

**Eagle River Water and Sanitation District  
Vail, Colorado**

**Financial Statements  
December 31, 2012**

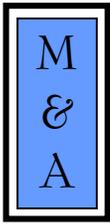


Eagle River Water & Sanitation District

**Eagle River Water and Sanitation District  
Financial Statements  
December 31, 2012**

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# MCMAHAN AND ASSOCIATES, L.L.C.

*Certified Public Accountants and Consultants*

CHAPEL SQUARE, BLDG C  
245 CHAPEL PLACE, SUITE 300  
P.O. Box 5850, AVON, CO 81620

WEB SITE: WWW.MCMAHANCPA.COM  
MAIN OFFICE: (970) 845-8800  
FACSIMILE: (970) 845-8108  
E-MAIL: MCMAHAN@MCMAHANCPA.COM

## INDEPENDENT AUDITOR'S REPORT

### To the Board of Directors Eagle River Water and Sanitation District

We have audited the accompanying financial statements of the Eagle River Water and Sanitation District (the "District"), as of and for the year ended December 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

### **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 of 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 Eagle River Water and Sanitation District as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Member: American Institute of Certified Public Accountants*

D. JERRY MCMAHAN, C.P.A.  
PAUL J. BACKES, C.P.A.

DANIEL R. CUDAHY, C.P.A.  
MICHAEL N. JENKINS, C.A., C.P.A.

AVON  
(970) 845-8800

ASPEN  
(970) 544-3996

FRISCO  
(970) 668-3481

**Other Matters**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis in Section B be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the Management's Discussion and Analysis in Section B in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The budgetary comparison and debt service schedules in section E are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The budgetary comparison and debt service schedules have 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 statement 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.

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 statistical data in Section F are presented for purposes of additional analysis and are not a required part of the basic financial statements. The statistical data have 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 them.

**McMahan and Associates, L.L.C.  
Avon, Colorado  
July 31, 2013**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**



Eagle River Water & Sanitation District

**Eagle River Water and Sanitation District  
Management's Discussion and Analysis  
December 31, 2012**

The discussion and analysis is designed to provide an analysis of Eagle River Water and Sanitation District's (the District) financial condition and operating results and to inform the reader on the District's financial issues and activities.

The Management's Discussion and Analysis (MD&A) should be read in conjunction with the District's financial statements.

**Financial Highlights**

In 2012, overall net position increased by approximately \$0.4 million. As part of the long term capital improvement program, the District spent cash on capital assets of \$7.4 million. This construction was partially funded by the remaining 2009 bond proceeds, previously held as cash. To continue the long term capital program, the District issued \$29 million of bonds in December of 2012; increasing both cash balances and liabilities. The proceeds from these 2012 bonds are held as cash at December 31, 2012 resulting in an increase in current and other assets of \$29.4 million. In addition, the District's capital assets were depreciated \$6.9 million.

The District's 2012 financial activity generates a \$7.3 million increase in net position prior to the depreciation on capital assets. In accordance with Generally Accepted Accounting Principles (GAAP), \$6.9 million of capital asset depreciation is expensed, which does not represent cash funding for capital assets in the current period. The net result is an increase in net position of \$0.4 million for 2012, compared to \$1.5 million increase in 2011.

Total revenues were \$26.2 million during 2012, which is an increase of \$0.5 million over 2011 levels. In 2012, service fees increased \$0.3 million. This was as a result of a planned rate increase in January 2012. Contract services, meter sales and other operations service programs generated an additional \$0.3 million as the demanded service levels to contracting parties increased. Tap fees and other developer contributions were consistent with 2011 levels.

In 2012, the District's total expenses increased \$1.6 million to \$25.8 million, as compare to \$24.2 million in 2011. The increase is related to staff, legal and engineering services for asset protection, procurement and construction and the cost to issue the 2012 bonds. In addition, consulting and engineering services increased as a result of studies required for upcoming changes in regulations for treatment standards.

The water service rate structure is designed to encourage wise use of water and is based upon the customer's Single Family Equivalent (SFE) usage. Water service rates in 2012 were increased 3% from 2011 rates. The water service base rate is \$14.02 per SFE. The usage rates for tier one (0 to 10,999 gallons) is \$2.12 per 1,000 gallons. The usage rates for tier two (11,000 to 40,999 gallons) and tier three (41,000 and over) are \$4.04 and \$6.35 per 1,000 gallons, respectively. The Debt Service base rate is established to provide a reliable revenue source for repayment of the 2009 Water bonds. For 2012 this rate was established at \$7.27, increased from the 2011 rate of \$5.18 per month per SFE.

Wastewater service rate for 2012 remained at \$4.87 per 1,000 gallons of treatment in the winter months. A 5,000 gallon per month minimum, per SFE, applies to all customers. In January 2010 a Debt Service base rate was established to provide a reliable revenue source for repayment of the 2009 Wastewater bonds. For 2012 this rate was established at \$3.05 per month per SFE.

**Overview of the Financial Statements**

The financial statements of the District are presented as a special purpose government engaged only in business type activities - providing water and sewer utility services.

**Eagle River Water and Sanitation District  
Management's Discussion and Analysis  
December 31, 2012  
(continued)**

The *Statements of Net Position* present information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in the net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Net Position* present information that reflects how the District's net position changed during the past year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

The *Statements of Cash Flows* report the District's cash flows from operating, capital and related financing, and investing activities.

These financial statements distinguish functions of the District that will be principally supported by service charges and Taxes. The functions of the District include effective and economical operation of water and wastewater sanitation systems within the jurisdictional boundaries of the District. The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

|  | <b>NET POSITION</b>  |                    |                    |                   |                    |                    |
|--|----------------------|--------------------|--------------------|-------------------|--------------------|--------------------|
|  | <b>2012</b>          |                    |                    | <b>2011</b>       |                    |                    |
|  | <b>Water</b>         | <b>Sanitation</b>  | <b>Total</b>       | <b>Water</b>      | <b>Sanitation</b>  | <b>Total</b>       |
| <b>Assets:</b>                             |                      |                    |                    |                   |                    |                    |
| Current and other assets                   | \$ 16,432,054        | 47,697,938         | 64,129,992         | 15,340,844        | 19,422,378         | 34,763,222         |
| Capital assets, net                        | 34,378,543           | 102,206,450        | 136,584,993        | 35,092,482        | 100,576,790        | 135,669,272        |
| <b>Total Assets</b>                        | <b>50,810,597</b>    | <b>149,904,388</b> | <b>200,714,985</b> | <b>50,433,326</b> | <b>119,999,168</b> | <b>170,432,494</b> |
| <b>Deferred Outflow of Resources:</b>      |                      |                    |                    |                   |                    |                    |
| Deferred charge on refunding               | 643,184              | -                  | 643,184            | 133,965           | -                  | 133,965            |
| <b>Total Deferred Outflow of Resources</b> | <b>643,184</b>       | <b>-</b>           | <b>643,184</b>     | <b>133,965</b>    | <b>-</b>           | <b>133,965</b>     |
| <b>Liabilities:</b>                        |                      |                    |                    |                   |                    |                    |
| Other liabilities                          | 412,830              | 3,228,859          | 3,641,689          | 472,634           | 3,255,265          | 3,727,899          |
| Long-term liabilities                      | 26,550,465           | 55,486,780         | 82,037,245         | 25,619,955        | 25,908,355         | 51,528,310         |
| <b>Total Liabilities</b>                   | <b>26,963,295</b>    | <b>58,715,639</b>  | <b>85,678,934</b>  | <b>26,092,589</b> | <b>29,163,620</b>  | <b>55,256,209</b>  |
| <b>Deferred Inflow of Resources:</b>       |                      |                    |                    |                   |                    |                    |
| Unavailable property tax revenue           | 1,373,329            | 1,873,671          | 3,247,000          | 1,403,218         | 1,882,873          | 3,286,091          |
| <b>Total Deferred Inflow of Resources</b>  | <b>1,373,329</b>     | <b>1,873,671</b>   | <b>3,247,000</b>   | <b>1,403,218</b>  | <b>1,882,873</b>   | <b>3,286,091</b>   |
| <b>Net Position:</b>                       |                      |                    |                    |                   |                    |                    |
| Net investment in capital assets           | 12,439,024           | 70,749,199         | 83,188,223         | 13,469,564        | 76,274,668         | 89,744,232         |
| Restricted:                                |                      |                    |                    |                   |                    |                    |
| Debt                                       | 831,072              | 7,624,087          | 8,455,159          | 826,958           | 3,432,520          | 4,259,478          |
| Capital projects                           | 2,485,976            | 23,700,216         | 26,186,192         | 2,344,033         | 1,324,216          | 3,668,249          |
| Unrestricted                               | 7,361,085            | (12,758,424)       | (5,397,339)        | 6,430,929         | 7,921,271          | 14,352,200         |
| <b>Total Net Position</b>                  | <b>\$ 23,117,157</b> | <b>89,315,078</b>  | <b>112,432,235</b> | <b>23,071,484</b> | <b>88,952,675</b>  | <b>112,024,159</b> |

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$23.1 million and \$89.3 million for water and sanitation, respectively, as of December 31, 2012 and \$23.1 million and \$89 million for water and sanitation, respectively, as of December 31, 2011.

**Eagle River Water and Sanitation District  
Management's Discussion and Analysis  
December 31, 2012  
(continued)**

The largest portion of the District's net position reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the District's net investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

During 2012, overall net position increased \$0.4 million.

Current and other assets increased \$29.4 million. The major reason for this increase is the issuance of 2012 bonds in December of \$29 million. The bond proceeds from these 2012 issuance was held as cash at December 31, 2012 for capital construction projects in future years.

Net capital asset additions and deletions of \$7.6 million were part of the District's long term capital improvement program. These additions were offset by normal depreciation expense of approximately \$6.9 million.

Total liabilities increased \$30.4 million. Long-term liabilities increased \$30.5 million as a result of bond issues in 2012 for the long term capital program. In addition, the regular scheduled debt service payments were made and the 2004 general obligation bonds were refunded.

During 2011, overall net position increased \$1.5 million.

Current and other assets decreased \$1.8 million. The major reason for this decrease is the spending of bond proceeds from the 2009 issuance on capital construction projects in 2011 offset by the collection of a note receivable for \$2.4 million.

Capital assets increased \$6.8 million as part of the District's long term capital improvement program. These additions were offset by normal depreciation expense of approximately \$6.7 million.

Total liabilities decreased \$3.0 million. Current liabilities decreased \$0.3 million. Long-term liabilities decreased \$2.7 million as a result of the regular scheduled debt service principal payments and refunding activity for the 2002 general obligation bonds.

**Eagle River Water and Sanitation District  
Management's Discussion and Analysis  
December 31, 2012  
(continued)**

**REVIEW OF REVENUES**

|                          | 2012             |                   |                   | 2011             |                   |                   |
|--------------------------|------------------|-------------------|-------------------|------------------|-------------------|-------------------|
|                          | Water            | Sanitation        | Total             | Water            | Sanitation        | Total             |
| <b>Revenues:</b>         |                  |                   |                   |                  |                   |                   |
| Operating revenues:      |                  |                   |                   |                  |                   |                   |
| Service fees             | \$ 4,407,946     | 10,807,864        | 15,215,810        | 4,005,686        | 10,941,880        | 14,947,566        |
| Contract services        | -                | 3,783,445         | 3,783,445         | -                | 3,543,730         | 3,543,730         |
| Meter sales and rentals  | -                | 814,543           | 814,543           | 39,328           | 679,576           | 718,904           |
| Other                    | 91,052           | 594,525           | 685,577           | 25,495           | 395,780           | 421,275           |
| Non-operating revenues:  |                  |                   |                   |                  |                   |                   |
| Property taxes           | 1,382,818        | 1,862,130         | 3,244,948         | 1,481,122        | 1,999,672         | 3,480,794         |
| Specific ownership taxes | 56,999           | 74,114            | 131,113           | 50,260           | 66,221            | 116,481           |
| Investment income        | 15,620           | 30,623            | 46,243            | 33,651           | 33,834            | 67,485            |
| Interest credit - Build  |                  |                   |                   |                  |                   |                   |
| America Bonds            | -                | 347,298           | 347,298           | -                | 347,298           | 347,298           |
| Other                    | 66,402           | 276,289           | 342,691           | 200,109          | 227,249           | 427,358           |
| Capital contributions:   |                  |                   |                   |                  |                   |                   |
| Tap fees                 | 308,895          | 492,998           | 801,893           | 160,635          | 657,464           | 818,099           |
| Contributed assets       | 343,157          | 382,730           | 725,887           | 606,060          | 50,927            | 656,987           |
| Other                    | -                | 55,796            | 55,796            | 139,261          | 21,255            | 160,516           |
| <b>Total Revenues</b>    | <b>6,672,889</b> | <b>19,522,355</b> | <b>26,195,244</b> | <b>6,741,607</b> | <b>18,964,886</b> | <b>25,706,493</b> |

In 2012, total revenues were \$26.2 million, which is an increase of \$0.5 million over 2011 levels.

Service fees revenue increased \$0.3 million. This was a direct result of a planned increase in the service rates. Contract services, meter sales and other operations service programs generated an additional \$0.3 million as the demanded service levels to contracting parties increased. Tap fees and other developer contributions remained consistent to the 2011 levels.

In 2011, total revenues were \$25.7 million, which is an increase of \$1.9 million over 2010 levels.

Service fees increased \$0.9 million. This was a direct result of a planned increase in the Debt Service Base rate established in 2010 to fund the 2009 bond issue. Contract services, meter sales and other operations service programs generated an additional \$0.7 million as the demanded service levels to contracting parties increased. Tap fees and other developer contributions increased \$0.3 from 2010 levels. This increase to revenue indicates higher levels of growth related activities.

Service fees increased \$0.9 million. This was a direct result of a planned increase in the Debt Service Base rate established to fund the 2009 Bond issues. These rates are designed to generate revenue equal to the payment amount of the debt service each year for the 2009 bonds. The water and sanitation Debt Service base rates generated an additional \$0.6 million and \$1.0 million respectively.

Contract services, meter sales and other operations service programs generated an additional \$0.7 million as the demanded service levels to contracting parties increased.

Investment income was slightly less by \$0.1 million as cash previously held was spent to fund the capital program.

Tap fees and other developer contributions increased \$0.3 from 2010 levels. This increase to revenue indicates higher levels of growth related activities. During years 2009 and 2010 an anticipated reduction of Tap fee and other developer contributions were experienced due to an economic slowdown.

**Eagle River Water and Sanitation District  
Management's Discussion and Analysis  
December 31, 2012  
(continued)**

**REVIEW OF EXPENSES**

|  | 2012                 |                   |                    | 2011              |                   |                    |
|--|----------------------|-------------------|--------------------|-------------------|-------------------|--------------------|
|  | Water                | Sanitation        | Total              | Water             | Sanitation        | Total              |
| <b>Expenses:</b>                                   |                      |                   |                    |                   |                   |                    |
| Operating Expenses:                                |                      |                   |                    |                   |                   |                    |
| Maintenance  | 764,734              | 2,174,858         | 2,939,592          | 703,232           | 2,116,789         | 2,820,021          |
| Water operations                                   | 2,582,974            | 1,387,723         | 3,970,697          | 2,537,632         | 1,226,338         | 3,763,970          |
| Wastewater treatment                               | -                    | 8,024,138         | 8,024,138          | -                 | 7,839,196         | 7,839,196          |
| Engineering  | 158,196              | 474,588           | 632,784            | 113,870           | 341,610           | 455,480            |
| Laboratory   | 106,038              | 318,115           | 424,153            | 119,569           | 378,462           | 498,031            |
| General and administrative                         | 1,926,139            | 5,414,997         | 7,341,136          | 1,702,570         | 4,541,043         | 6,243,613          |
| Non-operating expenses:                            |                      |                   |                    |                   |                   |                    |
| Interest expense                                   | 1,047,355            | 1,309,408         | 2,356,763          | 1,153,948         | 1,278,024         | 2,431,972          |
| Treasurer's fees                                   | 41,781               | 56,124            | 97,905             | 44,751            | 60,541            | 105,292            |
| <b>Total Expenses</b>                              | <u>6,627,217</u>     | <u>19,159,951</u> | <u>25,787,168</u>  | <u>6,375,572</u>  | <u>17,782,003</u> | <u>24,157,575</u>  |
| <b>Change in Net Position</b>                      | 45,672               | 362,404           | 408,076            | 366,035           | 1,182,883         | 1,548,918          |
| <b>Net Position - Beginning of Year</b>            | 23,071,485           | 88,952,674        | 112,024,159        | 23,409,812        | 88,069,059        | 111,478,871        |
| <b>Change in Accounting Principle - Note V</b>     | -                    | -                 | -                  | (704,363)         | (299,267)         | (1,003,630)        |
| <b>Net Position - Beginning of Year (Restated)</b> | <u>23,071,485</u>    | <u>88,952,674</u> | <u>112,024,159</u> | <u>22,705,449</u> | <u>87,769,792</u> | <u>110,475,241</u> |
| <b>Net Position - End of Year</b>                  | <u>\$ 23,117,157</u> | <u>89,315,078</u> | <u>112,432,235</u> | <u>23,071,484</u> | <u>88,952,675</u> | <u>112,024,159</u> |

In 2012, total expenses increased \$1.6 million. The increase is related to staff, legal and engineering services for asset protection, procurement and construction and the cost to issue the 2012 bonds. In addition, consulting and engineering services increased as a result of studies required for upcoming changes in regulations for treatment standards.

In 2011, total expenses decreased \$0.1 million. The District anticipated potentially lower revenues as part of the budgeting process for 2011 and therefore, held spending levels consistent with 2010 in preparation of continued economic conditions indicating less new construction and possible slowing of service demand levels.

For 2012, the District's combined operating activities, prior to depreciation expense, provided \$4.4 million increase in net position. This was offset by \$6.9 million in depreciation expense which led to a net position increase from all activities of \$0.4 million.

For 2011, the District's combined operating activities, prior to depreciation expense, provided \$4.7 million increase in net position. This was offset by \$6.7 million in depreciation expense which led to a net position increase from all activities of \$1.5 million.

**Eagle River Water and Sanitation District  
Management's Discussion and Analysis  
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(continued)**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The District's investment in capital assets at December 31, 2012, 2011, and 2010 amounted to \$136.6 million, \$135.7 million and \$135.3 million (net of accumulated depreciation), respectively. This investment in capital assets includes land and easements, water rights, treatment plants, distribution systems, employee housing, computers, equipment and vehicles. Capital assets are shown on the Statement of Net Position at the cost on the day of acquisition.

Most of the water and storage rights currently used by the District were provided by previous government water providers at no cost to the District. In accordance with Governmental Accounting Standards Board (GASB), only owned water and storage rights are shown on the District's Statement of Net Position at historic cost, totaling \$1.5 million. This cost represents mostly legal expenditures to establish the District's ability to use these rights to provide water to its customers and some additional acquisitions of new rights. Also in accordance with GASB, the investment in Eagle Park Reservoir Company Stock, which provides a valuable source of raw water supply, is not reflected in capital assets, but is shown in Other Assets at the historic cost of \$3.5 million. Management of the District believes the actual value of these water and storage rights used by the District to be much greater than historical cost at December 31, 2012. See the Schedule of Water and Storage Rights in the Statistical Section (page F11-14) for additional information.

