

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Financial Statements

Year Ended December 31, 2012

with

Independent Auditors' Report

C O N T E N T S

	<u>Page</u>
<u>Independent Auditors' Report</u>	I
<u>Basic Financial Statements</u>	
Government-wide Financial Statements:	
Statement of Net Position	1
Statement of Activities	2
Fund Financial Statements:	
Balance Sheet - Governmental Funds	3
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	4
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	5
Statement of Net Position - Proprietary Fund	6
Statement of Revenues, Expenditures and Changes in Net Position – Proprietary Fund	7
Statement of Cash Flows – Proprietary Fund	8
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	9
Notes to Financial Statements	10
<u>Supplemental Information</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Debt Service Fund	26
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budgetary Basis) - Proprietary Fund	27
Reconciliation of Revenues and Expenditures Budgetary Basis (Actual) to Statement of Revenue, Expenditures and Changes in Net Position - Proprietary Fund	28
Schedule of Debt Service Requirements to Maturity (Unaudited)	29-30
Summary of Assessed Valuation, Mill Levy and Property Taxes Collected (Unaudited)	31



Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Eagle Bend Metropolitan District No. 2
Arapahoe County, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Eagle Bend Metropolitan District No. 2 (the District) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Eagle Bend Metropolitan District No. 2, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information as 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. The supplementary information on pages 25 through 29 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information on pages 25 through 29 is fairly stated in all material respects in relation to the financial statements as a whole.

The summary of assessed valuation, mill levy, and property taxes collected, on page 30, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Wagner Barnett & Griggs, PC

Lakewood, Colorado
July 25, 2013

EAGLE BEND METROPOLITAN DISTRICT NO. 2

STATEMENT OF NET POSITION

December 31, 2012

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash and investments	\$ 2,007,477	\$ 1,053,771	\$ 3,061,248
Cash and investments - restricted	768,154	-	768,154
Receivable - County Treasurer	11,433	-	11,433
Property taxes receivable	2,827,227	-	2,827,227
Accounts receivable - customer	-	9,776	9,776
Prepaid expenses	2,022	-	2,022
Bond insurance costs, net of amortization	199,848	-	199,848
Deposits	<u>1,000</u>	<u>-</u>	<u>1,000</u>
TOTAL CURRENT ASSETS	<u>5,817,161</u>	<u>1,063,547</u>	<u>6,880,708</u>
CAPITAL ASSETS			
Depreciable, net of accumulated depreciation	<u>4,674,259</u>	<u>1,009,700</u>	<u>5,683,959</u>
TOTAL CAPITAL ASSETS	<u>4,674,259</u>	<u>1,009,700</u>	<u>5,683,959</u>
TOTAL ASSETS	<u>10,491,420</u>	<u>2,073,247</u>	<u>12,564,667</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on refunding	<u>1,653,632</u>	<u>-</u>	<u>1,653,632</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,653,632</u>	<u>-</u>	<u>1,653,632</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	14,549	-	14,549
Accrued bond and loan interest payable	71,030	-	71,030
Bonds and loan payable, due within one year	<u>890,000</u>	<u>-</u>	<u>890,000</u>
TOTAL CURRENT LIABILITIES	<u>975,579</u>	<u>-</u>	<u>975,579</u>
LONG-TERM LIABILITIES			
City of Aurora ECCV reimbursement	-	330,913	330,913
Bonds payable, net of current portion	17,156,698	-	17,156,698
Loan payable, net of current portion	<u>18,070,000</u>	<u>-</u>	<u>18,070,000</u>
TOTAL LONG-TERM LIABILITIES	<u>35,226,698</u>	<u>330,913</u>	<u>35,557,611</u>
TOTAL LIABILITIES	<u>36,202,277</u>	<u>330,913</u>	<u>36,533,190</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred property taxes	<u>2,827,227</u>	<u>-</u>	<u>2,827,227</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>2,827,227</u>	<u>-</u>	<u>2,827,227</u>
NET POSITION			
Net investment in capital assets	(31,442,439)	678,787	(30,763,652)
Restricted for:			
Emergency reserve	28,478	-	28,478
Debt service	705,757	-	705,757
Unrestricted	<u>3,823,752</u>	<u>1,063,547</u>	<u>4,887,299</u>
TOTAL NET POSITION (DEFICIT)	<u>\$ (26,884,452)</u>	<u>\$ 1,742,334</u>	<u>\$ (25,142,118)</u>

