350,000	\$ 26,400	\$ 376,400
2008	360,000	15,300	375,300
2009	270,000	4,725	274,725
Total payments	<u>\$ 980,000</u>	<u>\$ 46,425</u>	<u>\$ 1,026,425</u>

NOTE 6 - NET ASSETS

The District has net assets consisting of three components - invested in capital assets, net of related debt, restricted and unrestricted.

PERRY PARK WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 6 - NET ASSETS (CONTINUED)

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2006, the District had invested in capital assets, net of related debt calculated as follows:

Invested in capital assets, net of related debt:	
Capital assets, net	\$ 17,466,016
Bond issuance and discount costs (net of accumulated amortization)	22,934
Current portion of long-term obligations	(350,000)
Noncurrent portion of long-term obligations	(630,000)
Bond premium (net of accumulated amortization)	(10,186)
Cost of refunding (net of accumulated amortization)	36,948
Invested in capital asset, net of related debt	<u><u>\$ 16,535,712</u></u>

Restricted assets include net assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net assets as of December 31, 2006 as follows;

Restricted net assets:	
Debt service reserve (see Note 5)	\$ 288,484
Emergencies (see Note 10)	<u>15,000</u>
Total restricted net assets	<u><u>\$ 303,484</u></u>

NOTE 7 - INTERGOVERNMENTAL AGREEMENTS

Sageport 2006

On December 12, 2006, the District entered into an intergovernmental agreement with the Board of County Commissioners of the County of Douglas (County) concerning Douglas County Local Improvement District No. 06-01 (Sageport LID) to provide for the design, construction, and maintenance of certain water and sanitary sewer improvements located within the Sageport LID (Utility Improvements). The District and the County agree to share the responsibilities of design, construction and maintenance as outlined in the agreement. Upon completion and preliminary acceptance of the Utility Improvements, the District shall accept the Utility Improvements subject to final approval. The County and the District agree that no water or sanitary sewer tap permits or building permits will be issued for lots within the Sageport 2006 LID until the District has approved a resolution accepting the Utility Improvements.

PERRY PARK WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 7 - INTERGOVERNMENTAL AGREEMENTS (CONTINUED)

Inca/Delaware 2006

On December 12, 2006, the District entered into an intergovernmental agreement with the Board of County Commissioners of the County of Douglas (County) concerning Douglas County Local Improvement District No. 06-02 (Inca/Delaware LID) to provide for the design, construction, and maintenance of certain water and sanitary sewer improvements located within the Inca/Delaware LID (Utility Improvements). The District and the County agree to share the responsibilities of design, construction and maintenance as outlined in the agreement. Upon completion and preliminary acceptance of the Utility Improvements, the District shall accept the Utility Improvements subject to final approval. The County and the District agree that no water or sanitary sewer tap permits or building permits will be issued for lots within the Inca/Delaware 2006 LID until the District has approved a resolution accepting the Utility Improvements.

NOTE 8 - PENSION AND BENEFIT PLANS

Deferred Compensation Plan - Assets in Trust

The District has a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is administered by Lincoln National Life. Participation in the plan is optional for all employees. The plan allows the employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement or death or unforeseen emergencies. The District matches the employee's contribution up to 2% of compensation. The District's contributions for the year ended December 31, 2006 were \$828.

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

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

PERRY PARK WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 9 - RISK MANAGEMENT (CONTINUED)

The District paid annual premiums to the Pool for liability, property, public officials liability and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 10 - TAX, SPENDING AND DEBT LIMITATIONS

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

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

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

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

On November 7, 2006, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all revenues it has received in the past and expects to receive in the fiscal year 2007 and thereafter without regard to any limitations under TABOR.

PERRY PARK WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 10 - TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

The November 7, 2006 election question reads as follows:

Shall Perry Park Water and Sanitation District (without increasing existing tax rates or imposing a new tax) be authorized to collect, retain and spend all revenues from whatever source beginning in 2000 and in each year thereafter as a voter approved revenue change and exception to the limits which would otherwise apply under Article X, Section 20 of the Colorado Constitution, the 5.5% property tax revenue limit of Section 29 1 301, C.R.S. or any other law?