Analysis of changes in capital assets in 2012 is as follows:

|  | Water                          |                  |                    | Sanitation                    |                                |                   |                     |                               |
|--|--------------------------------|------------------|--------------------|-------------------------------|--------------------------------|-------------------|---------------------|-------------------------------|
|  | 1/1/12<br>Beginning<br>Balance | Additions        | Retirements        | 12/31/12<br>Ending<br>Balance | 1/1/12<br>Beginning<br>Balance | Additions         | Retirements         | 12/31/12<br>Ending<br>Balance |
| Capital assets, not being depreciated:       |                                |                  |                    |                               |                                |                   |                     |                               |
| Water rights                                 | \$ 1,496,416                   | -                | -                  | 1,496,416                     | -                              | -                 | -                   | -                             |
| Land and easements                           | -                              | -                | -                  | -                             | 3,398,636                      | 131,844           | -                   | 3,530,480                     |
| Construction in progress                     | 2,752,881                      | 922,121          | (1,520,714)        | 2,154,288                     | 17,135,966                     | 6,605,497         | (18,223,583)        | 5,517,880                     |
| Total capital assets, not being depreciated  | 4,249,297                      | 922,121          | (1,520,714)        | 3,650,704                     | 20,534,602                     | 6,737,341         | (18,223,583)        | 9,048,360                     |
| Capital assets, being depreciated:           |                                |                  |                    |                               |                                |                   |                     |                               |
| Treatment plants                             | 2,557,922                      | 3,486            | -                  | 2,561,408                     | 80,339,103                     | 16,269,967        | -                   | 96,609,070                    |
| Distribution systems                         | 39,735,181                     | 1,559,328        | (183,531)          | 41,110,978                    | 49,357,804                     | 890,646           | -                   | 50,248,450                    |
| Computers, equipment and vehicles            | 1,324,617                      | 287,092          | (21,775)           | 1,589,934                     | 3,973,851                      | 861,277           | (65,325)            | 4,769,803                     |
| Employee housing                             | 464,670                        | -                | (464,670)          | -                             | 7,212,537                      | 451,145           | 117,353             | 7,781,035                     |
| Total capital assets being depreciated       | 44,082,390                     | 1,849,906        | (669,976)          | 45,262,320                    | 140,883,295                    | 18,473,035        | 52,028              | 159,408,358                   |
| Less accumulated depreciation for:           |                                |                  |                    |                               |                                |                   |                     |                               |
| Treatment plants                             | (1,073,926)                    | (135,520)        | -                  | (1,209,446)                   | (40,262,539)                   | (3,574,439)       | -                   | (43,836,978)                  |
| Distribution systems                         | (11,166,262)                   | (1,152,522)      | 48,942             | (12,269,842)                  | (17,140,297)                   | (1,303,943)       | -                   | (18,444,240)                  |
| Computers, equipment and vehicles            | (941,042)                      | (130,549)        | 16,398             | (1,055,193)                   | (2,823,125)                    | (391,648)         | 49,193              | (3,165,580)                   |
| Employee housing                             | (57,975)                       | -                | 57,975             | -                             | (615,146)                      | (193,227)         | 4,903               | (803,470)                     |
| Total accumulated depreciation               | (13,239,205)                   | (1,418,591)      | 123,315            | (14,534,481)                  | (60,841,107)                   | (5,463,257)       | 54,096              | (66,250,268)                  |
| Total capital assets, being depreciated, net | 30,843,185                     | 431,315          | (546,661)          | 30,727,839                    | 80,042,188                     | 13,009,778        | 106,124             | 93,158,090                    |
| <b>Total capital assets, net</b>             | <b>\$ 35,092,482</b>           | <b>1,353,436</b> | <b>(2,067,375)</b> | <b>34,378,543</b>             | <b>100,576,790</b>             | <b>19,747,119</b> | <b>(18,117,459)</b> | <b>102,206,450</b>            |

**Eagle River Water and Sanitation District  
Management's Discussion and Analysis  
December 31, 2012  
(continued)**

Analysis of changes in capital assets is as follows:

In 2012, total net capital assets are \$136.6 million, increased by \$0.9 million from the 2011 amount of \$135.7 million. Net capital asset additions and deletions of \$7.6 million were offset by changes in accumulated depreciation for a net increase in capital assets of \$0.9 million.

In 2011, total net capital assets are \$135.7 million, reduced by \$0.4 million from the 2010 amount of \$135.3 million. Net capital asset additions of \$7.2 million were offset by changes in accumulated depreciation for a net increase in capital assets of \$.4 million.

Additional information on the District's capital assets can be found in Note III - G in the Notes to Financial Statements.

**Long-term Debt**

At December 31, 2012, the District had loans payable to the Colorado Water Resources and Power Development Authority (Authority) of \$6.6 million for sanitation facilities. The water loan for Eagle Park Reservoir shares from the Colorado Water Conservation Board (CWCB) had \$1.4 million outstanding. Also, the Water General Obligation Bonds issued in 2004, 2011 and 2012 for water system improvements have an outstanding balance at December 31, 2012 of \$10.9 million. The 2009 Water District Revenue Bonds have principal outstanding of \$12.9 million. The 2009 and 2012 Sanitation District Revenue Bonds have principal outstanding of \$44.7 million. Other changes in debt in the current year are representative of scheduled reductions on long term obligations.

At December 31, 2011, the District had loans payable to the Colorado Water Resources and Power Development Authority (Authority) of \$8.6 million for sanitation facilities. The water loan for Eagle Park Reservoir shares from the Colorado Water Conservation Board (CWCB) had \$1.4 million outstanding. Also, the Water General Obligation Bonds issued in 2004 and 2011 for water system improvements have an outstanding balance at December 31, 2011 of \$10.5 million. The 2009 District Revenue Bonds have principal outstanding of \$30.1 million. Other changes in debt in the current year are representative of scheduled reductions on long term obligations.

Additional detail on debt is in Note III-H in the Notes to Financial Statements.

**Eagle River Water and Sanitation District  
Management's Discussion and Analysis  
December 31, 2012  
(continued)**

**BUDGET VARIANCES AND FUTURE CONSIDERATIONS**

**Budget Variances**

In 2012, Budgeted Revenues were \$43.8 million. Revenues exceeded budget expectations by \$22.6 million. The positive variance is due issuances of \$29 million in 2012 bonds, which was \$20.7 over the budgeted bond proceeds amount. To take advantage of very favorable interest rates during 2012, the District chose to issue additional bonds for the long term capital program. Tap fees and sale of assets amounted to an additional \$0.6 million of revenue over budgeted amounts. The expenditure budget was \$43.8 million, including \$12.8 million of capital additions. Actual Expenditures were \$7.1 million less than the budget, mainly due to \$4.6 wastewater and \$0.8 million water multi-year capital project spending being completed in 2013.

**2013 Budget Considerations**

The District will continue to promote wise use of water and support a comprehensive water conservation program. Additionally, the District will explore opportunities to develop or acquire new water resources.

In 2013, the approved expenditure budget is \$38.1 million, including \$13.3 million of capital additions.

The 2013 water rates are \$14.54 service base rate per SFE, plus \$7.23 debt service base rate per SFE and tiered usage rates of \$2.50 per 1,000 gallons for tier one, \$4.25 per 1,000 gallons for tier two, and \$6.36 per 1,000 gallons for tier three. The Series 2009 Bonds Debt Service Base Rate is determined on an annual basis by dividing the net annual debt service requirements on the Series 2009 water bonds by the actual number of SFE's receiving service as of January 1 of the year the Series 2009 Bonds debt service is scheduled.

The 2013 Wastewater Service rates are increased 4% from 2011 rates (monthly minimum of \$28.39 per SFE). The Series 2009 Bonds Debt Service Base Rate is determined on an annual basis by dividing the net annual debt service requirements on the Series 2009 wastewater bonds by the actual number of SFE's receiving service as of January 1 of the year the Series 2009 Bonds debt service is scheduled. The 2012 Wastewater rates are \$5.06 per 1,000 gallons of winter water usage, with a 5,000 gallon allowance per SFE, plus the debt service base rate of \$3.07 per SFE per month.

Water tap fee rates and Wastewater tap fee rates will increase by 3%.

Property taxes were budgeted in the amount of \$1.4 million for water and \$1.9 million for sanitation.

**REQUESTS FOR INFORMATION**

This report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Becky Bultemeier, Director of Customer and Financial Services, Eagle River Water and Sanitation District, 846 Forest Road, Vail, Colorado 81657.

**BASIC FINANCIAL STATEMENTS**



Eagle River Water & Sanitation District

**Eagle River Water and Sanitation District**  
**Statement of Net Position**  
**December 31, 2012**  
**(With Comparative Totals for 2011)**

|  | <b>2012</b>       |                    |                    | <b>2011</b>        |
|--|-------------------|--------------------|--------------------|--------------------|
|  | <b>Water</b>      | <b>Sanitation</b>  | <b>Total</b>       | <b>Total</b>       |
| <b>Assets:</b>   |                   |                    |                    |                    |
| <b>Current Assets:</b>                                 |                   |                    |                    |                    |
| Cash and cash equivalents - Unrestricted               | 3,280,972         | 734,460            | 4,015,432          | 12,614,955         |
| Cash and cash equivalents - Restricted                 | 3,317,048         | 31,324,303         | 34,641,351         | 7,927,727          |
| Investments - Unrestricted                             | 3,788,303         | 9,482,096          | 13,270,399         | 2,700,608          |
| Receivables, net of allowance for uncollectibles:      |                   |                    |                    |                    |
| Service  | 369,166           | 1,624,170          | 1,993,336          | 2,176,439          |
| Property taxes   | 1,373,329         | 1,873,671          | 3,247,000          | 3,286,091          |
| Current portion of notes receivable                    | -                 | 20,376             | 20,376             | 23,997             |
| Interest   | 15,991            | 76,916             | 92,907             | 41,115             |
| Other  | 267,790           | 1,208,147          | 1,475,937          | 456,809            |
| Inventory  | 181,787           | 241,715            | 423,502            | 395,740            |
| Prepaid expenses                                       | 23,124            | 69,373             | 92,497             | 289,336            |
| <b>Total Current Assets</b>                            | <b>12,617,510</b> | <b>46,655,227</b>  | <b>59,272,737</b>  | <b>29,912,817</b>  |
| <b>Non-current Assets:</b>                             |                   |                    |                    |                    |
| <b>Other Assets:</b>                                   |                   |                    |                    |                    |
| Notes receivable - Due in more than one year           | -                 | 654,671            | 654,671            | 567,121            |
| Patronage dividend receivable                          | 152,782           | 388,040            | 540,822            | 557,715            |
| Other receivables                                      | 195,006           | -                  | 195,006            | 258,813            |
| Investment in Eagle Park Reservoir Company             | 3,466,756         | -                  | 3,466,756          | 3,466,756          |
| <b>Total Other Assets</b>                              | <b>3,814,544</b>  | <b>1,042,711</b>   | <b>4,857,255</b>   | <b>4,850,405</b>   |
| <b>Capital Assets:</b>                                 |                   |                    |                    |                    |
| Land and easements                                     | -                 | 3,530,480          | 3,530,480          | 3,398,636          |
| Water rights   | 1,496,416         | -                  | 1,496,416          | 1,496,416          |
| Construction in progress                               | 2,154,288         | 5,517,880          | 7,672,168          | 19,888,847         |
| Treatment plants                                       | 2,561,408         | 96,609,070         | 99,170,478         | 82,897,025         |
| Distribution systems                                   | 41,110,978        | 50,248,450         | 91,359,428         | 89,092,985         |
| Computers, equipment, and vehicles                     | 1,589,934         | 4,769,803          | 6,359,737          | 5,298,469          |
| Employee housing                                       | -                 | 7,781,035          | 7,781,035          | 7,677,206          |
| Less: Accumulated depreciation                         | (14,534,481)      | (66,250,268)       | (80,784,749)       | (74,080,312)       |
| <b>Total Capital Assets</b>                            | <b>34,378,543</b> | <b>102,206,450</b> | <b>136,584,993</b> | <b>135,669,272</b> |
| <b>Total Non-current Assets</b>                        | <b>38,193,087</b> | <b>103,249,161</b> | <b>141,442,248</b> | <b>140,519,677</b> |
| <b>Total Assets</b>                                    | <b>50,810,597</b> | <b>149,904,388</b> | <b>200,714,985</b> | <b>170,432,494</b> |
| <b>Deferred Outflows of Resources:</b>                 |                   |                    |                    |                    |
| Deferred charge on refunding                           | 643,184           | -                  | 643,184            | 133,965            |
| <b>Total Deferred Outflows of Resources</b>            | <b>643,184</b>    | <b>-</b>           | <b>643,184</b>     | <b>133,965</b>     |
| <b>Total Assets and Deferred Outflows of Resources</b> | <b>51,453,781</b> | <b>149,904,388</b> | <b>201,358,169</b> | <b>170,566,459</b> |

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

**Eagle River Water and Sanitation District**  
**Statement of Net Position**  
**December 31, 2012**  
**(With Comparative Totals for 2011)**  
**(Continued)**

|   | <u>2012</u>       |                     |                    | <u>2011</u>        |
|---|-------------------|---------------------|--------------------|--------------------|
|   | <u>Water</u>      | <u>Sanitation</u>   | <u>Total</u>       | <u>Total</u>       |
| <b>Liabilities:</b>                                 |                   |                     |                    |                    |
| <b>Current Liabilities:</b>                         |                   |                     |                    |                    |
| Accounts payable                                    | 251,438           | 1,564,658           | 1,816,096          | 2,132,502          |
| Service fees payable                                | -                 | 1,132,533           | 1,132,533          | 1,181,872          |
| Accrued payroll and related liabilities             | 75,449            | 232,702             | 308,151            | 31,044             |
| Interest payable                                    | 85,942            | 271,201             | 357,143            | 358,397            |
| Loans and bonds payable - Due within one year       | 890,908           | 2,362,839           | 3,253,747          | 3,142,387          |
| Deposits  | -                 | 27,764              | 27,764             | 24,084             |
| <b>Total Current Liabilities</b>                    | <u>1,303,737</u>  | <u>5,591,697</u>    | <u>6,895,434</u>   | <u>6,870,286</u>   |
| <b>Non-current Liabilities:</b>                     |                   |                     |                    |                    |
| Compensated absences - Due in more than one year    | 109,771           | 329,313             | 439,084            | 376,023            |
| Loans and bonds payable - Due in more than one year | <u>25,549,787</u> | <u>52,794,629</u>   | <u>78,344,416</u>  | <u>48,009,900</u>  |
| <b>Total Non-current Liabilities</b>                | <u>25,659,558</u> | <u>53,123,942</u>   | <u>78,783,500</u>  | <u>48,385,923</u>  |
| <b>Total Liabilities</b>                            | <u>26,963,295</u> | <u>58,715,639</u>   | <u>85,678,934</u>  | <u>55,256,209</u>  |
| <b>Deferred Inflows of Resources:</b>               |                   |                     |                    |                    |
| Unavailable property tax revenue                    | <u>1,373,329</u>  | <u>1,873,671</u>    | <u>3,247,000</u>   | <u>3,286,091</u>   |
| <b>Total Deferred Inflows of Resources</b>          | <u>1,373,329</u>  | <u>1,873,671</u>    | <u>3,247,000</u>   | <u>3,286,091</u>   |
| <b>Net Position:</b>                                |                   |                     |                    |                    |
| Net investment in capital assets                    | 12,439,024        | 70,749,199          | 83,188,223         | 89,744,232         |
| Restricted for:                                     |                   |                     |                    |                    |
| Debt  | 831,072           | 7,624,087           | 8,455,159          | 4,259,478          |
| Capital projects                                    | 2,485,976         | 23,700,216          | 26,186,192         | 3,668,249          |
| Unrestricted  | <u>7,361,085</u>  | <u>(12,758,424)</u> | <u>(5,397,339)</u> | <u>14,352,200</u>  |
| <b>Total Net Position</b>                           | <u>23,117,157</u> | <u>89,315,078</u>   | <u>112,432,235</u> | <u>112,024,159</u> |

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

**Eagle River Water and Sanitation District**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**For the Year Ended December 31, 2012**  
**(With Comparative Totals for 2011)**

|  | <b>2012</b>       |                    |                    | <b>2011</b>        |
|--|-------------------|--------------------|--------------------|--------------------|
|  | <b>Water</b>      | <b>Sanitation</b>  | <b>Total</b>       | <b>Total</b>       |
| <b>Operating Revenues:</b>                         |                   |                    |                    |                    |
| Service fees                                       | 4,407,946         | 10,807,864         | 15,215,810         | 14,947,567         |
| Contract services                                  | -                 | 3,783,445          | 3,783,445          | 3,543,730          |
| Meter sales and rental income                      | -                 | 814,543            | 814,543            | 718,903            |
| Other charges for services                         | 91,052            | 594,525            | 685,577            | 421,275            |
| <b>Total Operating Revenues</b>                    | <b>4,498,998</b>  | <b>16,000,377</b>  | <b>20,499,375</b>  | <b>19,631,475</b>  |
| <b>Operating Expenses:</b>                         |                   |                    |                    |                    |
| Maintenance  | 764,733           | 2,174,857          | 2,939,590          | 2,820,022          |
| Water operations                                   | 2,582,974         | 1,387,723          | 3,970,697          | 3,763,970          |
| Wastewater treatment                               | -                 | 8,024,138          | 8,024,138          | 7,839,196          |
| Engineering  | 158,196           | 474,588            | 632,784            | 455,480            |
| Laboratory   | 106,038           | 318,115            | 424,153            | 498,031            |
| General and administrative                         | 1,782,820         | 5,177,071          | 6,959,891          | 6,243,613          |
| <b>Total Operating Expenses</b>                    | <b>5,394,761</b>  | <b>17,556,492</b>  | <b>22,951,253</b>  | <b>21,620,312</b>  |
| <b>Operating Income (Loss)</b>                     | <b>(895,763)</b>  | <b>(1,556,115)</b> | <b>(2,451,878)</b> | <b>(1,988,837)</b> |
| <b>Non-operating Revenues (Expenses):</b>          |                   |                    |                    |                    |
| Property taxes                                     | 1,382,818         | 1,862,130          | 3,244,948          | 3,480,794          |
| Specific ownership taxes                           | 56,999            | 74,114             | 131,113            | 116,481            |
| Investment income                                  | 15,620            | 30,623             | 46,243             | 67,485             |
| Interest credit - Build America Bonds              | -                 | 347,298            | 347,298            | 347,298            |
| Gain (loss) on disposal of capital assets          | 39,326            | 136,073            | 175,399            | 142,146            |
| Other non-operating revenues                       | 27,076            | 140,215            | 167,291            | 285,212            |
| Interest expense, net of amortization expense      | (1,047,355)       | (1,309,408)        | (2,356,763)        | (2,431,972)        |
| Treasurer's fees                                   | (41,781)          | (56,124)           | (97,905)           | (105,291)          |
| Bond issuance costs                                | (143,320)         | (237,926)          | (381,246)          | -                  |
| <b>Total Non-operating Revenues (Expenses)</b>     | <b>289,383</b>    | <b>986,995</b>     | <b>1,276,378</b>   | <b>1,902,153</b>   |
| <b>Income (Loss) Before Capital Contributions</b>  | <b>(606,380)</b>  | <b>(569,120)</b>   | <b>(1,175,500)</b> | <b>(86,684)</b>    |
| <b>Capital Contributions:</b>                      |                   |                    |                    |                    |
| Tap fees   | 308,895           | 492,998            | 801,893            | 818,099            |
| Contributed assets - physical assets               | 343,157           | 382,730            | 725,887            | 656,987            |
| Fees in lieu of water and sewer lines              | -                 | 5,796              | 5,796              | 150,516            |
| Contributed assets - cash                          | -                 | 50,000             | 50,000             | 10,000             |
| <b>Total Capital Contributions</b>                 | <b>652,052</b>    | <b>931,524</b>     | <b>1,583,576</b>   | <b>1,635,602</b>   |
| <b>Change in Net Position</b>                      | <b>45,672</b>     | <b>362,404</b>     | <b>408,076</b>     | <b>1,548,918</b>   |
| <b>Net Position - Beginning of Year</b>            | <b>23,071,485</b> | <b>88,952,674</b>  | <b>112,024,159</b> | <b>111,478,871</b> |
| <b>Change in Accounting Principle - Note V</b>     | <b>-</b>          | <b>-</b>           | <b>-</b>           | <b>(1,003,630)</b> |
| <b>Net Position - Beginning of Year (Restated)</b> | <b>23,071,485</b> | <b>88,952,674</b>  | <b>112,024,159</b> | <b>110,475,241</b> |
| <b>Net Position - End of Year</b>                  | <b>23,117,157</b> | <b>89,315,078</b>  | <b>112,432,235</b> | <b>112,024,159</b> |