The notes to the financial statements are an integral part of these statements.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental Activities:							
General government	\$ 189,732	\$ -	\$ -	\$ -	\$ (189,732)	\$ -	\$ (189,732)
Interest and related costs on long-term debt	1,568,907	-	-	-	(1,568,907)	-	(1,568,907)
Depreciation	323,434	-	-	-	(323,434)	-	(323,434)
Total Governmental Activities	<u>2,082,073</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,082,073)</u>	<u>-</u>	<u>(2,082,073)</u>
Business-type Activities:							
Propriety fund	<u>273,394</u>	<u>360,108</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>86,714</u>	<u>86,714</u>
Total Business-type Activities	<u>273,394</u>	<u>360,108</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>86,714</u>	<u>86,714</u>
Total	<u>\$ 2,355,467</u>	<u>\$ 360,108</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(2,082,073)</u>	<u>86,714</u>	<u>(1,995,359)</u>
General Revenues:							
Property taxes					2,818,705	-	2,818,705
Specific ownership taxes					182,054	-	182,054
Miscellaneous income					828	-	828
Interest income					<u>27,460</u>	<u>-</u>	<u>27,460</u>
Total General Revenues					<u>3,029,047</u>	<u>-</u>	<u>3,029,047</u>
Change in Net Position					946,974	86,714	1,033,688
Net Position (Deficit) - Beginning restated					<u>(27,831,426)</u>	<u>1,655,620</u>	<u>(26,175,806)</u>
Net Position (Deficit) - Ending					<u>\$ (26,884,452)</u>	<u>\$ 1,742,334</u>	<u>\$ (25,142,118)</u>

The notes to the financial statements are an integral part of these statements.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and investments	\$ 2,007,477	\$ -	\$ 2,007,477
Cash and investments - restricted	-	768,154	768,154
Receivable County Treasurer	2,800	8,633	11,433
Property taxes receivable	692,382	2,134,845	2,827,227
Prepaid expenses	2,022	-	2,022
Deposits	1,000	-	1,000
TOTAL ASSETS	<u>\$ 2,705,681</u>	<u>\$ 2,911,632</u>	<u>\$ 5,617,313</u>
LIABILITIES			
Accounts payable	\$ 14,549	\$ -	\$ 14,549
TOTAL LIABILITIES	<u>14,549</u>	<u>-</u>	<u>14,549</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred property taxes	692,382	2,134,845	2,827,227
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>692,382</u>	<u>2,134,845</u>	<u>2,827,227</u>
FUND BALANCES:			
Nonspendable:			
Prepays	2,022	-	2,022
Other	1,000	-	1,000
Restricted:			
Emergencies	28,478	-	28,478
Debt service	-	776,787	776,787
Assigned:			
Anticipated for 2013 expenditures	1,967,250	-	1,967,250
TOTAL FUND BALANCE	<u>1,998,750</u>	<u>776,787</u>	<u>2,775,537</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$ 2,705,681</u>	<u>\$ 2,911,632</u>	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	4,674,259
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	
Loss on bond refunding, net of amortization	1,653,632
Loan insurance costs, net of amortization	199,848
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds	
Bonds and loan payable	(36,116,698)
Accrued interest on bonds and loan payable	(71,030)
Net Position (Deficit) of Governmental Activities	<u>\$ (26,884,452)</u>

The notes to the financial statements are an integral part of these statements.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
REVENUES			
Property taxes	\$ 690,295	\$ 2,128,410	\$ 2,818,705
Ownership taxes	44,584	137,470	182,054
Miscellaneous income	828	-	828
Interest income	<u>3,830</u>	<u>23,630</u>	<u>27,460</u>
TOTAL REVENUES	<u>739,537</u>	<u>2,289,510</u>	<u>3,029,047</u>
EXPENDITURES			
Accounting	8,574	-	8,574
Audit	5,102	-	5,102
Director fees	3,100	-	3,100
Administration	4,247	-	4,247
Election	11,540	-	11,540
Communication	8,665	-	8,665
Insurance	2,330	-	2,330
Legal	19,507	-	19,507
Meetings	4,320	-	4,320
Miscellaneous	1,509	-	1,509
Landscaping utilities and maintenance	54,434	-	54,434
Capital improvements	11,197	-	11,197
County collection fees	10,414	32,109	42,523
Bond principal	-	195,000	195,000
Bond interest	-	862,112	862,112
Loan principal	-	245,000	245,000
Loan interest	-	382,882	382,882
Paying agent fees	<u>-</u>	<u>9,510</u>	<u>9,510</u>
TOTAL EXPENDITURES	<u>144,939</u>	<u>1,726,613</u>	<u>1,871,552</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	594,598	562,897	1,157,495
OTHER FINANCING SOURCES (USES)			
Loan proceeds	-	19,000,000	19,000,000
Payment to escrow agent	-	(19,330,308)	(19,330,308)
Loan issuance costs	-	(338,039)	(338,039)
Transfers in	-	200,000	200,000
Transfers out	<u>(200,000)</u>	<u>-</u>	<u>(200,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(200,000)</u>	<u>(468,347)</u>	<u>(668,347)</u>
NET CHANGE IN FUND BALANCES	394,598	94,550	489,148
FUND BALANCES:			
BEGINNING OF YEAR	<u>1,604,152</u>	<u>682,237</u>	<u>2,286,389</u>
END OF YEAR	<u>\$ 1,998,750</u>	<u>\$ 776,787</u>	<u>\$ 2,775,537</u>

The notes to the financial statements are an integral part of these statements.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

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

Net change in fund balances - Total governmental funds	\$ 489,148
--	------------

Governmental funds report capital outlays as expenditures. In the statement of activities capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful lives of the asset. Therefore, this is the amount of capital outlay, net of depreciation, in the current period.

