

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Financial Statements

Year Ended December 31, 2011

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 Assets | 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 Assets - Proprietary Fund | 6 |
| Statement of Revenues, Expenditures and Changes in Net Assets – 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 | 24 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budgetary Basis) - Proprietary Fund | 25 |
| Reconciliation of Revenues and Expenditures Budgetary Basis (Actual) to Statement of Revenue, Expenditures and Changes in Net Assets - Proprietary Fund | 26 |
| Schedule of Debt Service Requirements to Maturity (Unaudited) | 27-28 |
| Summary of Assessed Valuation, Mill Levy and Property Taxes Collected (Unaudited) | 29 |



Certified Public Accountants and Business Consultants

INDEPENDENT AUDITORS' 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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Eagle Bend Metropolitan District No. 2, as of December 31, 2011, 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 conformity with accounting principles generally accepted in the United States of America.

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 financial statements as a whole. The supplemental 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 financial statements. The supplemental information on pages 24 through 26 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information on pages 24 through 26 has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 is fairly stated in all material respects in relation to the financial statements as a whole. The supplemental information on pages 27 through 29 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 Barnes, PC

Lakewood, Colorado
July 24, 2012

EAGLE BEND METROPOLITAN DISTRICT NO. 2

STATEMENT OF NET ASSETS

December 31, 2011

| | Governmental <u>Activities</u> | Business-Type <u>Activities</u> | <u>Total</u> |
|---|-----------------------------------|------------------------------------|------------------------|
| ASSETS | | | |
| Cash and investments | \$ 1,620,078 | \$ 984,894 | \$ 2,604,972 |
| Cash and investments - restricted | 673,116 | - | 673,116 |
| Taxes receivable - current | 12,079 | - | 12,079 |
| Taxes receivable - deferred | 2,817,286 | - | 2,817,286 |
| Deposits | 1,000 | - | 1,000 |
| Prepaid expenses | 2,526 | - | 2,526 |
| Bond issuance costs, net of amortization | 489,451 | - | 489,451 |
| Capital assets, net of depreciation | <u>4,997,693</u> | <u>1,038,135</u> | <u>6,035,828</u> |
| TOTAL ASSETS | <u>10,613,229</u> | <u>2,023,029</u> | <u>12,636,258</u> |
| LIABILITIES | | | |
| Accounts payable | 22,410 | - | 22,410 |
| Deferred property tax revenue | 2,817,286 | - | 2,817,286 |
| Accrued bond interest payable | 146,377 | - | 146,377 |
| City of Aurora ECCV reimbursement | - | 367,409 | 367,409 |
| Bonds payable, due within one year | 730,000 | - | 730,000 |
| Bonds payable, net of current portion | <u>34,451,663</u> | <u>-</u> | <u>34,451,663</u> |
| TOTAL LIABILITIES | <u>38,167,736</u> | <u>367,409</u> | <u>38,535,145</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | (30,183,970) | 670,726 | (29,513,244) |
| Restricted for: | | | |
| Emergency reserve | 17,305 | - | 17,305 |
| Debt service | 682,237 | - | 682,237 |
| Unrestricted | <u>1,929,921</u> | <u>984,894</u> | <u>2,914,815</u> |
| TOAL NET ASSETS | <u>\$ (27,554,507)</u> | <u>\$ 1,655,620</u> | <u>\$ (25,898,887)</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, 2011