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

**Eagle River Water and Sanitation District**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2012**  
**(With Comparative Totals for the Year Ended 2011)**

|   | <u>2012</u>             |                          |                          | <u>2011</u>              |
|---|-------------------------|--------------------------|--------------------------|--------------------------|
|   | <u>Water</u>            | <u>Sanitation</u>        | <u>Total</u>             | <u>Total</u>             |
| <b>Cash Flows From Operating Activities:</b>                                |                         |                          |                          |                          |
| Cash received from customers and others                                     | 4,349,299               | 15,377,860               | 19,727,159               | 20,121,820               |
| Cash payments for goods and services  | (2,904,301)             | (4,232,305)              | (7,136,606)              | (6,605,324)              |
| Cash payments to employees and for benefits                                 | (1,801,021)             | (6,868,969)              | (8,669,990)              | (8,271,575)              |
| <b>Net Cash Provided (Used) by Operating Activities</b>                     | <u>(356,023)</u>        | <u>4,276,586</u>         | <u>3,920,564</u>         | <u>5,244,921</u>         |
| <b>Cash Flows From Non-capital Financing Activities:</b>                    |                         |                          |                          |                          |
| Property taxes levied for operations, net                                   | 395,606                 | 478,593                  | 874,199                  | 1,094,884                |
| Specific ownership taxes received   | 16,815                  | 19,640                   | 36,455                   | 37,798                   |
| Patronage dividend received   | 21,665                  | 45,961                   | 67,626                   | 39,017                   |
| Other cash receipts   | (574,014)               | 102,165                  | (471,849)                | 154,488                  |
| <b>Net Cash Provided (Used) by Non-capital Financing Activities</b>         | <u>(139,928)</u>        | <u>646,359</u>           | <u>506,431</u>           | <u>1,326,187</u>         |
| <b>Cash Flows From Capital and Related Financing Activities:</b>            |                         |                          |                          |                          |
| Proceeds from bond issuance, including premium                              | 8,503,280               | 31,888,047               | 40,391,327               | 3,163,065                |
| Property taxes levied for debt service, net                                 | 945,431                 | 1,327,414                | 2,272,845                | 2,280,619                |
| Specific ownership taxes received   | 40,184                  | 54,474                   | 94,658                   | 78,684                   |
| Cash received from tap fees   | 308,895                 | 492,998                  | 801,893                  | 818,099                  |
| Proceeds from sale of capital assets  | 179,293                 | 436,641                  | 615,934                  | 987,077                  |
| Interest subsidy payment received - Build America Bonds                     | -                       | 318,357                  | 318,357                  | 318,357                  |
| Cash received (paid) related to capital asset deposit                       | -                       | 3,680                    | 3,680                    | 4,490                    |
| Fees in lieu of water and sewer lines                                       | -                       | 55,796                   | 55,796                   | 160,516                  |
| Cash paid for principal on debt   | (828,018)               | (2,348,866)              | (3,176,884)              | (2,764,889)              |
| Cash paid for interest on debt  | (1,143,162)             | (1,453,018)              | (2,596,180)              | (2,774,236)              |
| Cash paid for debt issuance costs   | (143,320)               | (237,926)                | (381,246)                | (90,317)                 |
| Cash paid to refunded bond escrow agent to retire bond principal            | (6,665,000)             | -                        | (6,665,000)              | (2,935,000)              |
| Cash paid for capital acquisitions  | 164,503                 | (7,582,248)              | (7,417,746)              | (7,241,984)              |
| <b>Net Cash Provided (Used) by Capital and Related Financing Activities</b> | <u>1,362,085</u>        | <u>22,955,349</u>        | <u>24,317,434</u>        | <u>(7,995,519)</u>       |
| <b>Cash Flows From Investing Activities:</b>                                |                         |                          |                          |                          |
| Interest income received  | 16,475                  | 55,298                   | 71,773                   | 158,408                  |
| Proceeds from sales and maturities of investments                           | 1,765,227               | 4,422,038                | 6,187,265                | 3,015,000                |
| Principal received on notes receivable                                      | 96,564                  | (89,729)                 | 6,835                    | 2,675,844                |
| Purchase of investments   | (3,981,993)             | (12,823,444)             | (16,805,437)             | (1,400,749)              |
| Issuance of notes receivable  | -                       | (90,764)                 | (90,764)                 | (168,269)                |
| <b>Net Cash Provided (Used) by Investing Activities</b>                     | <u>(2,103,727)</u>      | <u>(8,526,601)</u>       | <u>(10,630,328)</u>      | <u>4,280,234</u>         |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                 | <u>(1,237,592)</u>      | <u>19,351,693</u>        | <u>18,114,101</u>        | <u>2,855,823</u>         |
| <b>Cash and Cash Equivalents - Beginning of Year</b>                        | <u>7,835,612</u>        | <u>12,707,070</u>        | <u>20,542,682</u>        | <u>17,686,859</u>        |
| <b>Cash and Cash Equivalents - End of Year</b>                              | <u><u>6,598,020</u></u> | <u><u>32,058,763</u></u> | <u><u>38,656,783</u></u> | <u><u>20,542,682</u></u> |
| <b>Represented by Balance Sheet captions:</b>                               |                         |                          |                          |                          |
| Cash and cash equivalents - Unrestricted                                    | 3,280,972               | 734,460                  | 4,015,432                | 12,614,955               |
| Cash and cash equivalents - Restricted                                      | 3,317,048               | 31,324,303               | 34,641,351               | 7,927,727                |
| <b>Cash and Cash Equivalents - End of Year</b>                              | <u><u>6,598,020</u></u> | <u><u>32,058,763</u></u> | <u><u>38,656,783</u></u> | <u><u>20,542,682</u></u> |

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

**Eagle River Water and Sanitation District**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2012**  
**(With Comparative Totals for the Year Ended 2011)**  
**(Continued)**

|   | <b>2012</b>      |                    |                    | <b>2011</b>        |
|---|------------------|--------------------|--------------------|--------------------|
|   | <u>Water</u>     | <u>Sanitation</u>  | <u>Total</u>       | <u>Total</u>       |
| <b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b> |                  |                    |                    |                    |
| Operating income (loss)   | <u>(895,763)</u> | <u>(1,556,115)</u> | <u>(2,451,878)</u> | <u>(1,988,837)</u> |
| <b>Adjustments:</b>   |                  |                    |                    |                    |
| Depreciation  | 1,418,591        | 5,463,257          | 6,881,848          | 6,670,694          |
| (Increase) decrease in accounts receivable  | (149,699)        | (622,519)          | (772,218)          | 490,347            |
| (Increase) decrease in inventory  | (147,838)        | 120,076            | (27,762)           | (2,767)            |
| (Increase) decrease in prepaid expenses   | 49,210           | 147,629            | 196,839            | (218,808)          |
| Increase (decrease) in accounts payable   | (713,977)        | 516,882            | (197,095)          | 245,614            |
| Increase (decrease) in service fees payable   | -                | (49,339)           | (49,339)           | 12,699             |
| Increase (decrease) in payroll liabilities  | 67,688           | 209,419            | 277,107            | 6,635              |
| Increase (decrease) in accrued compensated absences   | 15,765           | 47,296             | 63,061             | 29,344             |
| <b>Total Adjustments</b>  | <u>539,740</u>   | <u>5,832,701</u>   | <u>6,372,442</u>   | <u>7,233,758</u>   |
| <b>Net Cash Provided (Used) by Operating Activities</b>   | <u>(356,023)</u> | <u>4,276,586</u>   | <u>3,920,564</u>   | <u>5,244,921</u>   |
| <b>Non-cash Investing, Capital, and Financing Activities:</b>   |                  |                    |                    |                    |
| Contribution of capital assets from developers  | <u>343,157</u>   | <u>382,730</u>     | <u>725,887</u>     | <u>656,987</u>     |
| Unrealized gain (loss) on investments   | <u>(13,803)</u>  | <u>(34,578)</u>    | <u>(48,381)</u>    | <u>(53,829)</u>    |

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

**NOTES TO THE FINANCIAL STATEMENTS**



**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**

**I. Summary of Significant Accounting Policies**

Eagle River Water and Sanitation District (the "District") was formed July 1, 1996, pursuant to an agreement to consolidate the sanitation functions of the Upper Eagle Valley Consolidated Sanitation District and the water service functions of the Vail Valley Consolidated Water District, both of which are located in Eagle County, Colorado. The District, a quasi-municipal corporation, is governed pursuant to provisions of the Colorado Special District Act. The District was established to ensure a more effective and economical operation of water and sanitation systems within the jurisdictional boundaries of the District. Seven elected board members govern the District.

The 1996 consolidation of Upper Eagle Valley Consolidated Sanitation District and Vail Valley Consolidated Water District was accomplished pursuant to Colorado law which specifically provides that a separate ad valorem tax be levied against the area comprising the consolidating districts which, together with any other special rates, tolls, fees or charges for service within the consolidating District area, will be sufficient to pay the principal and interest on the consolidating Districts' outstanding bonds.

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established by GAAP used by the District are discussed below.

**A. Reporting Entity**

The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Consideration is also given to other organizations, which are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity. Based upon these criteria, the District is not a component unit of any other government. The District has one blended component unit and while it is a legally separate entity it is in substance part of the District's operations:

**Eagle River Water and Sanitation District Water Subdistrict** - The Eagle River Water and Sanitation District Water Subdistrict (the "Water Subdistrict") was incorporated in 2002 and formed for the purpose of creating a separate taxing district pursuant to the Special District Act. The boundaries of the Subdistrict are generally identical to the boundaries of the Town, but include some properties which are not within the Town. The Subdistrict issued bonds in 2002, 2004, 2009, 2011 and 2012 for the construction of various facilities. The financial data of the Subdistrict is reported as part of the primary government because it is fiscally dependent upon the District and provides financing solely to the District. Although the Subdistrict is a separate legal entity, for financial reporting purposes, it is part of the District and is included in the Water Fund.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**I. Summary of Significant Accounting Policies (continued)**

**B. Fund Accounting**

The District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions and activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The District uses a proprietary fund-type, an enterprise fund, to account for its activities, providing water and wastewater treatment services to taxpayers within the District's boundaries. Enterprise funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues, expenditures, or expenses are recognized in the accounts and reported in the financial statements. Financial statement presentation refers to classification of revenues by source and expenses by function.

**1. Long-term Economic Focus and Accrual Basis**

Proprietary funds use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

**2. Financial Statement Presentation**

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 a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**I. Summary of Significant Accounting Policies (continued)**

**D. Financial Statement Accounts and Accounting Policies**

**1. Cash and Cash Equivalents**

For purposes of the Statements of Cash Flows, the District considers cash on hand, demand deposits, U.S. government obligations and other highly liquid with maturities of three months or less when purchased to be cash equivalents.

**2. Investments**

The investments for the District are reported at fair value.

**3. Receivables**

Receivables are reported net of an allowance for uncollectible accounts. An allowance for doubtful accounts in the amount of \$150,377 and \$82,049 had been established at December 31, 2012 and 2011, respectively, to estimate uncollectible accounts.

**4. Property Taxes**

Property taxes are assessed in one year as a lien on the property, but not collected by governmental units until the subsequent year. In accordance with GAAP, the assessed but uncollected property taxes have been recorded as a receivable and as unavailable property tax revenue.

**5. Inventory**

Inventory is determined at the lower of cost (determined on the first-in, first-out basis) or market.

**6. Capital Assets**

Capital assets, which include land and easements, water rights, construction in progress, treatment plants, distribution systems, computers, equipment, vehicles, and employee housing, are reported in the financial statements. The District defines capital assets as assets with an initial cost of \$5,000 or more. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of water rights includes acquisition cost, legal and engineering costs related to the development and augmentation of those rights. Since the rights have a perpetual life, they are not depreciated. All other costs, including costs incurred for the protection of those rights, are expensed. See the Schedule of Water and Storage Rights in the Statistical Section (pages F11-F14) for additional information.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Capital outlay for projects is capitalized as projects are constructed. Interest incurred during the construction phase is capitalized as part of the value of the assets constructed, net of investment earnings on loan proceeds during the same period. During 2012, the District capitalized interest of \$213,784 as part of capital assets.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**I. Summary of Significant Accounting Policies (continued)**

**D. Financial Statement Accounts and Accounting Policies (continued)**

**6. Capital Assets (continued)**

Treatment plants, distribution systems, computers, equipment, vehicles, and employee housing are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u>                      | <u>Years</u> |
|------------------------------------|--------------|
| Treatment plants                   | 5 - 40       |
| Distribution systems               | 5 - 40       |
| Computers, equipment, and vehicles | 2 - 10       |
| Employee housing                   | 40           |

**7. Net Position**

Net position represents the difference between assets, liabilities, and deferred inflows (outflows) of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets and increased by any unspent proceeds from related borrowings. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position is reported as unrestricted.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**8. Compensated Absences**

Earned but unused vacation and sick leave benefits are accrued when incurred in the financial statements.

**9. Long-term Obligations**

Long-term debt and other long-term obligations are reported as liabilities in Statement of Net Position. Bond premiums and discounts are deferred and amortized over the respective life of the respective debt using a combination of the effective-interest and straight-line methods. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period incurred.

The deferred cost on bond refunding is being amortized over the lesser of the life of the new bond or the remaining life of the refunded bonds using the straight-line method which approximates the effective interest method. The amortization amount is a component of interest expense and the unamortized deferred cost is reflected as a deferred outflow of resources.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**I. Summary of Significant Accounting Policies (continued)**

**D. Financial Statement Accounts and Accounting Policies (continued)**

**10. Deferred Outflows and 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 only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the Statement of Net Position. A deferred charge 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 only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**11. Use of Estimates**

The preparation of financial statements in conformity with GAAP requires the District's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

**12. Restricted and Unrestricted Resources**

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

**13. Comparative Data and Reclassifications**

The financial statements include certain prior year comparative information in total, but not by segment. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2012, from which comparative totals were derived.

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**II. Stewardship, Compliance, and Accountability**

**A. Budgetary Information**

In the fall of each year, the District's Board of Directors formally adopts a budget with appropriations for the ensuing year pursuant to the Colorado Local Budget Law. The budget is adopted on a non-GAAP basis and is reconciled to GAAP in Section E of this report. Expenditures may not legally exceed appropriations at the fund level and all appropriations lapse at year-end.

As required by Colorado statutes, the District followed the required timetable noted below in preparing, approving, and enacting its budget for 2012.

1. For the 2012 budget year, prior to August 25, 2011, the County Assessor sent to the District an assessed valuation of all taxable property within the District's boundaries. The County Assessor may change the assessed valuation on or before December 10 only once by a single notification to the District.
2. The District submitted, on or before October 15, 2011, a recommended budget that detailed the necessary property taxes needed along with other available revenues to meet the District's operating requirements.
3. Prior to December 15, 2011, after a required publication of "Notice of Proposed Budget" and a public hearing, the District certified to the County Commissioners a levy rate that derived the necessary property taxes as computed in the proposed budget, and the District adopted the proposed budget and an appropriating resolution that legally appropriated expenditures for the upcoming year.
4. After adoption of the budget resolution, the District may make the following changes: a) approve supplemental appropriations to the extent of revenues in excess of estimated revenues in the budget; b) approve emergency appropriations; and c) reduce appropriations for which originally estimated revenues are insufficient.

Taxes levied in one year are collected in the succeeding year. Thus, taxes certified in 2011 were collected in 2012 and taxes certified in 2012 will be collected in 2013. Taxes are due on January 1 in the year of collection; however, they may be paid in either one installment (no later than April 30) or two equal installments (not later than February 28 and June 15) without interest or penalty. Taxes that are not paid within the prescribed time bear interest at the rate of one percent (1%) per month until paid. Unpaid amounts and the accrued interest thereon become delinquent on June 16.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**II. Stewardship, Compliance, and Accountability (continued)**

**B. TABOR Amendment**

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20; commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments.

TABOR also requires local governments to establish an emergency reserve to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. The reserve is calculated at 3% of fiscal year spending. Fiscal year spending excludes bonded debt service and enterprise spending.

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from state and local governments, are excluded from the provisions of TABOR. The District's management believes its operations qualify for this exclusion.

The District believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions, including the interpretation of how to calculate fiscal year spending limits and qualification as an enterprise, will require judicial interpretation.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**III. Detailed Notes on All Funds**

**A. Deposits and Investments**

The District's deposits are entirely covered by the Federal Deposit Insurance Corporation ("FDIC") or by collateral held under Colorado's Public Deposit Protection Act ("PDPA"). The FDIC insures depositors up to \$250,000 for all accounts. Deposit balances over \$250,000 are collateralized as required by PDPA. The carrying amounts of the District's petty cash, demand deposits and investments were \$51,927,183 and \$23,243,290 as of December 31, 2012 and 2011, respectively.

At December 31, 2012, the District had the following cash and investments with the following maturities:

|                              | Standard<br>& Poors<br>Rating | Carrying<br>Amounts | Maturities            |                   |
|------------------------------|-------------------------------|---------------------|-----------------------|-------------------|
|                              |                               |                     | Less than<br>one year | 1 - 5<br>years    |
| <i>Petty cash</i>            | Not rated                     | 2,600               | 2,600                 | -                 |
| <i>Deposits:</i>             |                               |                     |                       |                   |
| Checking                     | Not rated                     | 900,319             | 900,319               | -                 |
| Money market                 | Not rated                     | 1,141,600           | 1,141,600             | -                 |
| <i>Investment pool</i>       | AAAm                          | 5,302,264           | 5,302,264             | -                 |
| <i>Investments:</i>          |                               |                     |                       |                   |
| Commercial Paper             | A-1                           | 1,808,155           | 1,808,155             | -                 |
| United States Corporate      | AA+                           | 1,490,838           | 213,321               | 1,277,517         |
| United States Treasury notes | AA+                           | 9,519,470           | 1,101,772             | 8,417,698         |
| Federal agency securities    | AA+                           | 31,761,936          | 29,958,620            | 1,803,316         |
| <b>Total</b>                 |                               | <u>51,927,182</u>   | <u>40,428,651</u>     | <u>11,498,531</u> |

The investment pool represents investments in the Colorado Government Liquid Asset Trust ("COLOTRUST") which is a 2a7-like pool. The fair value of the pools is determined by the pool's share price. The District has no regulatory oversight for the pool.

**Interest Rate Risk.** As a means of limiting its exposure to interest rate risk, the District coordinates its investment maturities to closely match cash flow needs and restricts the maximum investment term to less than five years from the purchase date. The investment policy also limits types of investments to specific maturity dates. Finally, the policy requires the District, at all times, to maintain 10% of its total investment portfolio in instruments maturing in 120 days or less.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**A. Deposits and Investments (continued)**

**Credit Risk.** Colorado statutes specify instruments in which local governments may invest, including:

- Obligations of the U.S. and certain U.S. governmental agency securities
- Certain international agency securities
- General obligation and revenue bonds for U.S. local governmental entities
- Bankers acceptances of certain banks
- Commercial paper
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

The District's investment policy has further restricted the investment of District funds to U.S. Treasury obligations, Federal agency securities, commercial paper, eligible bankers acceptances, written repurchase agreements collateralized by certain authorized securities, local government investment pools, time certificates of deposit, and certain money market funds.

The District's investment policy requires all investments to be highly rated by nationally recognized statistical rating agencies as follows:

|                                   | <b>Required<br/>Ratings</b> |
|-----------------------------------|-----------------------------|
| Federal agency securities         | AAA                         |
| Commercial paper                  | A-1                         |
| United States Treasury notes      | AAA                         |
| Eligible bankers acceptances      | A-1                         |
| Local government investment pools | AAAm                        |
| Money market mutual funds         | AAAm                        |

In addition, the District's investment policy requires that approved counterparties to repurchase agreements have at least a short-term debt rating of A-1 and a long-term debt rating of A.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**A. Deposits and Investments (continued)**

**Concentration of Credit Risk.** The District's investment policy requires its portfolio to be adequately diversified to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, individual financial institutions or maturities. The District may invest to the following maximum limits:

|   | <b>Maximum<br/>Percentage</b> |
|---|-------------------------------|
| U.S. Treasury obligations                                     | 100%                          |
| Federal agency securities                                     | 100%                          |
| Repurchase agreements   | 100%                          |
| Certificates of deposit                                       | 50%                           |
| Local government investment pools                             | 50%                           |
| Combined total in bankers acceptances<br>and commercial paper | 30%                           |

Investments in any one issuer (other than U.S. Treasury obligations, mutual funds, and external investment pools) that represented 5% or more of the total District investments at December 31, 2012 were as follows:

| <b>Issuer</b>                   | <b>Reported<br/>Amount</b> | <b>Percentage of<br/>Investment<br/>Portfolio</b> |
|---------------------------------|----------------------------|---|
| U.S. Treasury obligations       | 31,761,937                 | 64%   |
| Federal Home Loan Mortgage Corp | 2,262,281                  | 5%  |
| Federal Home Loan Bank          | 2,270,881                  | 5%  |

**B. Restricted Cash and Cash Equivalents**

At December 31, 2012, cash has been restricted for the following purposes:

|                          | <b>Water</b>     | <b>Sanitation</b> | <b>Total</b>      |
|--------------------------|------------------|-------------------|-------------------|
| Unspent bond proceeds    | 2,485,976        | 23,700,216        | 26,186,192        |
| Debt service reserves    | 231,072          | 7,024,087         | 7,255,159         |
| Rate stabilization funds | 600,000          | 600,000           | 1,200,000         |
| <b>Total</b>             | <b>3,317,048</b> | <b>31,324,303</b> | <b>34,641,351</b> |

**C. Summary of Cash and Investments**

The District's cash and cash equivalents are disclosed in the following financial statement captions:

|  | <b>Water</b>      | <b>Sanitation</b> | <b>Total</b>      |
|--|-------------------|-------------------|-------------------|
| Cash and cash equivalents - Unrestricted | 3,280,972         | 734,460           | 4,015,432         |
| Cash and cash equivalents - Restricted   | 3,317,048         | 31,324,303        | 34,641,351        |
| Investments - Unrestricted               | 3,788,303         | 9,482,096         | 13,270,399        |
| <b>Total</b>                             | <b>10,386,323</b> | <b>41,540,859</b> | <b>51,927,182</b> |

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**D. Notes Receivable**

The following is an analysis of changes in notes receivable for the year ended December 31, 2012:

|                       | <b>1/1/12<br/>Beginning<br/>Balance</b> | <b>Additions</b> | <b>Reductions</b> | <b>12/31/12<br/>Ending<br/>Balance</b> |
|-----------------------|---|------------------|-------------------|--|
| Red Cliff             | 156,900                                 | 68,100           | -                 | 225,000                                |
| Red Sandstone Creek   | 47,963                                  | -                | (6,835)           | 41,128                                 |
| Employees             | 386,255                                 | -                | -                 | 386,255                                |
| Sewer tap purchases   | -                                       | 22,664           | -                 | 22,664                                 |
|                       | <u>591,118</u>                          | <u>90,764</u>    | <u>(6,835)</u>    | <u>675,047</u>                         |
| Less: Current portion | (23,997)                                | -                | 3,621             | (20,376)                               |
| Long-term portion     | <u>567,121</u>                          | <u>90,764</u>    | <u>(3,214)</u>    | <u>654,671</u>                         |

The following notes receivable were outstanding as of December 31, 2012:

**1. Red Cliff**

During 2012, the District received a promissory note for \$225,000 from the Town of Red Cliff for operation and maintenance services provided over a number of years. The note bears interest at 3.0% annually and is amortized over a 10 year period.