Depreciation expense	(323,434)
----------------------	-----------

The issuance of long-term debt (e.g., bonds, leases and loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on the net assets. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Loan proceeds	(19,000,000)
Payment to escrow agent	19,330,308
Bond insurance amortization	(12,684)
Amortization of loss on refunding	(51,676)
Original issue discount and original issue premium, net	(35)
Bond principal payment	195,000
Loan principal payment	245,000

Some expenses in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.

Change in accrued interest on bonds payable	<u>75,347</u>
---	---------------

Change in Net Position of Governmental Activities	<u>\$ 946,974</u>
---	-------------------

The notes to the financial statements are an integral part of these statements.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

STATEMENT OF NET POSITION
 PROPRIETARY FUND
 December 31, 2012

	Water Enterprise Fund
ASSETS	
CURRENT ASSETS	
Cash deposits and investments	\$ 1,053,771
Accounts receivable - customer	<u>9,776</u>
TOTAL CURRENT ASSETS	<u>1,063,547</u>
CAPITAL ASSETS	
Capital assets being depreciated	1,137,387
Accumulated depreciation	<u>(127,687)</u>
Capital assets, net	<u>1,009,700</u>
TOTAL ASSETS	<u>2,073,247</u>
LIABILITIES AND NET ASSETS	
LONG-TERM LIABILITIES	
City of Aurora ECCV reimbursement	<u>330,913</u>
TOTAL LIABILITIES	<u>330,913</u>
NET POSITION	
Invested in capital assets, net of related debt	678,787
Unrestricted	<u>1,063,547</u>
TOTAL NET POSITION	<u>\$ 1,742,334</u>

The notes to the financial statements are an integral part of these statements.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN NET POSITION
PROPRIETARY FUND

For the Year Ended December 31, 2012

	Water Enterprise Fund
OPERATING REVENUES	
Water service	\$ <u>360,108</u>
 TOTAL OPERATING REVENUES	 <u>360,108</u>
 OPERATING EXPENSES	
Utilities	139,231
Repairs and maintenance	74,386
Administration	8,670
Management	22,672
Depreciation	<u>28,435</u>
 TOTAL OPERATING EXPENSES	 <u>273,394</u>
 INCOME FROM OPERATIONS	 <u>86,714</u>
 NET INCOME - CHANGE IN NET POSITION	 86,714
 NET POSITION - BEGINNING OF YEAR	 <u>1,655,620</u>
 NET POSITION - END OF YEAR	 <u>\$ <u>1,742,334</u></u>

The notes to the financial statements are an integral part of these statements.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 For the Year Ended December 31, 2012

	Water Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 350,332
Payments to suppliers	<u>(244,959)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>105,373</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Payments to City of Aurora - ECCV Reimbursement	<u>(36,496)</u>
NET CASH PROVIDED (REQUIRED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(36,496)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	68,877
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>984,894</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,053,771</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (REQUIRED) BY OPERATING ACTIVITIES	
Net income from operations	\$ 86,714
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (REQUIRED) BY OPERATING ACTIVITIES	
Depreciation	28,435
Changes in Assets and Liabilities:	
Accounts receivable	<u>(9,776)</u>
NET ADJUSTMENTS	<u>18,659</u>
NET CASH PROVIDED (REQUIRED) BY OPERATING ACTIVITIES	<u>\$ 105,373</u>

The notes to the financial statements are an integral part of these statements.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
GENERAL FUND

For the Year Ended December 31, 2012

	Original/Final		Variance
	<u>Budget</u>	<u>Actual</u>	Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 667,633	\$ 690,295	\$ 22,662
Ownership taxes	48,296	44,584	(3,712)
Reimbursements	-	828	828
Interest income	229	3,830	3,601
TOTAL REVENUES	<u>716,158</u>	<u>739,537</u>	<u>23,379</u>
EXPENDITURES			
Accounting	20,000	8,574	11,426
Audit	7,000	5,102	1,898
Director fees	8,000	3,100	4,900
Election	20,000	11,540	8,460
Administration	7,000	4,247	2,753
Communication	22,500	8,665	13,835
Insurance	8,000	2,330	5,670
Legal	20,000	19,507	493
Meetings	10,000	4,320	5,680
Miscellaneous	4,000	1,509	2,491
Landscaping utilities and maintenance	60,000	54,434	5,566
Capital improvements	350,000	11,197	338,803
County collection fees	10,349	10,414	(65)
Working capital	300,000	-	300,000
Long range planning	30,000	-	30,000
Transfer to Debt Service Fund	900,000	200,000	700,000
Contingency	296,089	-	296,089
Emergency Reserve	17,305	-	17,305
TOTAL EXPENDITURES	<u>2,090,243</u>	<u>344,939</u>	<u>1,745,304</u>
NET CHANGE IN FUND BALANCE	(1,374,085)	394,598	1,768,683
FUND BALANCE - BEGINNING OF YEAR	<u>1,374,085</u>	<u>1,604,152</u>	<u>230,067</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ 1,998,750</u>	<u>\$ 1,998,750</u>