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | Total |
|--|---------------------|-------------------------|--|--|--|-----------------------------|------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | |
| Primary Government: | | | | | | | |
| Governmental Activities: | | | | | | | |
| General government | \$ 278,323 | \$ - | \$ - | \$ - | \$ (278,323) | \$ - | \$ (278,323) |
| Interest and related costs on long-term debt | 1,783,922 | - | - | - | (1,783,922) | - | (1,783,922) |
| Depreciation | 305,115 | - | - | - | (305,115) | - | (305,115) |
| Total Governmental Activities | <u>2,367,360</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(2,367,360)</u> | <u>-</u> | <u>(2,367,360)</u> |
| Business-Type Activities: | | | | | | | |
| Proprietary fund | <u>210,735</u> | <u>322,112</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>111,377</u> | <u>111,377</u> |
| Total Business-Type Activities | <u>210,735</u> | <u>322,112</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>111,377</u> | <u>111,377</u> |
| Total | <u>\$ 2,578,095</u> | <u>\$ 322,112</u> | <u>\$ -</u> | <u>-</u> | <u>(2,367,360)</u> | <u>111,377</u> | <u>(2,255,983)</u> |
| General Revenues: | | | | | | | |
| Property taxes | | | | | 3,099,978 | - | 3,099,978 |
| Specific ownership taxes | | | | | 186,696 | - | 186,696 |
| Reimbursements | | | | | 52,077 | - | 52,077 |
| Interest income | | | | | 15,204 | - | 15,204 |
| Total General Revenues | | | | | <u>3,353,955</u> | <u>-</u> | <u>3,353,955</u> |
| Change in Net Assets | | | | | 986,595 | 111,377 | 1,097,972 |
| Net Assets (Deficit) - Beginning | | | | | <u>(28,541,102)</u> | <u>1,544,243</u> | <u>(26,996,859)</u> |
| Net Assets (Deficit) - Ending | | | | | <u>\$ (27,554,507)</u> | <u>\$ 1,655,620</u> | <u>\$ (25,898,887)</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, 2011

| | <u>General</u> | <u>Debt Service</u> | <u>Total Governmental Funds</u> |
|--------------------------------------|---------------------|-------------------------|---|
| ASSETS | | | |
| Cash and investments | \$ 1,620,078 | \$ - | \$ 1,620,078 |
| Cash and investments - restricted | - | 673,116 | 673,116 |
| Property taxes receivable - current | 2,958 | 9,121 | 12,079 |
| Property taxes receivable - deferred | 689,948 | 2,127,338 | 2,817,286 |
| Deposits | 1,000 | - | 1,000 |
| Prepaid expenses | <u>2,526</u> | <u>-</u> | <u>2,526</u> |
| Total Assets | <u>\$ 2,316,510</u> | <u>\$ 2,809,575</u> | <u>\$ 5,126,085</u> |
| LIABILITIES | | | |
| Accounts payable | \$ 22,410 | \$ - | \$ 22,410 |
| Deferred property taxes | <u>689,948</u> | <u>2,127,338</u> | <u>2,817,286</u> |
| Total Liabilities | <u>712,358</u> | <u>2,127,338</u> | <u>2,839,696</u> |
| FUND BALANCES: | | | |
| Nonspendable: | | | |
| Prepays | 2,526 | - | 2,526 |
| Other | 1,000 | - | 1,000 |
| Restricted: | | | |
| Emergencies | 17,305 | - | 17,305 |
| Debt service | - | 682,237 | 682,237 |
| Assigned: | | | |
| Anticipated for 2012 expenditures | 1,324,948 | - | 1,324,948 |
| Unassigned | <u>258,373</u> | <u>-</u> | <u>258,373</u> |
| Total Fund Balance | <u>1,604,152</u> | <u>682,237</u> | <u>2,286,389</u> |
| Total Liabilities and Fund Balance | <u>\$ 2,316,510</u> | <u>\$ 2,809,575</u> | |

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

| | |
|---|------------------------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds | 4,997,693 |
| The funds report bond issue costs as expenditures at the time the costs are incurred, but the statement of net assets reports these costs as a deferred asset and amortizes the cost over the life of the bonds | 489,451 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds | |
| Bonds payable, net of costs of bonds refunding | (35,181,663) |
| Accrued interest on bonds payable | <u>(146,377)</u> |
| Net Assets (Deficit) of Governmental Activities | <u>\$ (27,554,507)</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, 2011