**2. Red Sandstone Creek**

The District loaned residents of this employee housing development funds for the replacement of the roof. The annual interest rate on the notes with these residents is 4% and will be collected over a period of ten years. These notes are secured by a lien on the related property.

**3. Employees**

During 2009 and 2010, the District provided down payment assistance to employees as part of its Employee Home Ownership Program. These non-interest bearing notes are secured by the related properties and will be collected over a period of fifteen years.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**E. Patronage Dividend Receivable**

The District has a dividend receivable from Holy Cross Electric Association (“Holy Cross”) which represents allocated refundable operating profits. These amounts are held by Holy Cross as working capital until the financial condition of Holy Cross permits a refund. Refunds are normally received annually approximately ten years in arrears. During the year ended December 31, 2012, the District received a refund of \$67,626 from Holy Cross. The balance due to the District at December 31, 2012 and 2011 was \$540,823 and \$557,715, respectively.

**F. Investment in Eagle Park Reservoir Company**

The Eagle Park Reservoir Company (the “Reservoir Company”), a Colorado nonprofit corporation was formed May 8, 1998 to acquire water diversion, storage facilities and water rights, and operate its water storage facilities located in Eagle County, Colorado, and to direct releases of water from the reservoir on behalf of its stockholders. An investment in the Reservoir Company allows the owner to augment its existing water rights.

In 1998, the District acquired 3,300 Class A Shares (approximately 16.4%) and 125 Class B shares of the stock in the Reservoir Company for \$1,909,732 and the contribution/pledge of certain water rights. The \$1,909,732 was financed through an assessment obligation payable to the Reservoir Company, which is explained in Note III.H.1, and is recorded as an investment in Eagle Park Reservoir Company, along with \$130,000 of legal costs related to the issuance of the assessment payable. Since 1998, the District has acquired additional shares of the Reservoir Company through various transactions. As of December 31, 2011, the District held 4,345 Class A Shares, 125 Class B Series 1 and 125 Class B Series 2 shares of the stock in the Reservoir Company at a cost of \$3,466,756.

During 2011 and 2012, the District’s investment in the Reservoir Company was unchanged.

As of December 31, 2012, the District held 4,345 Class A Shares (approximately 16.8%), 125 Class B Series 1 and 125 Class B Series 2 shares of the stock in the Reservoir Company at a cost of \$3,466,756. See the Schedule of Water and Storage Rights in the Statistical Section (pages F11-F14) for additional information.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**G. Capital Assets**

Capital asset activity related to water services for 2012 was as follows:

|   | <u>1/1/12</u><br><b>Beginning</b><br><b>Balance</b> | <b>Additions</b>        | <b>Retirements</b><br><b>and Transfers</b> | <u>12/31/12</u><br><b>Ending</b><br><b>Balance</b> |
|---|---|-------------------------|--|--|
| <b>Water</b>                                    |   |                         |  |  |
| Capital assets, not being depreciated:          |   |                         |  |  |
| Water rights                                    | 1,496,416   | -                       | -  | 1,496,416  |
| Construction in progress                        | <u>2,752,881</u>                                    | <u>922,121</u>          | <u>(1,520,714)</u>                         | <u>2,154,288</u>                                   |
| Total capital assets,<br>not being depreciated  | <u>4,249,297</u>                                    | <u>922,121</u>          | <u>(1,520,714)</u>                         | <u>3,650,704</u>                                   |
| Capital assets, being depreciated:              |   |                         |  |  |
| Treatment plants                                | 2,557,922   | 3,486                   | -  | 2,561,408  |
| Distribution systems                            | 39,735,181  | 1,559,328               | (183,531)                                  | 41,110,978   |
| Computers, equipment and vehicles               | 1,324,617   | 287,092                 | (21,775)                                   | 1,589,934  |
| Employee housing                                | <u>464,670</u>                                      | <u>-</u>                | <u>(464,670)</u>                           | <u>-</u>   |
| Total capital assets<br>being depreciated       | <u>44,082,390</u>                                   | <u>1,849,906</u>        | <u>(669,976)</u>                           | <u>45,262,320</u>                                  |
| Less accumulated depreciation for:              |   |                         |  |  |
| Treatment plants                                | (1,073,926)   | (135,520)               | -  | (1,209,446)  |
| Distribution systems                            | (11,166,262)  | (1,152,522)             | 48,942                                     | (12,269,842)                                       |
| Computers, equipment and vehicles               | (941,042)   | (130,549)               | 16,398                                     | (1,055,193)  |
| Employee housing                                | <u>(57,975)</u>                                     | <u>-</u>                | <u>57,975</u>                              | <u>-</u>   |
| Total accumulated depreciation                  | <u>(13,239,205)</u>                                 | <u>(1,418,591)</u>      | <u>123,315</u>                             | <u>(14,534,481)</u>                                |
| Total capital assets,<br>being depreciated, net | <u>30,843,185</u>                                   | <u>431,315</u>          | <u>(546,661)</u>                           | <u>30,727,839</u>                                  |
| <b>Total capital assets, net - Water</b>        | <u><u>35,092,482</u></u>                            | <u><u>1,353,436</u></u> | <u><u>(2,067,375)</u></u>                  | <u><u>34,378,543</u></u>                           |

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**G. Capital Assets (continued)**

Capital asset activity related to sanitation services for 2012 was as follows:

|   | <u>1/1/12</u><br><b>Beginning</b><br><b>Balance</b> | <b>Additions</b>         | <b>Retirements</b><br><b>and Transfers</b> | <u>12/31/12</u><br><b>Ending</b><br><b>Balance</b> |
|---|---|--------------------------|--|--|
| <b>Sanitation</b>                               |   |                          |  |  |
| Capital assets, not being depreciated:          |   |                          |  |  |
| Land and easements                              | 3,398,636   | 131,844                  | -  | 3,530,480  |
| Construction in progress                        | <u>17,135,966</u>                                   | <u>6,608,497</u>         | <u>(18,226,583)</u>                        | <u>5,517,880</u>                                   |
| Total capital assets,<br>not being depreciated  | <u>20,534,602</u>                                   | <u>6,740,341</u>         | <u>(18,226,583)</u>                        | <u>9,048,360</u>                                   |
| Capital assets, being depreciated:              |   |                          |  |  |
| Treatment plants                                | 80,339,103  | 16,269,967               | -  | 96,609,070   |
| Distribution systems                            | 49,357,804  | 890,646                  | -  | 50,248,450   |
| Computers, equipment and vehicles               | 3,973,851   | 861,277                  | (65,325)                                   | 4,769,803  |
| Employee housing                                | <u>7,212,537</u>                                    | <u>451,145</u>           | <u>117,353</u>                             | <u>7,781,035</u>                                   |
| Total capital assets<br>being depreciated       | <u>140,883,295</u>                                  | <u>18,473,035</u>        | <u>52,028</u>                              | <u>159,408,358</u>                                 |
| Less accumulated depreciation for:              |   |                          |  |  |
| Treatment plants                                | (40,262,539)  | (3,574,439)              | -  | (43,836,978)                                       |
| Distribution systems                            | (17,140,297)  | (1,303,943)              | -  | (18,444,240)                                       |
| Computers, equipment and vehicles               | (2,823,125)   | (391,648)                | 49,193                                     | (3,165,580)  |
| Employee housing                                | <u>(615,146)</u>                                    | <u>(193,227)</u>         | <u>4,903</u>                               | <u>(803,470)</u>                                   |
| Total accumulated depreciation                  | <u>(60,841,107)</u>                                 | <u>(5,463,257)</u>       | <u>54,096</u>                              | <u>(66,250,268)</u>                                |
| Total capital assets,<br>being depreciated, net | <u>80,042,188</u>                                   | <u>13,009,778</u>        | <u>106,124</u>                             | <u>93,158,090</u>                                  |
| <b>Total capital assets, net - Sanitation</b>   | <u><u>100,576,790</u></u>                           | <u><u>19,750,119</u></u> | <u><u>(18,120,459)</u></u>                 | <u><u>102,206,450</u></u>                          |

Depreciation expense for the year ended December 31, 2012 was charged to the following departments:

|                            | <u>Water</u>            | <u>Sanitation</u>       | <u>Total</u>            |
|----------------------------|-------------------------|-------------------------|-------------------------|
| Maintenance                | 67,109                  | 201,328                 | 268,437                 |
| Water operations           | 1,288,042               | -                       | 1,288,042               |
| Wastewater treatment       | -                       | 4,878,382               | 4,878,382               |
| General and administrative | 63,440                  | 383,547                 | 446,987                 |
| <b>Total</b>               | <u><u>1,418,591</u></u> | <u><u>5,463,257</u></u> | <u><u>6,881,848</u></u> |

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**H. Long-Term Debt – Water**

The District has the following long-term debt outstanding related to its water operations:

**1. 1998 Assessment Obligation Note**

As previously explained in Note III.F, the District financed its 1998 investment in the Reservoir Company through the execution of an assessment obligation note in the amount of \$1,909,842. This note bears interest at 5.45% annually. Debt service payments of \$130,683 are due annually on September 16, through 2027.

The obligation is secured by the District's ownership of common stock of the Reservoir Company and certain water rights owned by participating members and leased to the District. The agreement contains release provisions for the collateral based on the timely payment of scheduled obligations. The assessment payable is subject to annual appropriation.

The District is maintaining a reserve equal to the next fiscal year's principal and interest payments for this obligation.

**2. General Obligation Water Bonds, Series 2004**

The District, through the Water Subdistrict, issued \$9,335,000 of general obligation water bonds in July 2004, the proceeds of which were used to finance improvements to the District's water system and to purchase water rights. The interest rates on the bonds range from 3.25% to 5.00%. Interest is payable on June 1 and December 1, through 2029. The principal is payable on December 1 and matures in various increments through 2029.

These bonds consist of serial bonds issued in the amount of \$6,590,000 due annually through 2024, and term bonds issued in the amount of \$2,745,000 due December 1, 2029.

Only bonds maturing on and after December 1, 2015, are subject to redemption prior to maturity; these bonds are subject to redemption prior to maturity at the option of the District at par.

The term bonds maturing on December 1, 2029 are subject to mandatory sinking fund redemption at par, plus accrued interest to the redemption date.

A bond insurance policy, which guarantees the scheduled payment of principal and interest on the bonds, was issued by Financial Security Assurance, Inc. concurrently with the issuance of these bonds.

During 2012, proceeds from the General Obligation Water Refunding Bonds, Series 2012B, were used to partially refund the 2004 Water Bonds maturing after December 1, 2015 as mentioned in Note III.H.6.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**H. Long-Term Debt – Water (continued)**

**3. Water Enterprise Revenue Bonds, Series 2009**

The District, through the Water Subdistrict, issued \$13,225,000 of water enterprise revenue bonds in May 2009, with annual interest rates ranging from 3.00% to 5.13%. Interest is payable June 1 and December, through 2039. The principal is payable on December 1 and matures in various increments through 2039. The proceeds of these bonds were used for the construction of new water mains, the enhancement of wells, the enlargement of a dam, and other water system improvements.

Principal on the serial bonds is due beginning in 2012 through 2019 in amounts ranging from \$260,000 to \$325,000; the term bonds maturing on December 1, 2024, December 1, 2029, December 1, 2034, and December 1, 2039 are subject to annual, mandatory sinking fund redemptions ranging from \$340,000 beginning in 2020 to \$835,000 due December 1, 2039.

Only bonds maturing on and after December 1, 2019, are subject to redemption prior to maturity; these bonds are subject to redemption prior to maturity at the option of the District at par.

As special, limited obligations of the District, principal and interest on the bonds are payable solely from Net Pledged Revenues, as defined in the bond documents. Such net revenue includes income from the operation and use of the water system and other legally available revenue after the payment of operation and maintenance expenses of the system.

The bond documents include a Rate Maintenance Covenant, which requires the District to establish service rates at a level sufficient to cover operating and maintenance expenses, as well as 115% of each fiscal year's debt service requirements of outstanding District bonds.

In conjunction with the issuance of these bonds, the District is required to maintain a Rate Stabilization Fund of \$600,000; the Rate Stabilization Fund was created to help offset or reduce any increase in fees, rates, and other charges to the users of the water system which was created by the Rate Maintenance Covenant.

These bonds are secured by a Reserve Fund equal to the least of 1) 10% of the principal amount of the bonds, 2) the maximum annual principal and interest on the bonds, or 3) 125% of average principal and interest on the bonds which will become due in any fiscal year. The District has purchased a bond reserve insurance policy to provide reserve funds if needed; therefore, no reserve has been reflected in these financial statements for this purpose.

The District is maintaining a reserve equal to interest accrued through December 31, 2012 plus one twelfth (1/12) of the first principal payment due in the subsequent year for this debt.

A bond insurance policy, which guarantees the scheduled payment of principal and interest on the bonds, was issued by Assured Guaranty Corporation concurrently with the issuance of these bonds.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**H. Long-Term Debt – Water (continued)**

**4. General Obligation Water Refunding Bonds, Series 2011**

The District, through the Water Subdistrict, issued \$2,930,000 of general obligation water refunding bonds in December 2011, the proceeds of which were used to retire the 2002 CWRPDA loan and pay the costs of issuance. The interest rates on the bonds range from 3.00% to 4.00%. Interest is payable on June 1<sup>st</sup> and December 1<sup>st</sup>, through 2022. The principal is payable on December 1<sup>st</sup> and matures in various increments through 2022.

Principal on the serial bonds is due beginning in 2012 through 2022 in amounts ranging from \$225,000 to \$315,000. These bonds are not subject to optional redemption prior to their respective maturity dates.

The bonds are not secured by the Water Subdistrict's assets and are not obligations of the District. The bonds are direct obligations and pledge the full faith and credit of the Water Subdistrict and are ultimately secured by the Water Subdistrict's general ad valorem tax collections.

The District is maintaining a reserve equal to interest accrued through December 31, 2012 plus one twelfth (1/12) of the first principal payment due in the subsequent year for this debt.

**5. General Obligation Water Bonds, Series 2012A**

The District, through the Water Subdistrict, issued \$1,000,000 of general obligation water bonds in December 2012, the proceeds of which will be used to construct improvements to the District's water system and pay the costs of issuance. The interest rates on the bonds range from 2.30% to 2.50%. Interest is payable on June 1<sup>st</sup> and December 1<sup>st</sup>, through 2029. The principal is payable on December 1<sup>st</sup> and matures in various increments through 2029.

Principal on the serial bonds is due beginning in 2023 through 2029 in amounts ranging from \$130,000 to \$155,000.

The bonds are not secured by the Water Subdistrict's assets and are not obligations of the District. The bonds are direct obligations and pledge the full faith and credit of the Water Subdistrict and are ultimately secured by the Water Subdistrict's general ad valorem tax collections.

Bonds maturing on or after December 1, 2023, are subject to redemption prior to maturity at the option of District at par plus accrued interest.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**H. Long-Term Debt – Water (continued)**

**6. General Obligation Water Refunding Bonds, Series 2012B**

The District, through the Water Subdistrict, issued \$6,605,000 of general obligation water refunding bonds in December 2012, the proceeds of which were used to partially refund the aforementioned 2004 General Obligation Water Bonds (Note III.H.2) and pay the costs of issuance. The interest rates on the bonds range from 2.00% to 3.00%. Interest is payable on June 1<sup>st</sup> and December 1<sup>st</sup>, through 2029. The principal is payable on December 1<sup>st</sup> and matures in various increments through 2029.

Principal on the serial bonds is due beginning in 2013 through 2029 in amounts ranging from \$25,000 to \$555,000.

The District realized a present value savings on the refunding of \$801,658.

The bonds are not secured by the Water Subdistrict's assets and are not obligations of the District. The bonds are direct obligations and pledge the full faith and credit of the Water Subdistrict and are ultimately secured by the Water Subdistrict's general ad valorem tax collections.

Bonds maturing on or after December 1, 2023, are subject to redemption prior to maturity at the option of District at par plus accrued interest.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**I. Long-Term Debt – Sanitation**

**1. 1992 CWRPDA Loan**

In June 1992, the District entered into a \$7,368,840 loan agreement with CWRDPA, the proceeds of which were used for the design and construction of bio-solid handling facility improvements. Interest is payable February 1, May 1, August 1, and November 1, through August 2013. The principal is payable May 1 and August 1, through 2013. The loan bears interest between 4.15% and 6.25% annually.

Upon written notice to CWRPDA, the District has the option to prepay the loan in whole or if in part, in a minimum of \$100,000 increments.

The District has pledged the revenue from the operation and use of the wastewater treatment facilities and other legally available revenue, after the payment of operation and maintenance expenses of the system, for the repayment of the loan.

The bond documents include a Rate Maintenance Covenant, which requires the District to establish service rates at a level sufficient to cover operating and maintenance expenses, as well as 110% of each fiscal year's debt service requirements of outstanding District bonds.

The loan agreement also requires the District to maintain an operations and maintenance reserve in amount equal to 25% of the operations and maintenance expenditures budgeted for the succeeding fiscal year or \$1,250,000, whichever is less.

**2. 1995 CWRPDA Loan**

In May 1995, the District entered into a \$6,099,183 loan agreement with CWRDPA, the proceeds of which were used to construct a liquid treatment and odor control facility. Principal and interest is payable February 1 and August 1, through 2015. The effective annual interest rate of the loan is 4.58%.

Upon written notice to CWRPDA, the District has the option to prepay the loan in whole or if in part, in a minimum of \$100,000 increments.

The District has pledged the revenue from the operation and use of the wastewater treatment facilities and other legally available revenue, after the payment of operation and maintenance expenses of the system, for the repayment of the loan.

The bond documents include a Rate Maintenance Covenant, which requires the District to establish service rates at a level sufficient to cover operating and maintenance expenses, as well as 110% of each fiscal year's debt service requirements of outstanding District bonds.

The loan agreement also requires the District to maintain an operations and maintenance reserve in amount equal to 25% of the operations and maintenance expenditures budgeted for the current fiscal year or \$1,250,000, whichever is less.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**I. Long-Term Debt – Sanitation (continued)**

**3. 1998 CWRPDA Governmental Agency Bond**

In April 1998, the District, acting through its Sanitation Enterprise, entered into a \$17,685,396 loan agreement with CWRDPA, the proceeds of which were used for the expansion of the Edwards wastewater treatment facility. Principal and interest is payable February 1 and August 1, through 2016. The effective annual interest rate of the loan is 3.94%.

Upon written notice to CWRPDA, the District has the option to prepay the loan in whole or if in part, in a minimum of \$100,000 increments.

In May 1998, the District's electorate approved the assumption from the Sanitation Enterprise of this long-term obligation as a general obligation bond in the May 1998 election. As a result, the obligation was no longer secured by the Sanitation Enterprise's assets. The bond is a direct obligation and pledges the full faith and credit of the District and is ultimately secured by the District's general ad valorem tax collections.

**4. Tax-Exempt Wastewater Revenue Bonds, Series 2009A**

The District issued \$1,460,000 of tax-exempt wastewater revenue bonds in December 2009, with annual interest rates ranging from 3.00% to 4.00%. Interest is payable June 1 and December 1, through 2014. The principal is payable on December 1 and matures in various increments through 2014. The proceeds of these bonds were used to finance improvements to the wastewater system.