The notes to the financial statements are an integral part of these statements.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2012

Note 1: Reporting Entity

The Eagle Bend Metropolitan District No. 2 (“the District”) was organized on November 3, 1998 in the City of Aurora, Colorado as a quasi-municipal organization established under the State of Colorado Special District Act. The District was established to develop and provide streets, water and sanitation, safety controls, television relay, translator and parks and recreation services to users in the service area. The District’s primary revenues are “property taxes.” The District is governed by an elected Board of Directors.

The Eagle Bend Metropolitan District No. 2 Water Activity Enterprise (“the Enterprise”) was established in 2008 as a “water activity enterprise” and an agency of the District pursuant to Title 37, Article 45.1, Part 1, Colorado Revised Statutes (“the Act”). The District’s Board of Directors serves as the Board of Directors for the Enterprise. The Enterprise will continue all of the District’s water activities, including but not limited to water acquisition or water projects or facility activities, including the construction, operation, repair and replacement of water, wastewater or storm water facilities, using revenues generated by such water activities and held and managed in the District’s water enterprise fund. Pursuant to the Act, the Enterprise is excluded from the provisions of Article X, Section 20 of the Colorado Constitution (see Note 6). The Enterprise is considered as a component unit of the District and blended in the District’s financial statements. Separate financial statements of the component unit have not been issued.

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

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments.

Recently Issued and Adopted Accounting Pronouncements

In May 2009, the GASB issued Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 required the use of new fund balance classifications and clarifies existing governmental fund type definitions. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. The District adopted GASB 54 in fiscal year 2011.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components, which are, assets, deferred outflows of resources, liabilities and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The District adopted GASB Statement 63 in fiscal year 2012.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2012

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognize, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Statement also limits the use of the term deferred to items reported as deferred outflows of resources or deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 although the District elected to early implement GASB Statement 65 in fiscal year 2012.

Recently Issued Accounting Pronouncements

In November 2010, the GASB issued Statement 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. GASB 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This statement is effective for periods beginning after June 15, 2012. The District has not adopted Statement 61.

Note 2: Summary of Significant Accounting Policies

The accounting policies of the District conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

The District follows the 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.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2012

Basis of Presentation

The accompanying financial statements are presented per GASB No. 34.

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of net position reports all financial and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

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

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2012

they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources not accounted for and reported in another fund.

Debt Service Fund - The Debt Service Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for principal, interest and other debt related costs.

The District reports the following major proprietary fund:

Water Enterprise Fund – The Water Enterprise Fund accounts for activities associated with the water distribution system.

The Enterprise Fund accounts for the operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing goods or services on a continuing basis be financed or recovered primarily through user charges.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's ongoing operations. Operating revenues consist of charges to customers for services provided. Operating expenses for proprietary funds include the cost of services, administrative expenses, and depreciation of assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses or capital contributions. The District's proprietary fund consists of the Water Enterprise Fund.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2012

Budgetary Accounting

Budgets are adopted on a non-GAAP basis for the governmental funds and proprietary fund. In accordance with the State Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. 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. The budget includes each fund on its basis of accounting unless otherwise indicated. The appropriation is at the total fund expenditures level and lapses at year end.

Statement of Cash Flows

For purposes of the statement of cash flows, the District considers cash deposits with a maturity of three months or less to be cash equivalents. During 2012, the District incurred no noncash activities other than depreciation.

Assets, Liabilities, and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2012 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

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

Estimates

The preparation of these financial statements in conformity with GAAP requires the District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2012

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. It is the deferred loss on refunding reported in the government-wide statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Property taxes for the current year but collectable in the subsequent year are deferred and recognized as an inflow of resources in the period that the amounts become available.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns 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 two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the assets are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land is not depreciated.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Landscaping	20 years
Wells and pipeline	40 years

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2012

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bonds payable are reported net of the applicable bond premium or discount.

Property Tax

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 in equal installments, at the taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally 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 inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

Fund Equity

Beginning with fiscal year ending December 31, 2011, the District implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent.

Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form (such as inventory or prepaids) or are legally or contractually required to be maintained intact.

The nonspendable fund balance in the General Fund in the amount of \$2,022 represents prepaid expenditures and the amount of \$1,000 represents a deposit.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2012

Restricted Fund Balance

The restricted fund balance includes amounts restricted for a specific purpose by external parties such as grantors, bondholders, constitutional provisions or enabling legislation.

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$28,478 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$776,787 is restricted for the payment of the debt service costs associated with the General Obligation Refunding Bonds (see Note 5).

Assigned Fund Balance

Assigned fund balance includes amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Directors or by an official or body to which the Board of Directors delegates the authority.