| | <u>General</u> | <u>Debt Service</u> | <u>Total</u> |
|---------------------------------------|---------------------|-------------------------|---------------------|
| REVENUES | | | |
| Property taxes | \$ 759,175 | \$ 2,340,803 | \$ 3,099,978 |
| Ownership taxes | 45,721 | 140,975 | 186,696 |
| Reimbursements | 52,077 | - | 52,077 |
| Interest income | 1,398 | 13,806 | 15,204 |
| | <u>858,371</u> | <u>2,495,584</u> | <u>3,353,955</u> |
| TOTAL REVENUES | | | |
| EXPENDITURES | | | |
| Accounting | 7,196 | - | 7,196 |
| Audit | 5,131 | - | 5,131 |
| Director fees | 3,250 | - | 3,250 |
| Administration | 3,132 | - | 3,132 |
| Communication | 13,493 | - | 13,493 |
| Insurance | 4,051 | - | 4,051 |
| Legal | 15,422 | - | 15,422 |
| Meetings | 4,472 | - | 4,472 |
| Miscellaneous | 1,788 | - | 1,788 |
| Landscaping utilities and maintenance | 31,112 | - | 31,112 |
| Capital improvements | 478,711 | - | 478,711 |
| Bond principal | - | 700,000 | 700,000 |
| Bond interest | - | 1,786,375 | 1,786,375 |
| County collection fees | 11,409 | 35,179 | 46,588 |
| | <u>579,167</u> | <u>2,521,554</u> | <u>3,100,721</u> |
| TOTAL EXPENDITURES | | | |
| NET CHANGE IN FUND BALANCE | 279,204 | (25,970) | 253,234 |
| FUND BALANCE: | | | |
| BEGINNING OF YEAR | <u>1,324,948</u> | <u>708,207</u> | <u>2,033,155</u> |
| END OF YEAR | <u>\$ 1,604,152</u> | <u>\$ 682,237</u> | <u>\$ 2,286,389</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, 2011

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

| | |
|--|------------|
| Net change in fund balances - Total governmental funds | \$ 253,234 |
|--|------------|

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.

| | |
|-------------------------|-----------|
| Capital outlay | 478,711 |
| Capital assets conveyed | (111,499) |
| Depreciation expense | (305,115) |

The issuance of long-term debt (e.g., bonds, leases) 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 issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

| | |
|---|----------|
| Costs of issuance amortization | (31,189) |
| Original issue discount and original issue premium, net | (35) |
| Bond principal payment | 700,000 |

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>2,488</u> |
|---|--------------|

| | |
|---|-------------------|
| Change in Net Assets of Governmental Activities | <u>\$ 986,595</u> |
|---|-------------------|

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

EAGLE BEND METROPOLITAN DISTRICT NO. 2

STATEMENT OF NET ASSETS

PROPRIETARY FUND

December 31, 2011

| | Water Enterprise Fund |
|---|-----------------------------|
| | <u> </u> |
| ASSETS | |
| CURRENT ASSETS | |
| Cash deposits and investments | \$ 984,894 |
| TOTAL CURRENT ASSETS | <u>984,894</u> |
| CAPITAL ASSETS | |
| Capital assets being depreciated | 1,137,387 |
| Accumulated depreciation | <u>(99,252)</u> |
| Capital assets, net | <u>1,038,135</u> |
| TOTAL ASSETS | <u>\$ 2,023,029</u> |
| LIABILITIES AND NET ASSETS | |
| LONG-TERM LIABILITIES | |
| City of Aurora ECCV reimbursement | \$ 367,409 |
| TOTAL LONG-TERM LIABILITIES | <u>367,409</u> |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 670,726 |
| Unrestricted | <u>984,894</u> |
| TOTAL NET ASSETS | <u>1,655,620</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 2,023,029</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 ASSETS
PROPRIETARY FUND