As special, limited obligations of the District, principal and interest on the bonds are payable solely from Net Pledged Revenues, as defined in the bond documents. Such net revenue includes income from the operation and use of the wastewater treatment facilities and other legally available revenue after the payment of operation and maintenance expenses of the system. In connection with the issuance of these bonds, the District has adopted a resolution imposing a new Sewer Debt Service Rate which is collected monthly from each single family equivalent ("SFE") in the system.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**I. Long-Term Debt – Sanitation (continued)**

**4. Tax-Exempt Wastewater Revenue Bonds, Series 2009A (continued)**

The bond documents include a Rate Maintenance Covenant, which requires the District to establish service rates at a level sufficient to cover operating and maintenance expenses, as well as 110% of each fiscal year's debt service requirements of outstanding District bonds.

These bonds and the Taxable Wastewater Revenue Bonds, Series 2009B (collectively referred to as the "2009 Bonds"), are secured by a common Reserve Fund equal to the minimum of: a) 10% of the principal amount of the bonds, b) the maximum annual debt service in any calendar year, or c) 125% of the average annual debt service of the bonds.

In conjunction with the issuance of the 2009 Bonds, and subsequently with the 2012 Bonds, the District is required to maintain a Rate Stabilization Fund of \$600,000; the Rate Stabilization Fund was created to help offset or reduce any increase in fees, rates, and other charges to the users of the water system which was created by the Rate Maintenance Covenant.

In accordance with bond indentures, the District is maintaining a reserve equal to interest accrued through December 31, 2012 plus one twelfth (1/12) of the first principal payment due in the subsequent year.

These bonds are not subject to redemption prior to their respective maturity dates.

**5. Taxable Wastewater Revenue Bonds, Series 2009B**

The District issued \$15,785,000 of wastewater revenue bonds in December 2009, with annual interest rates ranging from 4.71% to 6.79%. Interest is payable June 1 and December 1, through 2039. The principal is payable on December 1 and matures in various increments through 2039. The proceeds of these bonds were used to finance improvements to the wastewater system. This bond issue consists of term bonds due on December 1, 2019, December 1, 2023, December 1, 2029, December 1, 2034, and December 1, 2039; these bonds are subject to mandatory sinking fund redemption at par, plus accrued interest to the redemption date.

These bonds are Qualified Build America Bonds, which indicates the bonds are not tax-exempt. Under the Build America Program, the District may apply for interest cost subsidies from the federal government. Such subsidies will be used by the District to pay debt service on these bonds. During the fiscal year ended December 31, 2012, the District recognized revenue of \$347,298 related to this subsidy.

As special, limited obligations of the District, principal and interest on the bonds are payable solely from Net Pledged Revenues, as defined in the bond documents. Such net revenue includes income from the operation and use of the wastewater treatment facilities and other legally available revenue after the payment of operation and maintenance expenses of the system. In connection with the issuance of these bonds, the District has adopted a resolution imposing a new Sewer Debt Service Rate which is collected monthly from each single family equivalent ("SFE") in the system.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**I. Long-Term Debt – Sanitation (continued)**

**5. Taxable Wastewater Revenue Bonds, Series 2009B (continued)**

The bond documents include a Rate Maintenance Covenant, which requires the District to establish service rates at a level sufficient to cover operating and maintenance expenses, as well as 110% of each fiscal year's debt service requirements of outstanding District bonds.

As previously discussed, these bonds and the Tax-Exempt Wastewater Revenue Bonds, Series 2009A (collectively referred to as the "2009 Bonds"), are secured by a common Reserve Fund equal to the minimum of: a) 10% of the principal amount of the bonds, b) the maximum annual debt service in any calendar year, or c) 125% of the average annual debt service of the bonds.

In conjunction with the issuance of the 2009 Bonds, and subsequently with the 2012 Bonds, the District is required to maintain a Rate Stabilization Fund of \$600,000; the Rate Stabilization Fund was created to help offset or reduce any increase in fees, rates, and other charges to the users of the water system which was created by the Rate Maintenance Covenant.

In accordance with bond indentures, the District is maintaining a reserve equal to interest accrued through December 31, 2012 plus one twelfth (1/12) of the first principal payment due in the subsequent year.

Bonds maturing on and before December 1, 2019, are not subject to optional prior redemption. Bonds maturing on or after December 1, 2020, are subject to redemption prior to maturity at the option of District at par plus accrued interest. In addition, upon the occurrence of an Extraordinary Event, as defined in the bond documents, these bonds are subject to extraordinary redemption prior to their respective dates, at the option of the District at the Make-Whole Redemption Price, as defined in the bond documents.

**6. Enterprise Wastewater Revenue Bonds, Series 2012**

The District issued \$28,060,000 of wastewater revenue bonds in December 2012, with annual interest rates ranging from 2.00% to 5.00%. Interest is payable June 1 and December 1, through 2042. The principal is payable on December 1 and matures in various increments through 2042. The proceeds of these bonds were used to finance improvements to the wastewater system.

As special, limited obligations of the District, principal and interest on the bonds are payable solely from Net Pledged Revenues, as defined in the bond documents. Such net revenue includes income from the operation and use of the wastewater treatment facilities and other legally available revenue after the payment of operation and maintenance expenses of the system. In connection with the issuance of these bonds, the District has adopted a resolution imposing a new Sewer Debt Service Rate which is collected monthly from each single family equivalent ("SFE") in the system.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**I. Long-Term Debt – Sanitation (continued)**

**6. Enterprise Wastewater Revenue Bonds, Series 2012**

The bond documents include a Rate Maintenance Covenant, which requires the District to establish service rates at a level sufficient to cover operating and maintenance expenses, as well as 110% of each fiscal year's debt service requirements of outstanding District bonds.

As previously discussed, these bonds are secured by a common Reserve Fund equal to the minimum of: a) 10% of the principal amount of the bonds, b) the maximum annual debt service in any calendar year, or c) 125% of the average annual debt service of the bonds.

In conjunction with the issuance of the 2009 Bonds, and subsequently with the 2012 Bonds, the District is required to maintain a Rate Stabilization Fund of \$600,000; the Rate Stabilization Fund was created to help offset or reduce any increase in fees, rates, and other charges to the users of the water system which was created by the Rate Maintenance Covenant.

Bonds maturing on and before December 1, 2022, are not subject to optional prior redemption. Bonds maturing on or after December 1, 2023, are subject to redemption prior to maturity at the option of District at par plus accrued interest.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**J. Long-term Liability Activity Schedule**

Long-term liability activity for 2012 was as follows:

|  | <u>1/1/12</u><br><b>Beginning</b><br><b>Balance</b> | <b>Additions</b>  | <b>Reductions</b>  | <u>12/31/12</u><br><b>Ending</b><br><b>Balance</b> | <b>Due</b><br><b>Within</b><br><b>One Year</b> |
|--|---|-------------------|--------------------|--|--|
| <b>Water</b>                             |   |                   |                    |  |  |
| 1998 assessment obligation note          | 1,425,033   | -                 | (53,018)           | 1,372,015  | 55,908   |
| 2004 general obligation bonds            | 7,565,000   | -                 | (6,955,000)        | 610,000  | 300,000  |
| 2009 water enterprise revenue bonds      | 13,225,000  | -                 | (260,000)          | 12,965,000   | 265,000  |
| 2011 refunding general obligation bonds  | 2,930,000   | -                 | (225,000)          | 2,705,000  | 230,000  |
| 2012A general obligation bonds           | -   | 1,000,000         | -                  | 1,000,000  | -  |
| 2012B general obligation refunding bonds | -   | 6,605,000         | -                  | 6,605,000  | 40,000   |
| Unamortized bond premiums                | 380,917   | 802,763           | -                  | 1,183,680  | -  |
| Accrued compensated absences             | 94,006  | 15,765            | -                  | 109,771  | -  |
| Subtotal - Water                         | <u>25,619,956</u>                                   | <u>8,423,528</u>  | <u>(7,493,018)</u> | <u>26,550,466</u>                                  | <u>890,908</u>                                 |
| <b>Sanitation</b>                        |   |                   |                    |  |  |
| 1992 CWRPDA loan                         | 1,078,775   | -                 | (559,031)          | 519,744  | 519,744  |
| 1995 CWRPDA loan                         | 1,558,146   | -                 | (362,856)          | 1,195,290  | 378,864  |
| 1998 CWRPDA loan                         | 5,982,932   | -                 | (1,101,978)        | 4,880,954  | 1,134,231                                      |
| 2009A wastewater revenue bonds           | 1,145,000   | -                 | (325,000)          | 820,000  | 330,000  |
| 2009B wastewater revenue bonds           | 15,785,000  | -                 | -                  | 15,785,000   | -  |
| 2012 wastewater revenue bonds            | -   | 28,060,000        | -                  | 28,060,000   | -  |
| Unamortized bond premiums                | 76,484  | 3,819,996         | -                  | 3,896,480  | -  |
| Accrued compensated absences             | 282,017   | 47,296            | -                  | 329,313  | -  |
| Subtotal - Sanitation                    | <u>25,908,354</u>                                   | <u>31,927,292</u> | <u>(2,348,865)</u> | <u>55,486,781</u>                                  | <u>2,362,839</u>                               |
| <b>Total</b>                             | <u>51,528,310</u>                                   | <u>40,350,820</u> | <u>(9,841,883)</u> | <u>82,037,247</u>                                  | <u>3,253,747</u>                               |

**K. Debt Service Schedules**

Debt service requirements at December 31, 2012, were as follows for water operations:

| <b>Water</b>                    | <u>Principal</u>  | <u>Interest</u>   | <u>Total</u>      |
|---------------------------------|-------------------|-------------------|-------------------|
| 2013                            | 890,908           | 1,060,616         | 1,951,524         |
| 2014                            | 903,955           | 1,048,404         | 1,952,359         |
| 2015                            | 942,168           | 1,014,477         | 1,956,645         |
| 2016                            | 965,556           | 982,190           | 1,947,746         |
| 2017                            | 1,014,129         | 948,716           | 1,962,845         |
| 2018 - 2022                     | 5,571,436         | 4,175,055         | 9,746,491         |
| 2023 - 2027                     | 5,709,936         | 3,057,129         | 8,767,065         |
| 2028 - 2032                     | 4,198,928         | 1,795,243         | 5,994,171         |
| 2033 - 2037                     | 3,430,000         | 960,074           | 4,390,074         |
| 2038 - 2042                     | 1,630,000         | 126,332           | 1,756,332         |
| <b>Total water debt service</b> | <u>25,257,016</u> | <u>15,168,235</u> | <u>40,425,251</u> |

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**K. Debt Service Schedules (continued)**

Debt service requirements at December 31, 2012, were as follows for sanitation operations:

|                                      |   |      | <u>Principal</u>  | <u>Interest</u>   | <u>Total</u>      |
|--------------------------------------|---|------|-------------------|-------------------|-------------------|
| <b>Sanitation</b>                    |   |      |                   |                   |                   |
| 2013                                 |   |      | 2,362,839         | 2,533,403         | 4,896,242         |
| 2014                                 |   |      | 2,051,396         | 2,499,783         | 4,551,179         |
| 2015                                 |   |      | 2,613,630         | 2,377,162         | 4,990,792         |
| 2016                                 |   |      | 2,298,123         | 2,237,229         | 4,535,352         |
| 2017                                 |   |      | 1,000,000         | 2,148,897         | 3,148,897         |
| 2018                                 | - | 2022 | 5,450,000         | 10,181,168        | 15,631,168        |
| 2023                                 | - | 2027 | 6,535,000         | 8,869,670         | 15,404,670        |
| 2028                                 | - | 2032 | 8,060,000         | 7,040,721         | 15,100,721        |
| 2033                                 | - | 2037 | 9,945,000         | 4,761,381         | 14,706,381        |
| 2038                                 | - | 2042 | 10,945,000        | 1,576,891         | 12,521,891        |
| <b>Total sanitation debt service</b> |   |      | <u>51,260,988</u> | <u>44,226,305</u> | <u>95,487,293</u> |

Aggregate debt service requirements at December 31, 2012, were as follows for the District:

|                                    |   |      | <u>Principal</u>  | <u>Interest</u>   | <u>Total</u>       |
|------------------------------------|---|------|-------------------|-------------------|--------------------|
| <b>Combined</b>                    |   |      |                   |                   |                    |
| 2013                               |   |      | 3,253,747         | 3,594,019         | 6,847,766          |
| 2014                               |   |      | 2,955,351         | 3,548,187         | 6,503,538          |
| 2015                               |   |      | 3,555,798         | 3,391,639         | 6,947,437          |
| 2016                               |   |      | 3,263,679         | 3,219,419         | 6,483,098          |
| 2017                               |   |      | 2,014,129         | 3,097,613         | 5,111,742          |
| 2018                               | - | 2022 | 11,021,436        | 14,356,223        | 25,377,659         |
| 2023                               | - | 2027 | 12,244,936        | 11,926,799        | 24,171,735         |
| 2028                               | - | 2032 | 12,258,928        | 8,835,964         | 21,094,892         |
| 2033                               | - | 2037 | 13,375,000        | 5,721,455         | 19,096,455         |
| 2038                               | - | 2042 | 12,575,000        | 1,703,223         | 14,278,223         |
| <b>Total combined debt service</b> |   |      | <u>76,518,004</u> | <u>59,394,540</u> | <u>135,912,544</u> |

**IV. Other Information**

**A. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has joined together with other special districts in the State to form the Colorado Special Districts Property and Liability Pool ("the Pool"), a public entity risk pool currently operating as a common risk management and insurance program for member special districts. Settled claims have not exceeded this coverage in any of the past three fiscal years.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**IV. Other Information (continued)**

**A. Risk Management (continued)**

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

**B. Pension Plans**

**1. Defined Contribution Pension Plan - Section 401(a)**

Full-time, year round employees of the District participate in a defined contribution pension plan which was established by the District and is maintained and administered by the Principal Financial Group. Additional plan oversight and advisory services are provided by Morton and Company. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees participate in the District's plan upon employment. Under this plan, 5% of the employees' compensation is withheld and remitted to the Plan Administrator. Following six months of the participant's employment, the District contributes a matching 5% of all eligible employees' compensation. In addition, the District contributes 6.2% of compensation for all eligible participants hired after March 31, 1986 or 7.65% of compensation for participants hired prior to March 31, 1986. This contribution begins upon employment.

The District's contributions, plus earnings, become vested at a rate of 20% for each year of participation in the plan. District contributions for employees who leave employment before five years of participation are used to reduce the District's future contribution requirement. There is no liability for benefits under the plan beyond the District's required contributions. Plan provisions and contribution requirements are established and may be amended by the District.

Contributions actually made, which equaled the required contributions, were \$316,930 for plan members and \$693,444 for the District for the year ended December 31, 2012.

**2. Deferred Compensation Plan**

The District has a deferred compensation plan created in accordance with Internal Revenue Code Section 457 for full time, year round employees. This plan is administered by Principal Financial Group. Additional plan oversight and advisory services are provided by Morton and Company. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseen emergencies. During 2011, the District amended the plan to offer a Roth contribution option.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**IV. Other Information (continued)**

**C. Employee Housing Program**

The District operates a housing program that benefits its employees by providing affordable housing options as real estate prices in the Vail area are high. The objective of the program is to retain current employees and to attract new employees to the area. There are certain specified individuals who are not District employees who are also allowed to participate in the housing program depending on availability and whether they meet eligibility criteria established by the Board.

The District offers rental properties to employees as well as home buyers assistance options. The rental properties consist of condos, apartments and homes that are either built or purchased by the District. For employees using the housing program for rental properties, the District will set up a payroll deduction as a means to collect the rent. This is also done for employees using the home buyers' assistance option.

**D. Intergovernmental Agreements**

**1. Interconnect**

The District and Upper Eagle Regional Water Authority (the "Authority") entered into an intergovernmental agreement ("IGA") to construct an interconnect between their two water systems to enable the transfer of water between the parties for the purposes of achieving operational flexibility. In accordance with the IGA, the deliveries between the two systems are to be measured daily (net distribution of water) with the net amount owed by either party to the other to be billed to the owing party at a rate equal to 75 percent of the then current water rate charges by the owing party. The intent of the parties is to provide long-term service to each other through the availability of peak use season and emergency supplemental water supply. The payment calculation year is May 1 to April 30. If at the end of the payment year there is a net distribution of water to one of the parties, that party shall make payment to the other party. In most years, the net distribution at April 30 is insignificant and does not require a payment to be made. At December 31, 2012 and 2011, the net amount due from the Authority to the District was \$195,006 and \$148,410, respectively.

**2. Contract for Water Services**

Through an agreement, the District provides administration, operations, billing and maintenance services to the Authority. The District bills customers for the water service provided and collects and remits the monies to the Authority. The water service monies are not recognized as revenue of the District. In addition to the contract fees, the District bills the Authority for maintenance and supplies which are recognized as revenue. The District earned \$3,760,545 and \$3,513,190 of contract fees from the Authority during 2012 and 2011, respectively. The District has outstanding management fees due from the Authority as of December 31, 2012 and 2011 totaling \$221,597 and \$161,964, respectively, included in other receivables. There were other outstanding receivables, for operations services, due from the Authority as of December 31, 2012 and 2011 totaling \$446,013 and \$147,133, respectively, included in other accounts receivables. As of December 31, 2012 there was \$1,003,378, for water service billed, due to the Authority included in accounts payable.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**IV. Other Information (continued)**

**D. Intergovernmental Agreements (continued)**

**2. Contract for Water Services (continued)**

The District earned \$22,900 and \$30,540 of contract fees from other governments which it has similar agreements (i.e. Town of Minturn, Holland Creek Metro District, Town of Red Cliff, and Eagle Park Reservoir Company) during 2012 and 2011, respectively. Contracts were discontinued with Holland Creek Metro District in 2011 and Town of Red Cliff in 2012.

**E. Capital Contributions - Cost Recovery Contracts**

The District has Cost Recovery Contracts ("Contracts") with developers to refund the developers' cost of lines contributed to the District. The "cost recovery" amounts are generated from tap fees for taps made to the contributed lines.

The Contracts generally state that reimbursement of the amounts collected by the District for the developers will be made at such times and in such amounts as the District, in its sole discretion, shall determine. The District's current policy of reimbursement, as adopted in its rules and regulations, specifies that the maximum amount reimbursed to developers in any one year under the contract terms would be determined by the Board of Directors. The reimbursement to developers is reflected as a capital distribution when paid.

Per the Pre-Consolidation Agreement, effective July 1, 1996, all cash received from tap fees related to Contracts is to be restricted to reimburse developers pursuant to the Contracts. For the year ended December 31, 2012, the District collected \$2,939 of tap fees, which are subject to developer reimbursement, and reimbursed \$0 to developers.

Capital contributions subject to cost recovery at December 31, 2012, including taps collected and not paid, amounts to \$1,665,769.

Certain District Board members are associated with developers that have Contracts with the District.

**F. Commitments and Contingencies - Federal and State Grants and Financial Sources**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

**V. Implementation of Government Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities**

The District implemented Government Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities, which requires debt issuance costs, previously reported as an asset and amortized, to be recognized as an outflow at the time such costs are incurred. As such, the financial statements report a restatement of the beginning net position in the amount of \$1,003,630, which was the unamortized debt issuance cost at December 31, 2010.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2012**  
**(Continued)**

**VI. Subsequent Events**

During 2013, the District incorporated the Wolcott Water and Sewer Subdistrict (the "Wolcott Subdistrict") for the purpose of creating a separate taxing district pursuant to the Special District Act near the town of Wolcott, Colorado.