The assigned fund balance in the General Fund in the amount of \$1,967,250 represents the amount for use in the budget for the year ending December 31, 2013.

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District reports three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, except for construction in progress, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2012

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District will use the most restrictive net position first.

Due to the implementation of GASB 65, the following discloses the restatement of net position as of the beginning of the fiscal year:

Net Position, beginning of year, as previously stated:	\$(25,898,887)
Decrease due to the change in accounting for bond issuance costs	(276,919)
Net Position, beginning of year, as restated	<u>\$(26,175,806)</u>

Note 3: Cash and Investments

As of December 31, 2012, cash and investments are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments	\$ 3,061,248
Cash and investments - restricted	<u>768,154</u>
Total	<u>\$ 3,829,402</u>

Cash and investments as of December 31, 2012 consist of the following:

Deposits with financial institutions	\$ 1,369,214
Investments	<u>2,460,188</u>
	<u>\$ 3,829,402</u>

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2012

Deposits

Custodial Credit Risk

The Colorado Public Deposit Protection Act, (“PDPA”) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. 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 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured depositories and assets maintained in the collateral pools.

The District follows state statutes for deposits. None of the District’s deposits were exposed to custodial credit risk.

Investments

Credit risk

The District investment policy requires that the District follow state statutes for investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

Custodial and Concentration of Credit Risk

None of the District’s investments are subject to custodial or concentration of credit risk.

Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

As of December 31, 2012, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
COLOTRUST	Weighted average under 60 days	<u>\$ 2,460,188</u>

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2012

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust (“COLOTRUST”) is rated AAAM by Standard and Poor’s. COLOTRUST is an investment trust/joint ventures established for local government entities in Colorado to pool surplus funds. The trusts operate similarly to a money market fund with each share maintaining a value of \$1.00.

The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes 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. Designated custodian banks provide safekeeping and depository services to the trusts. Substantially all securities owned by the trusts are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians' internal records identify the investments owned by COLOTRUST. At December 31, 2012, the District had \$2,460,188 invested in COLOTRUST.

Note 4: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2012 follows:

	<u>Balance</u> <u>01-01-12</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12-31-12</u>
<u>Governmental Type Activities:</u>				
<u>Capital assets being depreciated:</u>				
Landscaping	\$ 6,468,676	\$ -	\$ -	\$ 6,468,676
Total capital assets being depreciated:	6,468,676	-	-	6,468,676
Total accumulated depreciation	(1,470,983)	(323,434)	-	(1,794,417)
Net capital assets being depreciated:	4,997,693	(323,434)	-	4,674,259
Government type assets, net	<u>\$ 4,997,693</u>	<u>\$ (323,434)</u>	<u>\$ -</u>	<u>\$ 4,674,259</u>

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2012

	Balance 01-01-12	Additions	Deletions	Balance 12-31-12
<u>Business Type Activities:</u>				
<u>Capital assets being depreciated:</u>				
ECCV pipeline	686,758	-	-	686,758
Well costs	450,629	-	-	450,629
Total capital assets being depreciated:	1,137,387	-	-	1,137,387
Total accumulated depreciation	(99,252)	(28,435)	-	(127,687)
Net capital assets being depreciated:	1,038,135	(28,435)	-	1,009,700
Business type assets, net	<u>\$ 1,038,135</u>	<u>\$ (28,435)</u>	<u>\$ -</u>	<u>\$ 1,009,700</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Landscaping	\$ 323,434
Total depreciation expense – governmental activities	<u>\$ 323,434</u>

Business-type activities:

Wells	\$ 11,266
ECCV pipeline	17,169
Total depreciation expense – business type activities	<u>\$ 28,435</u>

Upon completion and acceptance, all of the governmental activities fixed assets except for the landscaping will be conveyed by the District to other local governments. The District will not be responsible for maintenance.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2012

Note 5: Long-Term Debt

A description of the long-term obligations as of December 31, 2012, is as follows:

Series 2003 Limited Tax General Obligation Refunding Bonds – The District issued its Series 2003 bonds in the original principal amount of \$21,180,000. The bonds are subject to optional redemption on or after December 31, 2014 with no redemption premium. The bonds carry coupon rates ranging from 2.00% to 5.25%. The bonds were issued to refund all of the District's Series 1999 bonds, and a portion of the District's 1999 subordinate bonds. The refunding resulted in a present value savings of approximately \$1,192,000 to the District. The 2003 bonds were initially tax obligation bonds of the District payable from a mill levy not to exceed 47.06 mills. However, in connection with the issuance of the Series 2005 bonds (see below), the District has amended the trust indenture to provide a property tax levy to pay 2003 and 2004 bond principal and interest without limitation as to rate. These bonds were refunded on April 27, 2012.

Series 2004 Limited Tax General Obligation Refunding Bonds – The District issued its Series 2004 bonds in the original principal amount of \$3,355,000. The bonds are subject to optional redemption from December 31, 2014 to November 30, 2015 with a 1% redemption premium, and thereafter with no premium. The bonds carry coupon rates ranging from 2.25% to 5.00%. The bonds were issued to refund a portion of the District's 1999 subordinate bonds.