For the Year Ended December 31, 2011

| | <u>Water Enterprise Fund</u> |
|------------------------------------|--------------------------------------|
| OPERATING REVENUES | |
| Water service | \$ <u>322,112</u> |
| TOTAL OPERATING REVENUES | <u>322,112</u> |
| OPERATING EXPENSES | |
| Utilities | 134,925 |
| Repairs and maintenance | 13,630 |
| Administration | 23,740 |
| Management | 6,830 |
| Water projects | 3,175 |
| Depreciation | <u>28,435</u> |
| TOTAL OPERATING EXPENSES | <u>210,735</u> |
| INCOME FROM OPERATIONS | <u>111,377</u> |
| NET INCOME - CHANGE IN ASSETS | 111,377 |
| NET ASSETS - BEGINNING OF YEAR | <u>1,544,243</u> |
| NET ASSETS - END OF YEAR | <u>\$ 1,655,620</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, 2011

| | Water Enterprise Fund |
|---|-----------------------------|
| | <u> </u> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Receipts from customers | \$ 322,112 |
| Payments to suppliers | <u>(182,300)</u> |
| NET CASH PROVIDED (REQUIRED) BY OPERATING ACTIVITIES | <u>139,812</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | |
| Payments to City of Aurora - ECCV Reimbursement | <u>(43,201)</u> |
| NET CASH PROVIDED (REQUIRED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(43,201)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 96,611 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>888,283</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 984,894</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (REQUIRED) BY OPERATING ACTIVITIES | |
| Net income (loss) from operations | \$ 111,377 |
| ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (REQUIRED) BY OPERATING ACTIVITIES | |
| Depreciation | <u>28,435</u> |
| NET ADJUSTMENTS | <u>28,435</u> |
| NET CASH PROVIDED (REQUIRED) BY OPERATING ACTIVITIES | <u>\$ 139,812</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, 2011

| | Original/Final <u>Budget</u> | <u>Actual</u> | Variance Favorable <u>(Unfavorable)</u> |
|---|---------------------------------|---------------------|---|
| REVENUES | | | |
| Property taxes | \$ 746,017 | \$ 759,175 | \$ 13,158 |
| Ownership taxes | 52,221 | 45,721 | (6,500) |
| Reimbursements | - | 52,077 | 52,077 |
| Interest income | 2,000 | 1,398 | (602) |
| TOTAL REVENUES | <u>800,238</u> | <u>858,371</u> | <u>58,133</u> |
| EXPENDITURES | | | |
| Accounting | 25,000 | 7,196 | 17,804 |
| Audit | 20,000 | 5,131 | 14,869 |
| Director fees | 7,000 | 3,250 | 3,750 |
| Administration | 15,000 | 3,132 | 11,868 |
| Communication | 30,000 | 13,493 | 16,507 |
| Insurance | 10,000 | 4,051 | 5,949 |
| Legal | 30,000 | 15,422 | 14,578 |
| Meetings | 12,000 | 4,472 | 7,528 |
| Miscellaneous | 4,665 | 1,788 | 2,877 |
| Landscaping utilities and maintenance | 100,000 | 31,112 | 68,888 |
| Capital improvements | 1,037,333 | 478,711 | 558,622 |
| County collection fees | 11,525 | 11,409 | 116 |
| Working capital | 300,000 | - | 300,000 |
| Long range planning | 30,000 | - | 30,000 |
| Contingency | 100,000 | - | 100,000 |
| Emergency Reserve | 39,976 | - | 39,976 |
| TOTAL EXPENDITURES | <u>1,772,499</u> | <u>579,167</u> | <u>1,193,332</u> |
| NET CHANGE IN FUND BALANCE | (972,261) | 279,204 | 1,251,465 |
| FUND BALANCE - BEGINNING OF YEAR | <u>972,261</u> | <u>1,324,948</u> | <u>352,687</u> |
| FUND BALANCE - END OF YEAR | <u>\$ -</u> | <u>\$ 1,604,152</u> | <u>\$ 1,604,152</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, 2011

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.

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 following is a summary of the more significant policies consistently applied in the preparation of financial statements.

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.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2011

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.

Basis of Presentation

The government-wide financial statements (i.e. the statement of net assets 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 assets reports all financial and capital resources of the District. The difference between the assets and liabilities of the District is reported as net assets.

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*.

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 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

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2011

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The District has elected not to follow subsequent private-sector guidance.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2011

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 2011, the District incurred no noncash activities other than depreciation and amortization.