**SUPPLEMENTARY INFORMATION**



**Eagle River Water and Sanitation District**  
**Schedule of Revenues, Expenditures, and Funds Available**  
**Budget (Non-GAAP Basis) and Actual With Reconciliation to GAAP Basis**  
**For the Year Ended December 31, 2012**  
**(With Comparative Totals for the Year Ended 2011)**

|                                       | 2012               |                   |                   | Final Budget<br>Variance<br>Positive<br>(Negative) | 2011              |
|---------------------------------------|--------------------|-------------------|-------------------|--|-------------------|
|                                       | Original<br>Budget | Final<br>Budget   | Actual            |  | Actual            |
| <b>Revenues:</b>                      |                    |                   |                   |  |                   |
| <b>Water:</b>                         |                    |                   |                   |  |                   |
| Service fees                          | 4,350,738          | 4,350,738         | 4,407,946         | 57,208   | 4,005,686         |
| Rental income                         | -                  | -                 | -                 | -  | 39,328            |
| Other charges for services            | 24,000             | 24,000            | 93,954            | 69,954   | 83,068            |
| Property taxes                        | 1,402,261          | 1,402,261         | 1,382,818         | (19,443)   | 1,481,122         |
| Specific ownership taxes              | 59,184             | 59,184            | 56,999            | (2,185)  | 50,260            |
| Investment income                     | 42,000             | 42,000            | 15,620            | (26,380)   | 33,651            |
| Proceeds from sale of assets          | -                  | -                 | 179,293           | 179,293  | 505,530           |
| Tap fees                              | 83,016             | 83,016            | 308,895           | 225,879  | 160,635           |
| Fees in lieu of water lines           | -                  | -                 | -                 | -  | 139,261           |
| Proceeds from bond issue              | -                  | 8,000,000         | 8,503,281         | 503,281  | 2,930,000         |
| Other                                 | 14,504             | 14,504            | 44,106            | 29,602   | 122,242           |
| <b>Total Water Revenues</b>           | <u>5,975,703</u>   | <u>13,975,703</u> | <u>14,992,912</u> | <u>1,017,209</u>                                   | <u>9,550,783</u>  |
| <b>Sanitation:</b>                    |                    |                   |                   |  |                   |
| Service fees                          | 10,731,604         | 10,731,604        | 10,807,864        | 76,260   | 10,941,880        |
| Contract services                     | 3,500,000          | 3,500,000         | 3,783,445         | 283,445  | 3,543,730         |
| Rental income                         | 280,000            | 280,000           | 318,443           | 38,443   | 265,983           |
| Meter sales                           | 658,000            | 658,000           | 496,100           | (161,900)  | 413,592           |
| Other charges for services            | 348,850            | 348,850           | 655,430           | 306,580  | 395,873           |
| Property taxes                        | 1,876,492          | 1,876,492         | 1,862,130         | (14,362)   | 1,999,672         |
| Specific ownership taxes              | 73,205             | 73,205            | 74,114            | 909  | 66,221            |
| Investment income                     | 57,083             | 57,083            | 30,623            | (26,460)   | 33,834            |
| Interest credit - Build America Bonds | 347,298            | 347,298           | 347,298           | -  | 347,298           |
| Proceeds from sale of assets          | -                  | -                 | 436,642           | 436,642  | 481,549           |
| Tap fees                              | 177,033            | 177,033           | 492,998           | 315,965  | 657,464           |
| Fees in lieu of sewer lines           | -                  | -                 | 5,796             | 5,796  | 11,255            |
| Contributed assets - cash             | -                  | -                 | 50,000            | 50,000   | 10,000            |
| Proceeds from bond issue              | 11,700,000         | 11,700,000        | 31,888,047        | 20,188,047   | -                 |
| Other                                 | 42,513             | 42,513            | 148,126           | 105,613  | 151,909           |
| <b>Total Sanitation Revenues</b>      | <u>29,792,078</u>  | <u>29,792,078</u> | <u>51,397,056</u> | <u>21,604,978</u>                                  | <u>19,320,260</u> |
| <b>Total Revenues</b>                 | <u>35,767,781</u>  | <u>43,767,781</u> | <u>66,389,968</u> | <u>22,622,187</u>                                  | <u>28,871,043</u> |
| <b>Expenditures - Water:</b>          |                    |                   |                   |  |                   |
| <b>Water Operations:</b>              |                    |                   |                   |  |                   |
| Salaries and benefits                 | 1,763,957          | 1,763,957         | 1,866,630         | (102,673)  | 1,720,493         |
| Supplies and materials                | 279,019            | 279,019           | 297,700           | (18,681)   | 275,889           |
| Telephone and radio service           | 53,250             | 53,250            | 43,313            | 9,937  | 44,375            |
| Insurance                             | 47,100             | 47,100            | 48,230            | (1,130)  | 44,609            |
| Repairs and maintenance               | 137,000            | 137,000           | 179,299           | (42,299)   | 136,029           |
| Other                                 | 551,055            | 551,055           | 479,575           | 71,480   | 518,942           |
| Utilities                             | 283,000            | 283,000           | 230,869           | 52,131   | 217,328           |
| Chemicals                             | 67,500             | 67,500            | 68,928            | (1,428)  | 48,947            |
| Meter replacement                     | 320,000            | 320,000           | 96,519            | 223,481  | 109,632           |
| Outside services                      | 6,000              | 6,000             | 5,344             | 656  | 1,200             |
| <b>Total Water Operations</b>         | <u>3,507,881</u>   | <u>3,507,881</u>  | <u>3,316,407</u>  | <u>191,474</u>                                     | <u>3,117,444</u>  |

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

**Eagle River Water and Sanitation District**  
**Schedule of Revenues, Expenditures, and Funds Available**  
**Budget (Non-GAAP Basis) and Actual With Reconciliation to GAAP Basis**  
**For the Year Ended December 31, 2012**  
**(With Comparative Totals for the Year Ended 2011)**  
**(Continued)**

|   | 2012               |                   |                   | Final Budget<br>Variance<br>Positive<br>(Negative) | 2011               |
|---|--------------------|-------------------|-------------------|--|--------------------|
|   | Original<br>Budget | Final<br>Budget   | Actual            |  | Actual             |
| <b>Expenditures - Water (continued):</b>        |                    |                   |                   |  |                    |
| <b>General and Administrative:</b>              |                    |                   |                   |  |                    |
| Legal   | 75,000             | 75,000            | 86,527            | (11,527)   | 82,477             |
| Accounting and audit                            | 17,500             | 17,500            | 14,555            | 2,945  | 9,750              |
| Engineering                                     | 95,000             | 95,000            | 89,010            | 5,990  | 33,096             |
| Management and consulting                       | 261,250            | 261,250           | 324,873           | (63,623)   | 245,158            |
| Benefit administration                          | 17,500             | 17,500            | 12,133            | 5,367  | 19,843             |
| Community relations                             | 3,188              | 3,188             | 10,530            | (7,342)  | 3,977              |
| On-call housing                                 | -                  | -                 | -                 | -  | 23,461             |
| Directors fees and expenses                     | 5,800              | 5,800             | 3,393             | 2,407  | 3,872              |
| Maintenance contracts                           | 16,000             | 16,000            | 11,335            | 4,665  | 27,924             |
| Water quality                                   | 100,700            | 100,700           | 89,562            | 11,138   | 119,124            |
| Treasurer's fees                                | 42,658             | 42,658            | 41,781            | 877  | 44,751             |
| Debt issuance costs                             | -                  | -                 | 143,320           | (143,320)  | -                  |
| Net loan advances (repayments)                  | -                  | -                 | (96,564)          | 96,564   | (2,522,159)        |
| <b>Total General and Administrative</b>         | <u>634,596</u>     | <u>634,596</u>    | <u>730,455</u>    | <u>(95,859)</u>                                    | <u>(1,908,726)</u> |
| <b>Debt Service:</b>                            |                    |                   |                   |  |                    |
| Principal                                       | 818,019            | 818,019           | 828,018           | (9,999)  | 535,278            |
| Interest  | 1,174,749          | 1,174,749         | 1,122,223         | 52,526   | 1,206,385          |
| Principal paid to refunded bond<br>escrow agent | -                  | 8,000,000         | 7,253,407         | 746,593  | 2,795,180          |
| Capitalized debt issuance costs                 | -                  | -                 | -                 | -  | 90,317             |
| <b>Subtotal - Debt Service</b>                  | <u>1,992,768</u>   | <u>9,992,768</u>  | <u>9,203,648</u>  | <u>789,120</u>                                     | <u>4,627,160</u>   |
| <b>Capital Outlay</b>                           | <u>1,709,261</u>   | <u>1,709,261</u>  | <u>857,664</u>    | <u>851,597</u>                                     | <u>1,611,828</u>   |
| <b>Total Water Expenditures</b>                 | <u>7,844,506</u>   | <u>15,844,506</u> | <u>14,108,174</u> | <u>1,736,332</u>                                   | <u>7,447,706</u>   |
| <b>Expenditures - Sanitation:</b>               |                    |                   |                   |  |                    |
| <b>Sanitation Operations:</b>                   |                    |                   |                   |  |                    |
| Salaries and benefits                           | 6,742,658          | 6,742,658         | 7,080,463         | (337,805)  | 6,549,805          |
| Supplies and materials                          | 1,949,357          | 1,949,357         | 1,738,010         | 211,347  | 1,561,182          |
| Telephone and radio service                     | 159,750            | 159,750           | 129,939           | 29,811   | 133,126            |
| Insurance                                       | 141,300            | 141,300           | 144,689           | (3,389)  | 133,828            |
| Repairs and maintenance                         | 614,000            | 614,000           | 476,016           | 137,984  | 565,468            |
| Other   | 752,372            | 752,372           | 600,621           | 151,751  | 409,096            |
| Utilities                                       | 961,750            | 961,750           | 912,099           | 49,651   | 940,160            |
| Permits   | 38,520             | 38,520            | 41,221            | (2,701)  | 45,072             |
| Outside Services                                | 18,000             | 18,000            | 16,039            | 1,961  | 23,356             |
| <b>Total Sanitation Operations</b>              | <u>11,377,707</u>  | <u>11,377,707</u> | <u>11,139,097</u> | <u>238,610</u>                                     | <u>10,361,093</u>  |
| <b>General and Administrative:</b>              |                    |                   |                   |  |                    |
| Legal   | 275,000            | 275,000           | 91,437            | 183,563  | 89,220             |
| Accounting and audit                            | 12,500             | 12,500            | 14,555            | (2,055)  | 9,752              |
| Engineering                                     | 235,000            | 235,000           | 46,322            | 188,678  | 12,408             |
| Management and consulting                       | 20,000             | 20,000            | 74,682            | (54,682)   | 31,614             |
| Benefit administration                          | 52,500             | 52,500            | 36,398            | 16,102   | 59,528             |
| Community relations                             | 9,563              | 9,563             | 31,589            | (22,026)   | 11,930             |
| On-call housing                                 | -                  | -                 | -                 | -  | 70,384             |
| Directors fees and expenses                     | 17,400             | 17,400            | 10,180            | 7,220  | 11,617             |
| Maintenance contracts                           | 48,000             | 48,000            | 34,005            | 13,995   | 83,772             |
| Sanitation quality                              | 597,000            | 597,000           | 569,755           | 27,245   | 424,700            |
| Treasurer's fees                                | 57,046             | 57,046            | 56,124            | 922  | 60,541             |
| Debt issuance costs                             | -                  | -                 | 237,926           | -  | -                  |
| Net loan advances (repayments)                  | -                  | -                 | 184,113           | (184,113)  | 16,192             |
| <b>Total General and Administrative</b>         | <u>1,324,009</u>   | <u>1,324,009</u>  | <u>1,387,086</u>  | <u>174,849</u>                                     | <u>881,658</u>     |

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

**Eagle River Water and Sanitation District**  
**Schedule of Revenues, Expenditures, and Funds Available**  
**Budget (Non-GAAP Basis) and Actual With Reconciliation to GAAP Basis**  
**For the Year Ended December 31, 2012**  
**(With Comparative Totals for the Year Ended 2011)**  
**(Continued)**

|  | 2012               |                   |                   | Final<br>Budget<br>Variance<br>Positive<br>(Negative) | 2011              |
|--|--------------------|-------------------|-------------------|---|-------------------|
|  | Original<br>Budget | Final<br>Budget   | Actual            |   | Actual            |
| <b>Expenditures - Sanitation (continued):</b>              |                    |                   |                   |   |                   |
| <b>Debt Service:</b>                                       |                    |                   |                   |   |                   |
| Principal  | 2,338,759          | 2,338,759         | 2,348,866         | (10,107)  | 2,229,611         |
| Interest   | 1,428,630          | 1,428,630         | 1,472,704         | (44,074)  | 1,507,238         |
| Capitalized debt issuance costs                            | 373,000            | 373,000           | -                 | 373,000   | -                 |
| <b>Subtotal - Debt Service</b>                             | <u>4,140,389</u>   | <u>4,140,389</u>  | <u>3,821,570</u>  | <u>318,819</u>  | <u>3,736,849</u>  |
| <b>Capital Outlay</b>                                      | <u>7,095,307</u>   | <u>11,095,307</u> | <u>6,448,818</u>  | <u>4,646,489</u>                                      | <u>5,373,756</u>  |
| <b>Total Sanitation Expenditures</b>                       | <u>23,937,412</u>  | <u>27,937,412</u> | <u>22,796,571</u> | <u>5,378,767</u>                                      | <u>20,353,356</u> |
| <b>Total District Expenditures</b>                         | <u>31,781,918</u>  | <u>43,781,918</u> | <u>36,904,745</u> | <u>7,115,099</u>                                      | <u>27,801,062</u> |
| <b>Excess (Deficiency) of Revenues Over Expenditures</b>   | 3,985,863          | (14,137)          | 29,485,223        | 29,737,286  | 1,069,981         |
| <b>Fund Available - Beginning of Year</b>                  | <u>12,697,080</u>  | <u>12,697,080</u> | <u>22,898,827</u> | <u>10,201,747</u>                                     | <u>21,828,846</u> |
| <b>Funds Available - End of Year</b>                       | <u>16,682,943</u>  | <u>12,682,943</u> | <u>52,384,050</u> | <u>39,939,033</u>                                     | <u>22,898,827</u> |
| <b>Funds available at year-end is computed as follows:</b> |                    |                   |                   |   |                   |
| Current assets   |                    |                   | 59,272,738        |   | 29,912,817        |
| Current liabilities  |                    |                   | (10,142,435)      |   | (10,156,377)      |
| Current portion of long-term obligations                   |                    |                   | 3,253,747         |   | 3,142,387         |
|  |                    |                   | <u>52,384,050</u> |   | <u>22,898,827</u> |

**Reconciliation to GAAP Basis**

|  | Water         | Sanitation     |                |                  |
|--|---------------|----------------|----------------|------------------|
| Excess (deficiency) of revenues over expenditures                | 884,738       | 28,600,485     | 29,485,223     | 1,069,981        |
| Contributed assets from developers                               | 343,157       | 382,730        | 725,887        | 656,987          |
| Proceeds from bond issue   | (8,503,281)   | (31,888,047)   | (40,391,328)   | (2,930,000)      |
| Change in patronage dividends receivable                         | (8,982)       | (7,911)        | (16,893)       | (1,402)          |
| Change in other long-term receivables                            | (2,902)       | (60,905)       | (63,807)       | (57,358)         |
| Proceeds from disposition of capital assets                      | (179,293)     | (436,641)      | (615,934)      | (987,079)        |
| Gain (loss) on disposition of property                           | 37,245        | 138,154        | 175,399        | 142,146          |
| Depreciation   | (1,418,590)   | (5,463,258)    | (6,881,848)    | (6,670,694)      |
| Amortization of bond premiums, discounts, and refunding costs    | 16,328        | 8,051          | 24,379         | 9,782            |
| Net loan advances (repayments)                                   | (96,564)      | 184,113        | 87,549         | (2,505,967)      |
| Debt principal payments  | 828,018       | 2,348,867      | 3,176,885      | 2,764,889        |
| Principal payment to refunded bond escrow agent                  | 7,253,407     | -              | 7,253,407      | 2,795,180        |
| Capitalized assets   | 857,664       | 6,448,819      | 7,306,483      | 6,985,584        |
| Prior year construction in progress expensed in the current year | (8,048)       | -              | (8,048)        | (68,438)         |
| Capitalized interest   | 58,541        | 155,244        | 213,785        | 271,873          |
| Change in compensated absences                                   | (15,766)      | (47,297)       | (63,063)       | (16,883)         |
| Capitalized debt issue costs                                     | -             | -              | -              | 90,317           |
| <b>Change in Net Position - GAAP Basis</b>                       | <u>45,672</u> | <u>362,404</u> | <u>408,076</u> | <u>1,548,918</u> |

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

**Eagle River Water and Sanitation District  
Schedule of Debt Service Requirements to Maturity - Water  
December 31, 2012**

**1998 Assessment Obligation Note  
Payable to Eagle Park Reservoir Company  
Original Principal - \$1,909,842  
Interest Rate - 5.45%**

| <u>Year Ending<br/>December 31,</u> | <u>Principal Due<br/>September 16</u> | <u>Interest Due<br/>September 16</u> | <u>Total</u>     |
|-------------------------------------|---------------------------------------|--------------------------------------|------------------|
| 2013                                | 55,908                                | 74,775                               | 130,683          |
| 2014                                | 58,955                                | 71,728                               | 130,683          |
| 2015                                | 62,168                                | 68,515                               | 130,683          |
| 2016                                | 65,556                                | 65,127                               | 130,683          |
| 2017                                | 69,129                                | 61,554                               | 130,683          |
| 2018                                | 72,896                                | 57,787                               | 130,683          |
| 2019                                | 76,869                                | 53,814                               | 130,683          |
| 2020                                | 81,059                                | 49,624                               | 130,683          |
| 2021                                | 85,476                                | 45,207                               | 130,683          |
| 2022                                | 90,135                                | 40,548                               | 130,683          |
| 2023                                | 95,047                                | 35,636                               | 130,683          |
| 2024                                | 100,227                               | 30,456                               | 130,683          |
| 2025                                | 105,689                               | 24,994                               | 130,683          |
| 2026                                | 111,449                               | 19,234                               | 130,683          |
| 2027                                | 117,524                               | 13,159                               | 130,683          |
| 2028                                | 123,929                               | 6,754                                | 130,683          |
|                                     | <u>1,372,016</u>                      | <u>718,912</u>                       | <u>2,090,928</u> |

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

**Eagle River Water and Sanitation District**  
**Schedule of Debt Service Requirements to Maturity - Water**  
**December 31, 2012**

| <b>2004 General Obligation Water Bonds</b> |  |   |                |
|--|--|---|----------------|
| <b>Original Principal - \$9,335,000</b>    |  |   |                |
| <b>Interest Rate - 3.25% to 5.00%</b>      |  |   |                |
| <b>Year Ending<br/>December 31,</b>        | <b>Principal Due<br/>June 1 and<br/>December 1</b> | <b>Interest Due<br/>June 1 and<br/>December 1</b> | <b>Total</b>   |
| 2013                                       | 300,000  | 23,438  | 323,438        |
| 2014                                       | 310,000  | 12,563  | 322,563        |
|  | <u>610,000</u>                                     | <u>36,001</u>                                     | <u>646,001</u> |

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

**Eagle River Water and Sanitation District**  
**Schedule of Debt Service Requirements to Maturity - Water**  
**December 31, 2012**

**2009 Water Enterprise Revenue Bonds**

**Original Principal - \$13,225,000**

**Interest Rate - 3.00% to 5.13%**

| <b>Year Ending<br/>December 31,</b> | <b>Principal Due<br/>June 1 and<br/>December 1</b> | <b>Interest Due<br/>June 1 and<br/>December 1</b> | <b>Total</b>      |
|-------------------------------------|--|---|-------------------|
| 2013                                | 265,000  | 610,362   | 875,362           |
| 2014                                | 275,000  | 602,413   | 877,413           |
| 2015                                | 280,000  | 594,162   | 874,162           |
| 2016                                | 290,000  | 585,763   | 875,763           |
| 2017                                | 305,000  | 574,162   | 879,162           |
| 2018                                | 315,000  | 561,963   | 876,963           |
| 2019                                | 325,000  | 549,362   | 874,362           |
| 2020                                | 340,000  | 536,363   | 876,363           |
| 2021                                | 355,000  | 521,912   | 876,912           |
| 2022                                | 370,000  | 506,825   | 876,825           |
| 2023                                | 385,000  | 491,100   | 876,100           |
| 2024                                | 400,000  | 474,738   | 874,738           |
| 2025                                | 420,000  | 457,737   | 877,737           |
| 2026                                | 440,000  | 436,738   | 876,738           |
| 2027                                | 460,000  | 414,737   | 874,737           |
| 2028                                | 485,000  | 391,738   | 876,738           |
| 2029                                | 510,000  | 367,487   | 877,487           |
| 2030                                | 535,000  | 341,988   | 876,988           |
| 2031                                | 560,000  | 315,237   | 875,237           |
| 2032                                | 590,000  | 287,238   | 877,238           |
| 2033                                | 620,000  | 257,737   | 877,737           |
| 2034                                | 650,000  | 226,738   | 876,738           |
| 2035                                | 685,000  | 194,237   | 879,237           |
| 2036                                | 720,000  | 159,131   | 879,131           |
| 2037                                | 755,000  | 122,231   | 877,231           |
| 2038                                | 795,000  | 83,538  | 878,538           |
| 2039                                | 835,000  | 42,794  | 877,794           |
|                                     | <u>12,965,000</u>                                  | <u>10,708,431</u>                                 | <u>23,673,431</u> |