Series 2005 General Obligation Refunding Bonds – The District issued its Series 2005 bonds in the original principal amount of \$15,465,000. The bonds are subject to optional redemption on or after December 31, 2015 with no redemption premium, and subject to mandatory sinking fund requirements beginning December 1, 2021. The bonds carry coupon rates ranging from 4.50% to 5.00%. The bonds were issued to refund all the District's remaining Series 1999 subordinate bonds. The 2005 bonds are initially subordinate to the 2003 and 2004 bonds, until the District satisfies an Indenture Conversion Test.

Series 2012 General Obligation Refunding Loan – On April 27, 2012, the District advance refunded its outstanding Series 2003 Bonds totaling \$17,625,000 with a \$19,000,000 loan. The loan carries a coupon rate of 3.39% and calls for interest payments on June 1st and December 1st commencing December 1, 2012. Principal payments are due annually on December 1st commencing December 1, 2012 through 2033. The loan is subject to optional redemption on or after April 27, 2022 with no redemption premium. The refunding resulted in a present value savings of approximately \$1,072,000 to the District.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2012

The following is an analysis of changes in long-term debt for the period ending December 31, 2012:

	Balance 01-01-12	Additions	Deletions	Balance 12-31-12	Current Portion
2003 G.O. Bonds	\$ 17,625,000	\$ -	\$ 17,625,000	\$ -	\$ -
2004 G.O. Bonds	2,155,000	-	195,000	1,960,000	205,000
2005 G.O. Bonds	15,465,000	-	-	15,465,000	-
2012 G.O. Refunding Loan	-	19,000,000	245,000	18,755,000	685,000
	<u>35,245,000</u>	<u>19,000,000</u>	<u>18,065,000</u>	<u>36,180,000</u>	<u>890,000</u>
2004 G.O. Bonds Premium	49,967	-	5,604	44,363	-
2005 G.O. Bonds Discount	(113,304)	-	(5,639)	(107,665)	-
	<u>\$ 35,181,663</u>	<u>\$ 19,000,000</u>	<u>\$ 18,064,965</u>	<u>\$ 36,116,698</u>	<u>\$ 890,000</u>

As of December 31, 2012, the District amortized \$45,298 of original issue premium and \$39,285 of original issue discount.

The following is a summary of the annual long-term debt principal and interest requirements as of December 31, 2012:

	Principal	Interest	Total
2013	890,000	1,488,157	2,378,157
2014	950,000	1,454,686	2,404,686
2015	1,005,000	1,419,019	2,424,019
2016	1,045,000	1,381,328	2,426,328
2017	1,085,000	1,342,037	2,427,037
2018-2022	6,030,000	6,069,142	12,099,142
2023-2027	7,630,000	4,851,319	12,481,319
2028-2032	9,990,000	3,181,150	13,171,150
2033-2035	7,555,000	760,434	8,315,434
	<u>\$ 36,180,000</u>	<u>\$ 21,947,272</u>	<u>\$ 58,127,272</u>

At December 31, 2012, the District had \$4,455,000 of voter-authorized but unissued indebtedness. Notwithstanding, the District has issued all of the general obligation debt authorized by its service plan.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2012

Note 6: Tax Spending and Debt Limitations

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

Enterprises, defined as government-owned business authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. The District’s management believes a significant portion of its operations qualifies for this exclusion.

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 will require judicial interpretation.

On November 3, 1998, a majority of the District’s electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

Note 7: Intergovernmental Agreements

The District and the City of Aurora have entered into an intergovernmental Agreement as required by the City of Aurora Code and the District’s Consolidated Service Plan. Under this agreement, the District must obtain the approval of the City of Aurora Council prior to; (i) any inclusion of property in or exclusion of property from the boundaries of the District, (ii) any refunding of the bonds of the District which could shorten or extend the maturities of such bonds or increase the total debt service thereon (subject to certain exception) or (iii) any consolidation with any other special district.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2012

The District and the City of Aurora Water Department entered into an agreement August 22, 2007 to construct a connection to the East Cherry Creek Valley (“ECCV”) waterline. The District is to reimburse the City of Aurora \$557,089 for design and construction costs through water rate charges and a one-time down payment of \$100,000. Reimbursement for the project costs will be charged to the District based on the difference between the current City domestic irrigation rate less the City raw water rate. When the project costs have been reimbursed, the City will charge all water delivered through the ECCV connection to the District at the then current City raw water rate.

Note 8: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The District has elected to participate in the Colorado Special Districts Property and Liability Pool (“the Pool”) is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Any excess funds which the Pool determines are not need for purposes of the Pool may be returned to the members pursuant to a distribution formula.

The District pays annual premiums to the Pool for auto, public officials’ liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other members.