Assets, Liabilities, and Net Assets

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, 2011 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, 2011

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.

Amortization of Bond Issue Costs, Original Issue Discount and Original Issue Premium

In the government-wide financial statements, bond issue costs, original issue discount and original issue premium are reported as deferred charges and amortized on the effective interest method over the term of the related debt.

In the fund financial statements, bond issuance costs, original issue discount and original issue premium are recognized during the current period. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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, 2011

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 revenue 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 \$2,526 represents prepaid expenditures and the amount of \$1,000 represents a deposit.

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 \$17,305 of the General Fund balance has been restricted in compliance with this requirement.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2011

The restricted fund balance in the Debt Service Fund in the amount of \$682,237 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 \$1,324,948 represents the amount for use in the budget for the year ending December 31, 2012.

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.

Note 3: Cash and Investments

As of December 31, 2011, cash and investments are classified in the accompanying financial statements as follows:

Statement of net assets:

| | |
|-----------------------------------|---------------------|
| Cash and investments | \$ 2,604,972 |
| Cash and investments - restricted | <u>673,116</u> |
| Total | \$ <u>3,278,088</u> |

Cash and investments as of December 31, 2011 consist of the following:

| | |
|--------------------------------------|---------------------|
| Deposits with financial institutions | \$ 1,324,787 |
| Investments | <u>1,953,301</u> |
| | \$ <u>3,278,088</u> |

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2011

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.

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, 2011, the District had \$1,953,301 invested in COLOTRUST.

Custodial and Concentration of Credit Risk

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

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2011

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, 2011, the District had the following investments:

| | | |
|-------------------|--------------------------------|---------------------|
| <u>Investment</u> | <u>Maturity</u> | <u>Fair Value</u> |
| COLOTRUST | Weighted average under 60 days | <u>\$ 1,953,301</u> |

Note 4: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2011 follows:

| | <u>Balance</u> <u>01-01-11</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>12-31-11</u> |
|--|-----------------------------------|-------------------|-------------------|-----------------------------------|
| <u>Governmental Type Activities:</u> | | | | |
| <u>Capital assets not being depreciated:</u> | | | | |
| Construction in progress | \$ 272,128 | \$ 478,711 | \$ 750,839 | \$ - |
| Total capital assets not being depreciated: | <u>272,128</u> | <u>478,711</u> | <u>750,839</u> | <u>-</u> |
| <u>Capital assets being depreciated:</u> | | | | |
| Landscaping | \$ 5,829,336 | \$ 639,340 | \$ - | \$ 6,468,676 |
| Total capital assets being depreciated: | 5,829,336 | 639,340 | - | 6,468,676 |
| Total accumulated depreciation | <u>(1,165,868)</u> | <u>(305,115)</u> | <u>-</u> | <u>(1,470,983)</u> |
| Net capital assets being depreciated: | <u>4,663,468</u> | <u>334,225</u> | <u>-</u> | <u>4,997,693</u> |
| Government type assets, net | <u>\$ 4,935,596</u> | <u>\$ 812,936</u> | <u>\$ 750,839</u> | <u>\$ 4,997,693</u> |

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2011

| | <u>Balance</u> <u>01-01-11</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>12-31-11</u> |
|--|-----------------------------------|--------------------|------------------|-----------------------------------|
| <u>Business Type Activities:</u> | | | | |
| <u>Capital assets being depreciated:</u> | | | | |
| ECCV pipeline | 686,758 | - | - | 686,758 |
| Well costs | <u>450,629</u> | - | - | <u>450,629</u> |
| Total capital assets being depreciated: | 1,137,387 | - | - | 1,137,387 |
| Total accumulated depreciation | <u>(70,817)</u> | <u>(28,435)</u> | - | <u>(99,252)</u> |
| Net capital assets being depreciated: | <u>1,066,570</u> | <u>(28,435)</u> | - | <u>1,038,135</u> |
| Business type assets, net | <u>\$ 1,066,570</u> | <u>\$ (28,435)</u> | <u>\$ -</u> | <u>\$ 1,038,135</u> |

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

| | |
|---|-------------------|
| Governmental activities: | |
| Landscaping | <u>\$ 305,073</u> |
| Total depreciation expense – governmental activities | <u>\$ 305,073</u> |
| Business-type activities: | |
| Wells | \$ 11,266 |
| ECCV pipeline | <u>17,169</u> |
| 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, 2011

Note 5: Long-Term Debt

A description of the long-term obligations as of December 31, 2011, 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.