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL INFORMATION

PERRY PARK WATER AND SANITATION DISTRICT
SCHEDULE OF EXPENSES
Year Ended December 31, 2006

DIRECT WATER AND SEWER EXPENSES

Salaries and payroll taxes	\$ 66,710
Engineering/consultants	127,883
Miscellaneous	8,837
Outside operations labor	277,200
Repairs and maintenance	152,617
Sewage treatment	110,924
Utilities	30,426
Water services	120,673
Depreciation	670,583
Total direct water expenses	<u>\$ 1,565,853</u>

GENERAL AND ADMINISTRATIVE EXPENSES

Accounting and audit	\$ 35,128
Auto expenses	2,181
Contract labor	1,169
Directors' fees	5,700
Dues and subscriptions	8,057
Election costs	7,412
Employee benefits	28,016
Insurance	47,813
Investment expense/bank charges	8,807
Legal	60,269
Master plan update	26,576
Miscellaneous	7,650
Office supplies	10,164
Outside services	1,250
Public information	4,422
Salaries and payroll taxes	31,540
Travel, training and meetings	732
Utilities	5,918
Subtotal	<u>292,804</u>
Amortization	27,267
Depreciation	9,159
Total general and administrative expenses	<u>\$ 329,230</u>

PERRY PARK WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUE, EXPENDITURES AND FUNDS AVAILABLE
BUDGET AND ACTUAL (BUDGETARY BASIS)
ALL FUNDS COMBINED
Year Ended December 31, 2006

	Original and Final Budgeted Amounts	Actual	Variance with Budget Positive (Negative)
REVENUE			
Water service fees	\$ 439,500	\$ 471,172	\$ 31,672
Sewer service fees	359,500	375,196	15,696
Water and sewer availability fees	80,000	65,437	(14,563)
Administrative fees	5,820	3,833	(1,987)
Connection and inspection charges	10,630	14,440	3,810
Miscellaneous income	51,000	40,100	(10,900)
Property taxes	646,215	631,931	(14,284)
Specific ownership taxes	85,000	68,086	(16,914)
Net investment income	50,000	150,681	100,681
Water and sewer tap fees	500,000	537,250	37,250
Water and sewer development fees	350,000	341,850	(8,150)
Contributions for capital outlay	-	45,158	45,158
Total revenue	<u>2,577,665</u>	<u>2,745,134</u>	<u>167,469</u>
EXPENDITURES			
Direct water and sewer expenses	959,400	895,270	64,130
General and administrative expenses	206,462	292,804	(86,342)
County Treasurer's fees	13,000	11,195	1,805
Capital outlay	1,689,128	250,643	1,438,485
Debt service	372,050	387,625	(15,575)
Total expenditures	<u>3,240,040</u>	<u>1,837,537</u>	<u>1,402,503</u>
EXCESS REVENUE OVER (UNDER)			
EXPENDITURES	(662,375)	907,597	1,569,972
FUNDS AVAILABLE - BEGINNING			
OF YEAR	<u>2,602,782</u>	<u>3,128,510</u>	<u>525,728</u>
FUNDS AVAILABLE - END OF YEAR			
	<u>\$ 1,940,407</u>	<u>\$ 4,036,107</u>	<u>\$ 2,095,700</u>

**PERRY PARK WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUE, EXPENDITURES AND FUNDS AVAILABLE
BUDGET AND ACTUAL (BUDGETARY BASIS)
DISTRICT ACTIVITY
Year Ended December 31, 2006**

	Original and Final Budgeted Amounts	Actual	Variance with Budget Positive (Negative)
DISTRICT REVENUE			
Property taxes	\$ 646,215	\$ 631,931	\$ (14,284)
Specific ownership taxes	85,000	68,086	(16,914)
Net investment income	-	21,849	21,849
Water and sewer availability fees	80,000	65,437	(14,563)
Total district revenue	<u>811,215</u>	<u>787,303</u>	<u>(23,912)</u>
DISTRICT EXPENDITURES			
General and administrative expenses	206,462	292,804	(86,342)
County Treasurer's fees	13,000	11,195	1,805
Capital outlay	19,000	20,914	(1,914)
Debt service	372,050	387,625	(15,575)
Total district expenditures	<u>610,512</u>	<u>712,538</u>	<u>(102,026)</u>
EXCESS DISTRICT REVENUE OVER (UNDER) DISTRICT EXPENDITURES	<u>\$ 200,703</u>	<u>\$ 74,765</u>	<u>\$ (125,938)</u>