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

**Eagle River Water and Sanitation District**  
**Schedule of Debt Service Requirements to Maturity - Water**  
**December 31, 2012**

| <b>2011 Water Refunding General Obligation Bond</b> |  |   |                  |
|---|--|---|------------------|
| <b>Original Principal - \$2,930,000</b>             |  |   |                  |
| <b>Interest Rate - 3.00% to 4.00%</b>               |  |   |                  |
| <b>Year Ending<br/>December 31,</b>                 | <b>Principal Due<br/>April 1 and<br/>October 1</b> | <b>Interest Due<br/>June 1 and<br/>December 1</b> | <b>Total</b>     |
| 2013  | 230,000  | 99,500  | 329,500          |
| 2014  | 235,000  | 90,300  | 325,300          |
| 2015  | 250,000  | 80,900  | 330,900          |
| 2016  | 260,000  | 70,900  | 330,900          |
| 2017  | 265,000  | 63,100  | 328,100          |
| 2018  | 270,000  | 55,150  | 325,150          |
| 2019  | 280,000  | 47,050  | 327,050          |
| 2020  | 300,000  | 35,850  | 335,850          |
| 2021  | 300,000  | 23,850  | 323,850          |
| 2022  | 315,000  | 12,600  | 327,600          |
|   | <u>2,705,000</u>                                   | <u>579,200</u>                                    | <u>3,284,200</u> |

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

**Eagle River Water and Sanitation District**  
**Schedule of Debt Service Requirements to Maturity - Water**  
**December 31, 2012**

| <b>2012 Water General Obligation Bonds</b> |                                     |   |                  |
|--|-------------------------------------|---|------------------|
| <b>Original Principal - \$1,000,000</b>    |                                     |   |                  |
| <b>Interest Rate - 2.30% to 2.50%</b>      |                                     |   |                  |
| <b>Year Ending<br/>December 31,</b>        | <b>Principal Due<br/>December 1</b> | <b>Interest Due<br/>June 1 and<br/>December 1</b> | <b>Total</b>     |
| 2013                                       | -                                   | 37,111  | 37,111           |
| 2014                                       | -                                   | 40,000  | 40,000           |
| 2015                                       | -                                   | 40,000  | 40,000           |
| 2016                                       | -                                   | 40,000  | 40,000           |
| 2017                                       | -                                   | 40,000  | 40,000           |
| 2018                                       | -                                   | 40,000  | 40,000           |
| 2019                                       | -                                   | 40,000  | 40,000           |
| 2020                                       | -                                   | 40,000  | 40,000           |
| 2021                                       | -                                   | 40,000  | 40,000           |
| 2022                                       | -                                   | 40,000  | 40,000           |
| 2023                                       | 130,000                             | 40,000  | 170,000          |
| 2024                                       | 135,000                             | 35,000  | 170,000          |
| 2025                                       | 140,000                             | 29,800  | 169,800          |
| 2026                                       | 145,000                             | 24,400  | 169,400          |
| 2027                                       | 145,000                             | 18,600  | 163,600          |
| 2028                                       | 150,000                             | 12,600  | 162,600          |
| 2029                                       | 155,000                             | 6,400   | 161,400          |
|  | <u>1,000,000</u>                    | <u>563,911</u>                                    | <u>1,563,911</u> |

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

**Eagle River Water and Sanitation District**  
**Schedule of Debt Service Requirements to Maturity - Water**  
**December 31, 2012**

**2012 General Obligation Water Refunding Bonds**  
**Original Principal - \$6,605,000**  
**Interest Rate - 2.00% to 3.00%**

| <b>Year Ending<br/>December 31,</b> | <b>Principal Due<br/>December 1</b> | <b>Interest Due<br/>June 1 and<br/>December 1</b> | <b>Total</b>     |
|-------------------------------------|-------------------------------------|---|------------------|
| 2013                                | 40,000                              | 215,430   | 255,430          |
| 2014                                | 25,000                              | 231,400   | 256,400          |
| 2015                                | 350,000                             | 230,900   | 580,900          |
| 2016                                | 350,000                             | 220,400   | 570,400          |
| 2017                                | 375,000                             | 209,900   | 584,900          |
| 2018                                | 375,000                             | 198,650   | 573,650          |
| 2019                                | 385,000                             | 187,400   | 572,400          |
| 2020                                | 400,000                             | 175,850   | 575,850          |
| 2021                                | 415,000                             | 163,850   | 578,850          |
| 2022                                | 420,000                             | 151,400   | 571,400          |
| 2023                                | 440,000                             | 138,800   | 578,800          |
| 2024                                | 460,000                             | 121,200   | 581,200          |
| 2025                                | 475,000                             | 102,800   | 577,800          |
| 2026                                | 490,000                             | 83,800  | 573,800          |
| 2027                                | 515,000                             | 64,200  | 579,200          |
| 2028                                | 535,000                             | 43,600  | 578,600          |
| 2029                                | 555,000                             | 22,200  | 577,200          |
|                                     | <u>6,605,000</u>                    | <u>2,561,780</u>                                  | <u>9,166,780</u> |

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

**Eagle River Water and Sanitation District**  
**Schedule of Debt Service Requirements to Maturity - Sanitation**  
**December 31, 2012**

| <b>1992 Loan</b>                               |                       |                        |                       |
|--|-----------------------|------------------------|-----------------------|
| <b>Payable to Colorado Water Resources and</b> |                       |                        |                       |
| <b>Power Development Authority</b>             |                       |                        |                       |
| <b>Principal - \$7,368,840</b>                 |                       |                        |                       |
| <b>Interest Rate - 4.15% to 6.25%</b>          |                       |                        |                       |
| <b>Year Ending</b>                             | <b>Principal Due</b>  | <b>Interest Due</b>    |                       |
| <b>December 31,</b>                            | <b>May 1 and</b>      | <b>February 1,</b>     |                       |
|  | <b>August 1</b>       | <b>May 1, August 1</b> | <b>Total</b>          |
|  |                       | <b>and November 1</b>  |                       |
|  |                       |                        |                       |
| 2013   | 519,744               | 25,248                 | 544,992               |
|  | <u>519,744</u>        | <u>25,248</u>          | <u>544,992</u>        |
|  | <u><u>519,744</u></u> | <u><u>25,248</u></u>   | <u><u>544,992</u></u> |

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

**Eagle River Water and Sanitation District**  
**Schedule of Debt Service Requirements to Maturity - Sanitation**  
**December 31, 2012**

| <b>1995 Loan</b>                                 |                       |                       |                  |
|--|-----------------------|-----------------------|------------------|
| <b>Payable to Colorado Water Resources and</b>   |                       |                       |                  |
| <b>Power Development Authority</b>               |                       |                       |                  |
| <b>Principal After Refinancing - \$6,099,183</b> |                       |                       |                  |
| <b>Interest Rate - 4.58%</b>                     |                       |                       |                  |
| <b>Year Ending</b>                               | <b>Principal Due</b>  | <b>Interest Due</b>   |                  |
| <b>December 31,</b>                              | <b>February 1 and</b> | <b>February 1 and</b> |                  |
|  | <b>August 1</b>       | <b>August 1</b>       | <b>Total</b>     |
| 2013   | 378,864               | 78,491                | 457,355          |
| 2014   | 389,537               | 60,822                | 450,359          |
| 2015   | 426,888               | 25,810                | 452,698          |
|  | <u>1,195,289</u>      | <u>165,123</u>        | <u>1,360,412</u> |

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

**Eagle River Water and Sanitation District**  
**Schedule of Debt Service Requirements to Maturity - Sanitation**  
**December 31, 2012**

| <b>1998 Loan</b>                               |                       |                       |                  |
|--|-----------------------|-----------------------|------------------|
| <b>Payable to Colorado Water Resources and</b> |                       |                       |                  |
| <b>Power Development Authority</b>             |                       |                       |                  |
| <b>Principal - \$17,685,396</b>                |                       |                       |                  |
| <b>Interest Rate - 3.94%</b>                   |                       |                       |                  |
| <b>Year Ending</b>                             | <b>Principal Due</b>  | <b>Interest Due</b>   |                  |
| <b>December 31,</b>                            | <b>February 1 and</b> | <b>February 1 and</b> |                  |
|  | <b>August 1</b>       | <b>August 1</b>       | <b>Total</b>     |
| 2013   | 1,134,231             | 243,321               | 1,377,552        |
| 2014   | 1,171,859             | 206,532               | 1,378,391        |
| 2015   | 1,241,741             | 138,523               | 1,380,264        |
| 2016   | 1,333,124             | 53,056                | 1,386,180        |
|  | <u>4,880,955</u>      | <u>641,432</u>        | <u>5,522,387</u> |

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

**Eagle River Water and Sanitation District**  
**Schedule of Debt Service Requirements to Maturity - Sanitation**  
**December 31, 2012**

| <b>2009 Wastewater Revenue Bonds</b> |                                     |   |                |
|--------------------------------------|-------------------------------------|---|----------------|
| <b>Principal - \$1,460,000</b>       |                                     |   |                |
| <b>Interest Rate - 3.00% - 4.00%</b> |                                     |   |                |
| <b>Year Ending<br/>December 31,</b>  | <b>Principal Due<br/>December 1</b> | <b>Interest Due<br/>June 1 and<br/>December 1</b> | <b>Total</b>   |
| 2013                                 | 330,000                             | 31,150  | 361,150        |
| 2014                                 | 490,000                             | 19,600  | 509,600        |
|                                      | <u>820,000</u>                      | <u>50,750</u>                                     | <u>870,750</u> |

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

**Eagle River Water and Sanitation District**  
**Schedule of Debt Service Requirements to Maturity - Sanitation**  
**December 31, 2012**

**2009 Wastewater Revenue Bonds**  
**Direct Pay Build America Bonds**  
**Principal - \$15,785,000**  
**Interest Rate - 4.71% - 6.79%**

| <u>Year Ending<br/>December 31,</u> | <u>Principal Due<br/>December 1</u> | <u>Interest Due<br/>June 1 and<br/>December 1</u> | <u>Total</u>      |
|-------------------------------------|-------------------------------------|---|-------------------|
| 2013                                | -                                   | 992,280   | 992,280           |
| 2014                                | -                                   | 992,279   | 992,279           |
| 2015                                | 360,000                             | 992,280   | 1,352,280         |
| 2016                                | 370,000                             | 975,323   | 1,345,323         |
| 2017                                | 385,000                             | 957,897   | 1,342,897         |
| 2018                                | 395,000                             | 939,763   | 1,334,763         |
| 2019                                | 405,000                             | 921,158   | 1,326,158         |
| 2020                                | 420,000                             | 902,083   | 1,322,083         |
| 2021                                | 435,000                             | 878,101   | 1,313,101         |
| 2022                                | 450,000                             | 853,263   | 1,303,263         |
| 2023                                | 470,000                             | 827,567   | 1,297,567         |
| 2024                                | 485,000                             | 800,731   | 1,285,731         |
| 2025                                | 505,000                             | 770,127   | 1,275,127         |
| 2026                                | 525,000                             | 738,261   | 1,263,261         |
| 2027                                | 545,000                             | 705,134   | 1,250,134         |
| 2028                                | 570,000                             | 670,745   | 1,240,745         |
| 2029                                | 595,000                             | 634,777   | 1,229,777         |
| 2030                                | 615,000                             | 597,233   | 1,212,233         |
| 2031                                | 645,000                             | 556,397   | 1,201,397         |
| 2032                                | 670,000                             | 513,569   | 1,183,569         |
| 2033                                | 700,000                             | 469,081   | 1,169,081         |
| 2034                                | 730,000                             | 422,601   | 1,152,601         |
| 2035                                | 760,000                             | 374,129   | 1,134,129         |
| 2036                                | 795,000                             | 322,525   | 1,117,525         |
| 2037                                | 830,000                             | 268,545   | 1,098,545         |
| 2038                                | 865,000                             | 212,187   | 1,077,187         |
| 2039                                | 2,260,000                           | 153,454   | 2,413,454         |
|                                     | <u>15,785,000</u>                   | <u>18,441,490</u>                                 | <u>34,226,490</u> |

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

**Eagle River Water and Sanitation District**  
**Schedule of Debt Service Requirements to Maturity - Sanitation**  
**December 31, 2012**

**2012 Wastewater Revenue Bonds**  
**Enterprise Wastewater Revenue Bonds**  
**Principal - \$28,060,000**  
**Interest Rate - 2.00% - 5.00%**

| <u>Year Ending<br/>December 31,</u> | <u>Principal Due<br/>December 1</u> | <u>Interest Due<br/>June 1 and<br/>December 1</u> | <u>Total</u>      |
|-------------------------------------|-------------------------------------|---|-------------------|
| 2013                                | -                                   | 1,162,913   | 1,162,913         |
| 2014                                | -                                   | 1,220,550   | 1,220,550         |
| 2015                                | 585,000                             | 1,220,550   | 1,805,550         |
| 2016                                | 595,000                             | 1,208,850   | 1,803,850         |
| 2017                                | 615,000                             | 1,191,000   | 1,806,000         |
| 2018                                | 635,000                             | 1,172,550   | 1,807,550         |
| 2019                                | 655,000                             | 1,153,500   | 1,808,500         |
| 2020                                | 665,000                             | 1,140,400   | 1,805,400         |
| 2021                                | 685,000                             | 1,120,450   | 1,805,450         |
| 2022                                | 705,000                             | 1,099,900   | 1,804,900         |
| 2023                                | 735,000                             | 1,071,700   | 1,806,700         |
| 2024                                | 765,000                             | 1,042,300   | 1,807,300         |
| 2025                                | 795,000                             | 1,011,700   | 1,806,700         |
| 2026                                | 835,000                             | 971,950   | 1,806,950         |
| 2027                                | 875,000                             | 930,200   | 1,805,200         |
| 2028                                | 920,000                             | 886,450   | 1,806,450         |
| 2029                                | 955,000                             | 851,350   | 1,806,350         |
| 2030                                | 990,000                             | 814,900   | 1,804,900         |
| 2031                                | 1,030,000                           | 777,200   | 1,807,200         |
| 2032                                | 1,070,000                           | 738,100   | 1,808,100         |
| 2033                                | 1,110,000                           | 697,500   | 1,807,500         |
| 2034                                | 1,165,000                           | 642,000   | 1,807,000         |
| 2035                                | 1,220,000                           | 583,750   | 1,803,750         |
| 2036                                | 1,285,000                           | 522,750   | 1,807,750         |
| 2037                                | 1,350,000                           | 458,500   | 1,808,500         |
| 2038                                | 1,415,000                           | 391,000   | 1,806,000         |
| 2039                                | 1,485,000                           | 320,250   | 1,805,250         |
| 2040                                | 1,560,000                           | 246,000   | 1,806,000         |
| 2041                                | 1,640,000                           | 168,000   | 1,808,000         |
| 2042                                | 1,720,000                           | 86,000  | 1,806,000         |
|                                     | <u>28,060,000</u>                   | <u>24,902,263</u>                                 | <u>52,962,263</u> |

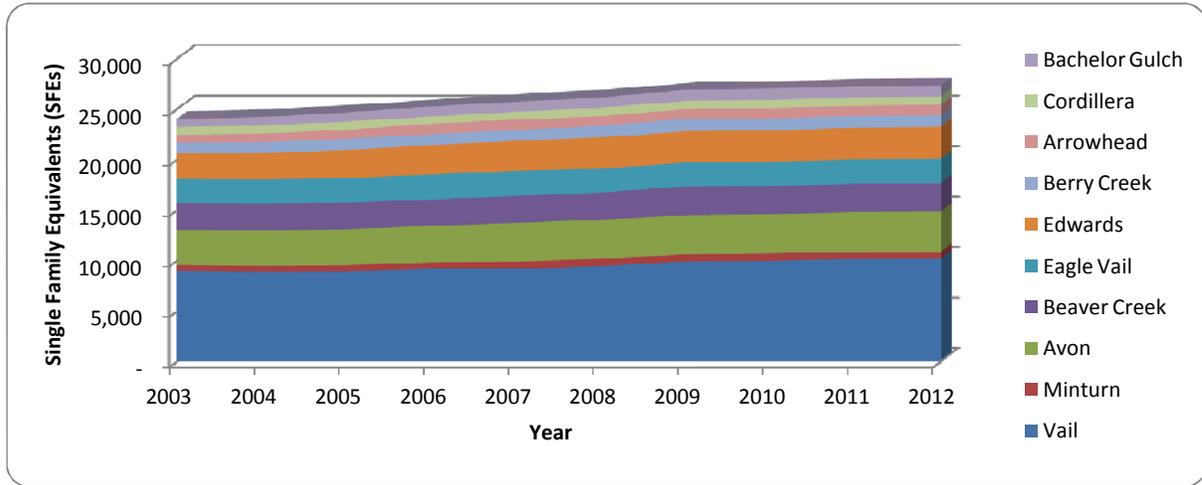
The accompanying notes are an integral part of these financial statements.

**STATISTICAL SECTION**



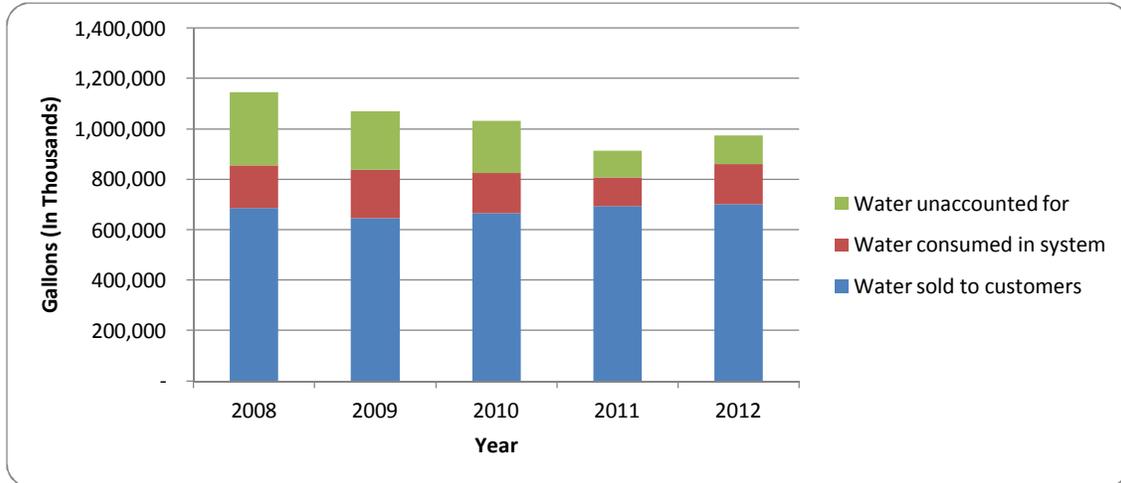
Eagle River Water & Sanitation District

**Eagle River Water and Sanitation District  
Single Family Equivalents (SFEs) in Service  
Ten Year Comparison  
December 31, 2012  
(Unaudited)**