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.

EAGLE BEND METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2011

The following is an analysis of changes in long-term debt for the period ending December 31, 2011:

| | Balance 01-01-11 | Additions | Deletions | Balance 12-31-11 | Current Portion |
|--------------------------|----------------------|-------------|-------------------|----------------------|--------------------|
| 2003 G.O. Bonds | \$ 18,140,000 | \$ - | \$ 515,000 | \$ 17,625,000 | \$ 535,000 |
| 2004 G.O. Bonds | 2,340,000 | - | 185,000 | 2,155,000 | 195,000 |
| 2005 G.O. Bonds | <u>15,465,000</u> | <u>-</u> | <u>-</u> | <u>15,465,000</u> | <u>-</u> |
| | <u>35,945,000</u> | <u>-</u> | <u>700,000</u> | <u>35,245,000</u> | <u>730,000</u> |
| 2004 G.O. Bonds Premium | 55,571 | - | 5,604 | 49,967 | - |
| 2005 G.O. Bonds Discount | <u>(118,943)</u> | <u>-</u> | <u>(5,639)</u> | <u>(113,304)</u> | <u>-</u> |
| | <u>\$ 35,881,628</u> | <u>\$ -</u> | <u>\$ 699,965</u> | <u>\$ 35,181,663</u> | <u>\$ 730,000</u> |

As of December 31, 2011, the District amortized \$199,798 of bond issue costs, \$39,694 of original issue premium and \$33,646 of original issue discount.

The following is a summary of the annual long-term debt principal and interest requirements as of December 31, 2011 and does not include the advance refunding described in Note 9:

| | Principal | Interest | Total |
|-----------|----------------------|----------------------|----------------------|
| 2012 | \$ 730,000 | \$ 1,756,526 | \$ 2,486,526 |
| 2013 | 765,000 | 1,722,701 | 2,487,701 |
| 2014 | 800,000 | 1,687,251 | 2,487,251 |
| 2015 | 845,000 | 1,645,788 | 2,490,788 |
| 2016 | 890,000 | 1,601,988 | 2,491,988 |
| 2017-2021 | 5,125,000 | 7,271,103 | 12,396,103 |
| 2022-2026 | 6,850,000 | 5,819,403 | 12,669,403 |
| 2027-2031 | 9,380,000 | 3,903,289 | 13,283,289 |
| 2032-2035 | <u>9,860,000</u> | <u>1,268,000</u> | <u>11,128,000</u> |
| | <u>\$ 35,245,000</u> | <u>\$ 26,676,049</u> | <u>\$ 61,921,049</u> |

At December 31, 2011, 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, 2011

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, 2011

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.

Note 9: Subsequent Event

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 December 1, 2022 with no redemption premium. The refunding resulted in a present value savings of approximately \$1,072,000 to the District.

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, 2011

| | Original/Final <u>Final Budget</u> | <u>Actual</u> | Variance Favorable <u>(Unfavorable)</u> |
|--------------------------------------|---------------------------------------|-----------------------|---|
| REVENUES | | | |
| Property taxes | \$ 2,300,218 | \$ 2,340,803 | \$ 40,585 |
| Ownership taxes | 160,000 | 140,975 | (19,025) |
| Interest income | <u>24,000</u> | <u>13,806</u> | <u>(10,194)</u> |
| TOTAL REVENUES | <u>2,484,218</u> | <u>2,495,584</u> | <u>11,366</u> |
| EXPENDITURES | | | |
| Bond principal | 700,000 | 700,000 | - |
| Bond interest | 1,786,376 | 1,786,375 | 1 |
| Legal | 3,968 | - | 3,968 |
| Paying agent fees | 20,000 | - | 20,000 |
| County collection fees | <u>35,523</u> | <u>35,179</u> | <u>344</u> |
| TOTAL EXPENDITURES | <u>2,545,867</u> | <u>2,521,554</u> | <u>24,313</u> |
| NET CHANGE IN FUND BALANCE | (61,649) | (25,970) | 35,679 |
| FUND BALANCE - BEGINNING OF YEAR | <u>668,642</u> | <u>708,207</u> | <u>39,565</u> |
| FUND BALANCE - END OF YEAR | <u>\$ 606,993</u> | <u>\$ 682,237</u> | <u>\$ 75,244</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, 2011