**PERRY PARK WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUE, EXPENDITURES AND FUNDS AVAILABLE
BUDGET AND ACTUAL (BUDGETARY BASIS)
WATER AND SEWER ENTERPRISE ACTIVITY
Year Ended December 31, 2006**

	Original and Final Budgeted Amounts	Actual	Variance with Budget Positive (Negative)
WATER AND SEWER ENTERPRISE REVENUE			
Water service fees	\$ 439,500	\$ 471,172	\$ 31,672
Sewer service fees	359,500	375,196	15,696
Administrative fees	5,820	3,833	(1,987)
Connection and inspection charges	10,630	14,440	3,810
Miscellaneous income	51,000	40,100	(10,900)
Net investment income	50,000	128,832	78,832
Water and sewer tap fees	500,000	537,250	37,250
Water and sewer development fees	350,000	341,850	(8,150)
Contributions for capital outlay	-	45,158	45,158
Total water and sewer enterprise revenue	<u>1,766,450</u>	<u>1,957,831</u>	<u>191,381</u>
WATER AND SEWER ENTERPRISE EXPENDITURES			
Operational labor	403,700	343,910	59,790
Water meters purchased	20,000	-	20,000
Direct water and sewer expenses	535,700	551,360	(15,660)
Capital outlay	1,670,128	229,729	1,440,399
Total water and sewer enterprise expenditures	<u>2,629,528</u>	<u>1,124,999</u>	<u>1,504,529</u>
EXCESS WATER AND SEWER ENTERPRISE REVENUE OVER (UNDER) WATER AND SEWER ENTERPRISE EXPENDITURES			
	<u>\$ (863,078)</u>	<u>\$ 832,832</u>	<u>\$ 1,695,910</u>

**PERRY PARK WATER AND SANITATION DISTRICT
RECONCILIATION OF BUDGETARY BASIS (ACTUAL)
TO STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
Year Ended December 31, 2006**

	Actual
Funds available are defined as follows:	
Current assets	\$ 4,504,409
Restricted current assets	303,484
Less current liabilities	(1,121,786)
Plus current portion of long-term obligations	350,000
Funds available	\$ 4,036,107
 Reconciliation of budgetary basis (actual) to Statement of Revenue, Expenses and Changes in Net Assets:	
Revenue (budgetary basis)	\$ 2,745,132
Total revenue per Statement of Revenue, Expenses and Changes in Net Assets	2,745,132
Expenditures (budgetary basis)	1,837,537
Depreciation	679,741
Amortization	27,267
Capital outlay	(250,643)
Bond principal payments	(330,000)
Total expenses per Statement of Revenue, Expenses and Changes in Net Assets	1,963,902
Change in net assets per Statement of Revenue, Expenses and Changes in Net Assets	\$ 781,230

**PERRY PARK WATER AND SANITATION DISTRICT
SUMMARY OF ASSESSED VALUATION,
MILL LEVY AND PROPERTY TAXES COLLECTED
December 31, 2006**

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>		<u>Mills Levied</u>		<u>Total Property Taxes</u>		<u>Percentage Collected to Levied</u>
	<u>Water and Sanitation Service Area</u>	<u>Water Service Area</u>	<u>Water and Sanitation Service Area</u>	<u>Water Service Area</u>	<u>Levied</u>	<u>Collected</u>	
2002	\$ 42,681,188	\$ 115,810	14.101	7.310	\$ 602,694	\$ 580,838	96.37%
2003	\$ 44,135,121	\$ 118,330	14.101	7.310	\$ 623,214	\$ 604,774	97.04%
2004	\$ 51,925,343	\$ 259,610	12.248	6.199	\$ 637,591	\$ 624,559	97.96%
2005	\$ 53,391,430	\$ 257,720	11.654	5.605	\$ 623,668	\$ 612,689	98.24%
2006	\$ 61,592,870	\$ 486,210	10.368	4.754	\$ 640,906	\$ 631,931	98.60%
Estimated for the year ending December 31, 2007	\$ 62,947,177	\$ 46,700	10.368	4.754	\$ 652,858		

Property taxes collected in any one year include collection of delinquent property taxes levied in prior years. Information received from the County Treasurer does not permit identification of specific year of levy if delinquent taxes are collected.