SUPPLEMENTAL INFORMATION

EAGLE BEND METROPOLITAN DISTRICT NO. 2

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
DEBT SERVICE FUND

For the Year Ended December 31, 2012

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES				
Property taxes	\$ 2,058,532	\$ 2,058,532	\$ 2,128,410	\$ 69,878
Ownership taxes	160,000	160,000	137,470	(22,530)
Loan proceeds	-	19,000,000	19,000,000	-
Transfer from General Fund	900,000	900,000	200,000	(700,000)
Interest income	<u>12,000</u>	<u>12,000</u>	<u>23,630</u>	<u>11,630</u>
TOTAL REVENUES	<u>3,130,532</u>	<u>22,130,532</u>	<u>21,489,510</u>	<u>(641,022)</u>
EXPENDITURES				
Bond principal	730,000	730,000	195,000	535,000
Bond interest	1,756,526	1,756,526	862,112	894,414
Loan Principal	-	-	245,000	(245,000)
Loan interest	-	-	382,882	(382,882)
Payment to escrow agent	-	19,000,000	19,330,308	(330,308)
Cost of issuance	-	-	338,039	(338,039)
Legal	4,028	4,028	-	4,028
Paying agent fees	20,000	20,000	9,510	10,490
County collection fees	<u>31,898</u>	<u>31,898</u>	<u>32,109</u>	<u>(211)</u>
TOTAL EXPENDITURES	<u>2,542,452</u>	<u>21,542,452</u>	<u>21,394,960</u>	<u>147,492</u>
NET CHANGE IN FUND BALANCE	588,080	588,080	94,550	(493,530)
FUND BALANCE - BEGINNING OF YEAR	<u>619,778</u>	<u>619,778</u>	<u>682,237</u>	<u>62,459</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,207,858</u>	<u>\$ 1,207,858</u>	<u>\$ 776,787</u>	<u>\$ (431,071)</u>

The notes to the financial statements are an integral part of these statements.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS) -
PROPRIETARY FUND

For the Year Ended December 31, 2012

	Original/Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Water service	\$ 300,000	\$ 360,108	\$ 60,108
TOTAL REVENUES	<u>300,000</u>	<u>360,108</u>	<u>60,108</u>
EXPENDITURES			
Utilities	136,276	139,231	(2,955)
Repairs and maintenance	42,500	74,386	(31,886)
Administration	16,000	8,670	7,330
Management	12,500	22,672	(10,172)
Water projects	77,800	-	77,800
Contingency	<u>15,000</u>	<u>-</u>	<u>15,000</u>
TOTAL EXPENDITURES	<u>300,076</u>	<u>244,959</u>	<u>55,117</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(76)	115,149	115,225
FUND BALANCE			
BEGINNING OF YEAR	<u>565,465</u>	<u>617,485</u>	<u>52,020</u>
END OF YEAR	<u>\$ 565,389</u>	<u>\$ 732,634</u>	<u>\$ 167,245</u>
Funds available computed as follows:			
Current assets		\$ 1,063,547	
Liabilities		<u>(330,913)</u>	
		<u>\$ 732,634</u>	

The notes to the financial statements are an integral part of these statements.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

RECONCILIATION OF REVENUES AND EXPENDITURES
BUDGETARY BASIS (ACTUAL) TO STATEMENT OF REVENUE,
EXPENDITURES AND CHANGES IN NET POSITION

PROPRIETARY FUND

For the Year Ended December 31, 2012

Excess of revenues over expenditures	\$ 115,149
Deduct depreciation which is an expense	<u>(28,435)</u>
Changes in Net Position per Statement Revenues, Expenditures and Changes in Net Position	<u>\$ 86,714</u>

The notes to the financial statements are an integral part of these statements.

EAGLE BEND METROPOLITAN DISTRICT NO. 2
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY

Year Ended December 31,	\$3,355,000 General Obligation Refunding Bonds, Series 2004 Interest Rate 2.25% to 5.00% Interest Payable June 1 and December 1 Principal Due December 1			\$15,465,000 General Obligation Refunding Bonds, Series 2005 Interest Rate 4.50% to 5.00% Interest Payable June 1 and December 1 Principal Due December 1		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 205,000	\$ 98,000	\$ 303,000	\$ -	\$ 754,363	\$ 754,363
2014	215,000	87,750	302,750	-	754,363	754,363
2015	225,000	77,000	302,000	-	754,363	754,363
2016	240,000	65,750	305,750	-	754,363	754,363
2017	250,000	53,750	303,750	-	754,363	754,363
2018	260,000	41,250	301,250	-	754,363	754,363
2019	275,000	28,250	303,250	-	754,363	754,363
2020	290,000	14,500	304,500	-	754,363	754,363
2021	-	-	-	260,000	754,363	1,014,363
2022	-	-	-	315,000	742,663	1,057,663
2023	-	-	-	340,000	728,488	1,068,488
2024	-	-	-	400,000	713,188	1,113,188
2025	-	-	-	420,000	695,188	1,115,188
2026	-	-	-	490,000	676,288	1,166,288
2027	-	-	-	510,000	653,013	1,163,013
2028	-	-	-	585,000	628,788	1,213,788
2029	-	-	-	1,195,000	601,000	1,796,000
2030	-	-	-	1,305,000	544,238	1,849,238
2031	-	-	-	1,365,000	482,250	1,847,250
2032	-	-	-	1,490,000	414,000	1,904,000
2033	-	-	-	1,565,000	339,500	1,904,500
2034	-	-	-	2,550,000	261,250	2,811,250
2035	-	-	-	2,675,000	133,750	2,808,750
	<u>\$ 1,960,000</u>	<u>\$ 466,250</u>	<u>\$ 2,426,250</u>	<u>\$ 15,465,000</u>	<u>\$ 14,402,871</u>	<u>\$ 29,867,871</u>