| | Original/Final <u>Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|--|---------------------------------|-------------------|--|
| REVENUES | | | |
| Water service | \$ 400,000 | \$ 322,112 | \$ (77,888) |
| TOTAL REVENUES | <u>400,000</u> | <u>322,112</u> | <u>(77,888)</u> |
| EXPENDITURES | | | |
| Utilities | 271,750 | 134,925 | 136,825 |
| Repairs and maintenance | 49,000 | 13,630 | 35,370 |
| Administration | - | 23,740 | (23,740) |
| Management | 5,000 | 6,830 | (1,830) |
| Water projects | 45,000 | 3,175 | 41,825 |
| Contingency | <u>366,921</u> | <u>-</u> | <u>366,921</u> |
| TOTAL EXPENDITURES | <u>737,671</u> | <u>182,300</u> | <u>555,371</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (337,671) | 139,812 | 477,483 |
| FUND BALANCE - BEGINNING | <u>337,671</u> | <u>477,673</u> | <u>140,002</u> |
| FUND BALANCE - ENDING | <u>\$ -</u> | <u>\$ 617,485</u> | <u>\$ 617,485</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 ASSETS
PROPRIETARY FUND

For the Year Ended December 31, 2011

| | |
|---|-------------------|
| Excess of revenues over expenditures | \$ 139,812 |
| Deduct depreciation which is an expense | <u>(28,435)</u> |
| Changes in Net Assets per Statement Revenues, Expenditures and Changes in Net Assets | <u>\$ 111,377</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
(UNAUDITED)

| | \$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 | | |
|-----------------------------------|--|-------------------|---------------------|---|----------------------|----------------------|
| Year Ended <u>December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2012 | \$ 195,000 | \$ 107,750 | \$ 302,750 | \$ - | \$ 754,363 | \$ 754,363 |
| 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>\$ 2,155,000</u> | <u>\$ 574,000</u> | <u>\$ 2,729,000</u> | <u>\$ 15,465,000</u> | <u>\$ 15,157,234</u> | <u>\$ 30,622,234</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
(UNAUDITED)

\$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, | Principal Due December 1 | | | Total of All Bonds | | |
|----------------------------|--------------------------|---------------------|----------------------|----------------------|----------------------|----------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2012 | \$ 245,000 | \$ 382,881 | \$ 627,881 | \$ 440,000 | \$ 1,244,994 | \$ 1,684,994 |
| 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>\$ 19,000,000</u> | <u>\$ 7,461,032</u> | <u>\$ 26,461,032</u> | <u>\$ 36,620,000</u> | <u>\$ 23,192,266</u> | <u>\$ 59,812,266</u> |

The Series 2012 Note advance refunded the District's Series 2003 Bonds on April 27, 2012 (See Note 9)

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, 2011

(UNAUDITED)

| Year Ended <u>December 31,</u> | Prior Year Assessed Valuation for Current Year Property Tax Levy | Mills Levied | | Total Property Tax | | Percent Collected to Levied |
|---|---|---------------------|---------------------|--------------------|------------------|-----------------------------------|
| | | <u>General Fund</u> | <u>Debt Service</u> | <u>Levied</u> | <u>Collected</u> | |
| 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% |
| Estimated for year ending December 31, 2012 | \$ 57,495,640 | 12.000 | 37.000 | \$ 2,817,286 | | |

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.