The note to the financial statements are an integral part of these statements.

EAGLE BEND METROPOLITAN DISTRICT NO. 2
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY

\$19,000,000 General Obligation Refunding Loan, Series 2012 Interest Rate 3.39%						
Interest Payable June 1 and December 1						
Principal Due December 1				Total of All Bonds		
Year Ended December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 685,000	\$ 635,794	\$ 1,320,794	\$ 890,000	\$ 1,488,157	\$ 2,378,157
2014	735,000	612,573	1,347,573	950,000	1,454,686	2,404,686
2015	780,000	587,656	1,367,656	1,005,000	1,419,019	2,424,019
2016	805,000	561,215	1,366,215	1,045,000	1,381,328	2,426,328
2017	835,000	533,924	1,368,924	1,085,000	1,342,037	2,427,037
2018	865,000	505,619	1,370,619	1,125,000	1,301,232	2,426,232
2019	890,000	476,295	1,366,295	1,165,000	1,258,908	2,423,908
2020	925,000	446,123	1,371,123	1,215,000	1,214,986	2,429,986
2021	960,000	414,767	1,374,767	1,220,000	1,169,130	2,389,130
2022	990,000	382,223	1,372,223	1,305,000	1,124,886	2,429,886
2023	1,020,000	348,661	1,368,661	1,360,000	1,077,149	2,437,149
2024	1,055,000	314,084	1,369,084	1,455,000	1,027,272	2,482,272
2025	1,095,000	278,319	1,373,319	1,515,000	973,507	2,488,507
2026	1,130,000	241,198	1,371,198	1,620,000	917,486	2,537,486
2027	1,170,000	202,892	1,372,892	1,680,000	855,905	2,535,905
2028	1,215,000	163,228	1,378,228	1,800,000	792,016	2,592,016
2029	675,000	122,040	797,040	1,870,000	723,040	2,593,040
2030	700,000	99,158	799,158	2,005,000	643,396	2,648,396
2031	720,000	75,428	795,428	2,085,000	557,678	2,642,678
2032	740,000	51,020	791,020	2,230,000	465,020	2,695,020
2033	765,000	25,934	790,934	2,330,000	365,434	2,695,434
2034	-	-	-	2,550,000	261,250	2,811,250
2035	-	-	-	2,675,000	133,750	2,808,750
	<u>\$ 18,755,000</u>	<u>\$ 7,078,151</u>	<u>\$ 25,833,151</u>	<u>\$ 36,180,000</u>	<u>\$ 21,947,272</u>	<u>\$ 58,127,272</u>

The note to the financial statements are an integral part of these statements.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED

December 31, 2012

(UNAUDITED)

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied		Total Property Tax		Percent Collected to Levied
		General Fund	Debt Service	Levied	Collected	
2003	\$ 20,026,800	5.000	40.289	\$ 906,994	\$ 904,887	99.77%
2004	\$ 31,455,270	5.000	47.060	\$ 1,637,561	\$ 1,479,538	90.35%
2005	\$ 39,084,550	5.000	47.060	\$ 2,034,742	\$ 1,881,816	92.48%
2006	\$ 48,031,750	10.000	42.000	\$ 2,497,651	\$ 2,681,945	107.38%
2007	\$ 52,826,000	10.000	42.000	\$ 2,746,952	\$ 2,781,154	101.25%
2008	\$ 62,958,230	12.000	37.000	\$ 3,084,954	\$ 3,059,012	99.16%
2009	\$ 63,743,060	12.000	37.000	\$ 3,123,410	\$ 2,987,047	95.63%
2010	\$ 64,888,350	12.000	37.000	\$ 3,179,529	\$ 3,145,732	98.94%
2011	\$ 64,027,680	12.000	37.000	\$ 3,137,356	\$ 3,099,978	98.81%
2012	\$ 57,495,640	12.000	37.000	\$ 2,817,286	\$ 2,818,705	100.05%
Estimated for year ending December 31, 2013	\$ 57,698,510	12.000	37.000	\$ 2,827,227		

NOTE

Property taxes collected in any one year include collection of delinquent property taxes levied and/or abatements or valuations in prior years. Information received from the County Treasurer does not permit identification of specific year assessment.