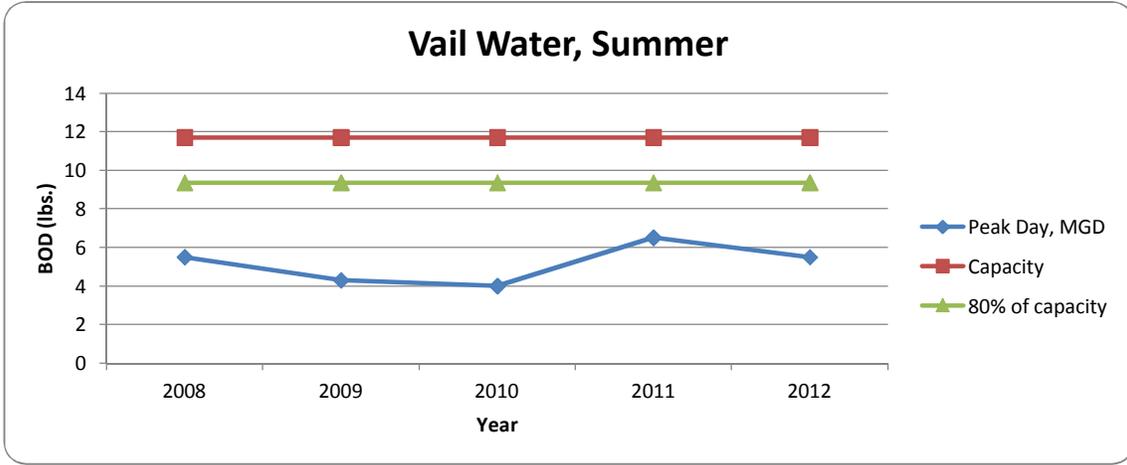
|                   | <u>2003</u>   | <u>2004</u>   | <u>2005</u>   | <u>2006</u>   | <u>2007</u>   | <u>2008</u>   | <u>2009</u>   | <u>2010</u>   | <u>2011</u>   | <u>2012</u>   |
|-------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Vail              | 8,932         | 8,853         | 8,883         | 9,135         | 9,198         | 9,502         | 9,932         | 10,004        | 10,184        | 10,218        |
| Minturn           | 667           | 674           | 696           | 704           | 698           | 705           | 699           | 697           | 710           | 709           |
| Avon              | 3,489         | 3,507         | 3,546         | 3,587         | 3,801         | 3,821         | 3,913         | 3,916         | 3,932         | 3,953         |
| Beaver Creek      | 2,664         | 2,665         | 2,676         | 2,704         | 2,745         | 2,715         | 2,779         | 2,781         | 2,794         | 2,799         |
| Eagle Vail        | 2,326         | 2,333         | 2,361         | 2,382         | 2,391         | 2,392         | 2,401         | 2,402         | 2,409         | 2,408         |
| Edwards           | 2,581         | 2,671         | 2,852         | 2,953         | 3,025         | 3,075         | 3,111         | 3,119         | 3,125         | 3,147         |
| Berry Creek       | 997           | 1,021         | 1,039         | 1,078         | 1,102         | 1,106         | 1,162         | 1,165         | 1,169         | 1,171         |
| Arrowhead         | 843           | 887           | 930           | 973           | 986           | 998           | 1,017         | 1,025         | 1,021         | 1,026         |
| Cordillera        | 718           | 729           | 736           | 766           | 791           | 829           | 845           | 845           | 853           | 852           |
| Bachelor Gulch    | 812           | 882           | 963           | 984           | 1,043         | 1,044         | 1,055         | 1,058         | 1,065         | 1,065         |
| <b>Total SFEs</b> | <u>24,029</u> | <u>24,222</u> | <u>24,682</u> | <u>25,266</u> | <u>25,780</u> | <u>26,187</u> | <u>26,914</u> | <u>27,012</u> | <u>27,262</u> | <u>27,348</u> |
| Percent increase  | <u>7.70%</u>  | <u>0.80%</u>  | <u>1.90%</u>  | <u>2.37%</u>  | <u>2.03%</u>  | <u>1.58%</u>  | <u>2.78%</u>  | <u>0.36%</u>  | <u>0.93%</u>  | <u>0.32%</u>  |

**Eagle River Water and Sanitation District  
Water Production Analysis - Gallons  
Five Year Comparison  
December 31, 2012  
(Unaudited)**

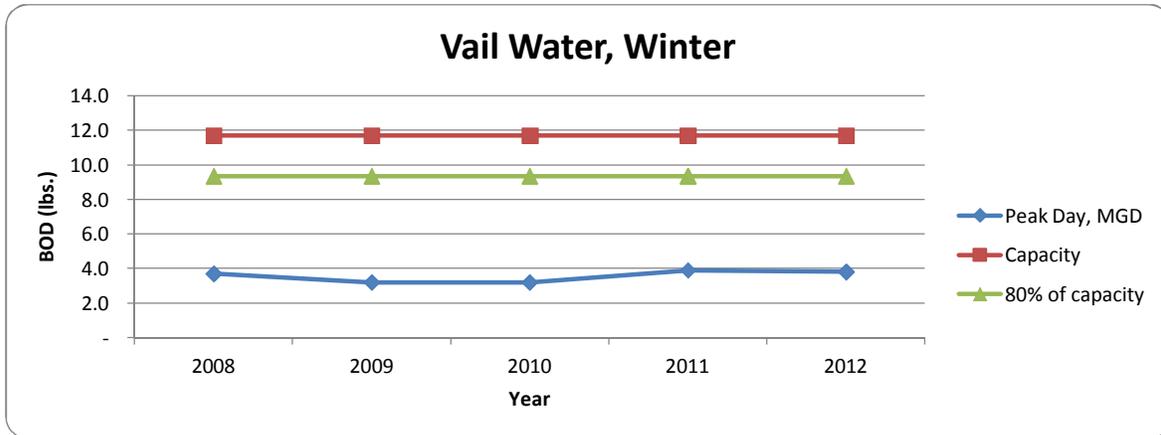


|                                  | <b>Gallons (in Thousands)</b> |                  |                  |                |                |
|----------------------------------|-------------------------------|------------------|------------------|----------------|----------------|
|                                  | <u>2008</u>                   | <u>2009</u>      | <u>2010</u>      | <u>2011</u>    | <u>2012</u>    |
| Water sold to customers          | 684,684                       | 645,704          | 664,798          | 692,565        | 701,373        |
| Water consumed in system         | 171,633                       | 192,670          | 159,536          | 114,494        | 158,992        |
| Water unaccounted for            | 289,458                       | 231,809          | 207,242          | 105,878        | 112,377        |
| <b>Total water treated</b>       | <u>1,145,775</u>              | <u>1,070,183</u> | <u>1,031,576</u> | <u>912,937</u> | <u>972,742</u> |
| Unaccounted for water percentage | <u>25.26%</u>                 | <u>21.66%</u>    | <u>20.09%</u>    | <u>11.60%</u>  | <u>11.55%</u>  |

**Eagle River Water and Sanitation District  
Water Demand Compared To Capacity  
Five Year Comparison  
December 31, 2012  
(Unaudited)**



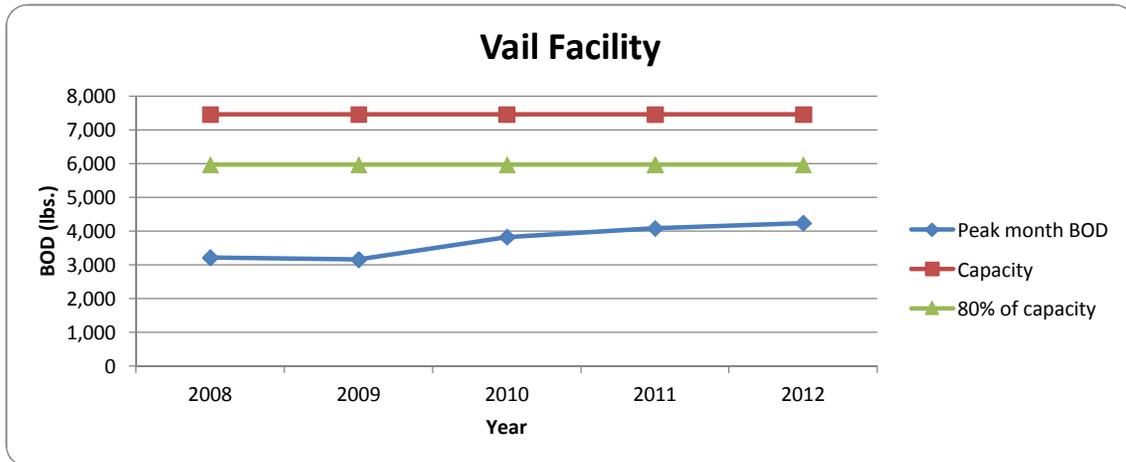
| <u>Vail Water, Summer</u> |  | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|---------------------------|--|-------------|-------------|-------------|-------------|-------------|
| Peak Day, MGD             |  | 5.5         | 4.3         | 4.0         | 6.5         | 5.5         |
| Capacity                  |  | 11.7        | 11.7        | 11.7        | 11.7        | 11.7        |
| 80% of capacity           |  | 9.4         | 9.4         | 9.4         | 9.4         | 9.4         |
| Flow, MGD as a % Capacity |  | 47%         | 37%         | 34%         | 56%         | 47%         |



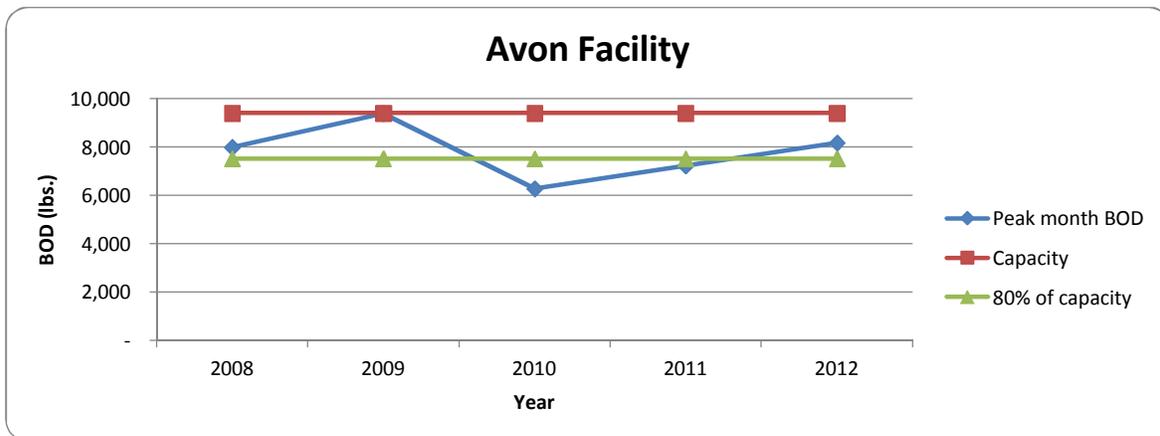
| <u>Vail Water, Winter</u> |  | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|---------------------------|--|-------------|-------------|-------------|-------------|-------------|
| Peak Day, MGD             |  | 3.7         | 3.2         | 3.2         | 3.9         | 3.8         |
| Capacity                  |  | 11.7        | 11.7        | 11.7        | 11.7        | 11.7        |
| 80% of capacity           |  | 9.4         | 9.4         | 9.4         | 9.4         | 9.4         |
| Flow, MGD as a % Capacity |  | 32%         | 27%         | 27%         | 33%         | 32%         |

**Eagle River Water and Sanitation District  
Wastewater Loadings Compared to Facility Capacity  
Five Year Comparison  
December 31, 2012  
(Unaudited)**

Biochemical Oxygen Demand ("BOD") is the rate in which organisms use oxygen in wastewater while stabilizing decomposable organic matter under aerobic conditions. In decomposition, organic matter serves as food for the bacteria and energy results from its oxidation. BOD measurements are used as a surrogate measure of the organic strength of wastes in water.



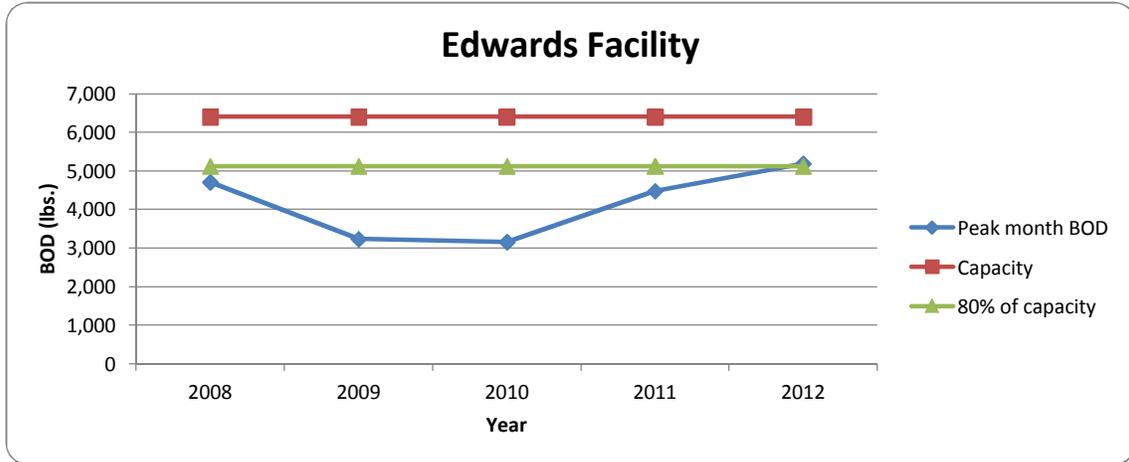
| <u>Vail Facility</u>            |  | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|---------------------------------|--|-------------|-------------|-------------|-------------|-------------|
| Peak month BOD                  |  | 3,215       | 3,149       | 3,821       | 4,084       | 4,236       |
| Capacity                        |  | 7,450       | 7,450       | 7,450       | 7,450       | 7,450       |
| 80% of capacity                 |  | 5,960       | 5,960       | 5,960       | 5,960       | 5,960       |
| Peak month BOD as % of capacity |  | 43%         | 42%         | 51%         | 55%         | 57%         |



| <u>Avon Facility</u>            |  | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|---------------------------------|--|-------------|-------------|-------------|-------------|-------------|
| Peak month BOD                  |  | 7,997       | 9,390       | 6,273       | 7,223       | 8,169       |
| Capacity                        |  | 9,400       | 9,400       | 9,400       | 9,400       | 9,400       |
| 80% of capacity                 |  | 7,520       | 7,520       | 7,520       | 7,520       | 7,520       |
| Peak month BOD as % of capacity |  | 85%         | 100%        | 67%         | 77%         | 87%         |

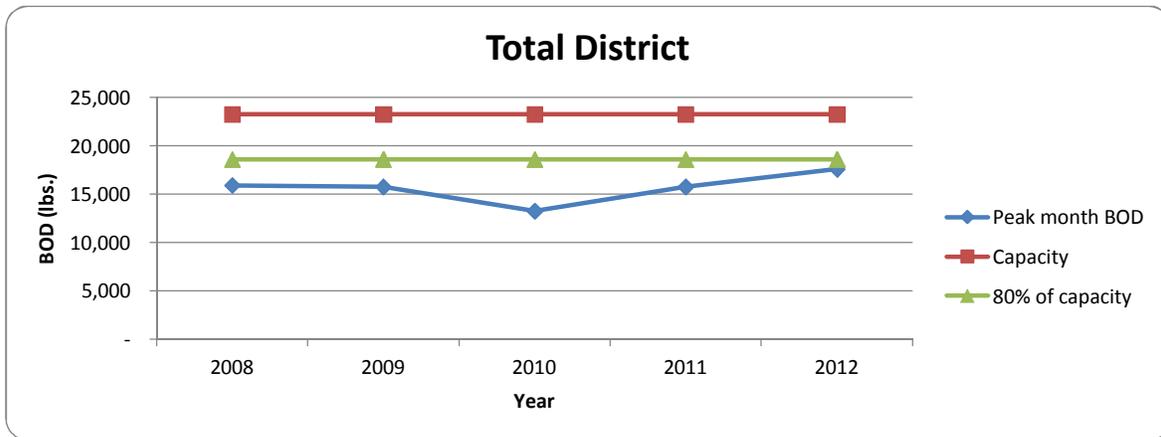
**Eagle River Water and Sanitation District  
Wastewater Loadings Compared to Facility Capacity  
Five Year Comparison  
December 31, 2012  
(Continued)  
(Unaudited)**

Biochemical Oxygen Demand ("BOD") is the rate in which organisms use oxygen in wastewater while stabilizing decomposable organic matter under aerobic conditions. In decomposition, organic matter serves as food for the bacteria and energy results from its oxidation. BOD measurements are used as a surrogate measure of the organic strength of wastes in water.



**Edwards Facility**

|                                 | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| Peak month BOD                  | 4,706       | 3,231       | 3,156       | 4,474       | 5,183       |
| Capacity                        | 6,400       | 6,400       | 6,400       | 6,400       | 6,400       |
| 80% of capacity                 | 5,120       | 5,120       | 5,120       | 5,120       | 5,120       |
| Peak month BOD as % of capacity | 74%         | 50%         | 49%         | 70%         | 81%         |



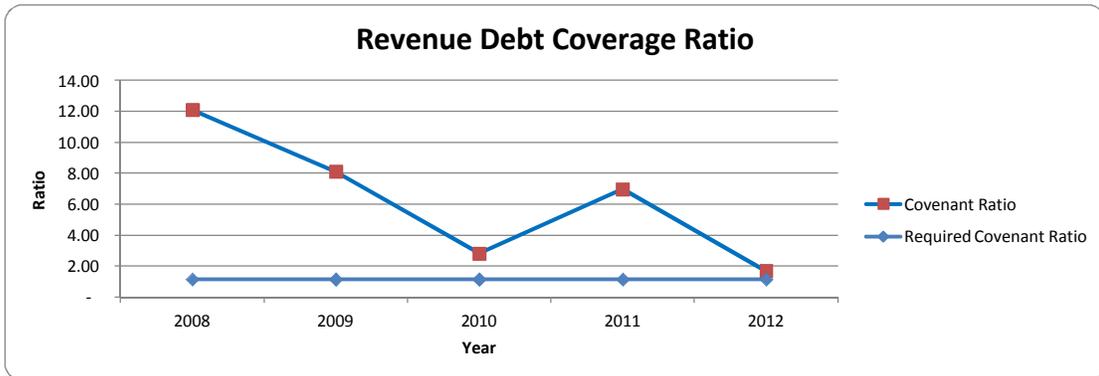
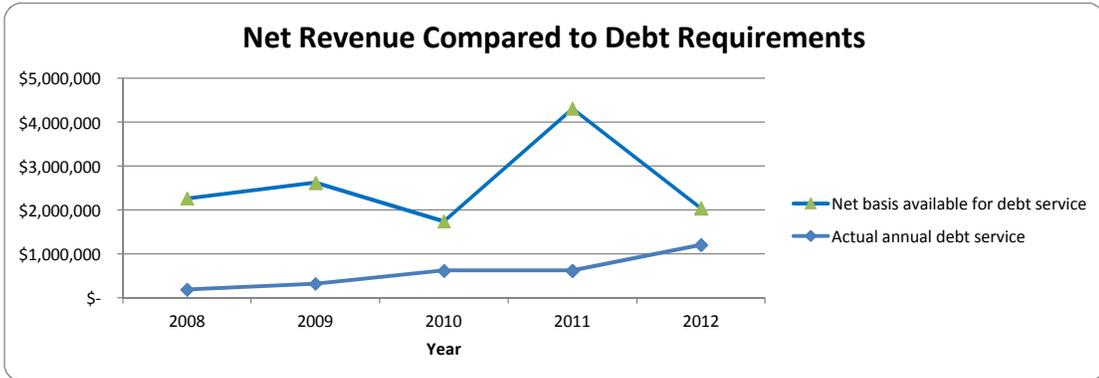
**Total District**

|                                 | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| Peak month BOD                  | 15,918      | 15,770      | 13,250      | 15,781      | 17,588      |
| Capacity                        | 23,250      | 23,250      | 23,250      | 23,250      | 23,250      |
| 80% of capacity                 | 18,600      | 18,600      | 18,600      | 18,600      | 18,600      |
| Peak month BOD as % of capacity | 68%         | 68%         | 57%         | 68%         | 76%         |

**Eagle River Water and Sanitation District  
Top 10 Customers  
Five Year Comparison  
December 31, 2012  
(Unaudited)**

| <u>Customer<br/>Type</u>           | <u>1,000<br/>Gallons</u> | <u>Sales Dollar<br/>Amount</u> | <u>% of Total<br/>Sales Dollars</u> |
|------------------------------------|--------------------------|--------------------------------|-------------------------------------|
| <b><u>Vail Water Sales</u></b>     |                          |                                |                                     |
| Ski Company / Resort               | 71,543                   | \$ 197,849                     | 4.5%                                |
| Hotel / Resort                     | 19,924                   | 92,978                         | 2.1%                                |
| Town of Vail                       | 17,891                   | 85,661                         | 1.9%                                |
| Condominiums / Resort              | 11,894                   | 79,741                         | 1.8%                                |
| Hospital                           | 18,195                   | 74,825                         | 1.7%                                |
| Hotel / Resort                     | 17,600                   | 65,862                         | 1.5%                                |
| Hotel / Resort                     | 15,852                   | 59,292                         | 1.3%                                |
| Hotel / Resort                     | 12,941                   | 56,653                         | 1.3%                                |
| Condominiums / Resort              | 13,035                   | 47,839                         | 1.1%                                |
| Condominiums / Housing Units       | 7,011                    | 45,726                         | 1.0%                                |
| <b>Total - Top 10 Customers</b>    | <u>205,886</u>           | <u>\$ 806,426</u>              | <u>18.3%</u>                        |
| <b>Total - All Other Customers</b> | <u>495,487</u>           | <u>3,601,520</u>               | <u>81.7%</u>                        |
| <b>Total Service Fees</b>          | <u>701,373</u>           | <u>\$ 4,407,946</u>            | <u>100.0%</u>                       |
| <b><u>Wastewater Sales</u></b>     |                          |                                |                                     |
| Ski Company / Resort               |                          | \$ 312,706                     | 2.9%                                |
| Mobile Home Park                   |                          | 177,330                        | 1.6%                                |
| Hotel / Resort                     |                          | 133,647                        | 1.2%                                |
| UERWA Avon Drinking Water Facility |                          | 123,542                        | 1.1%                                |
| Hotel / Resort                     |                          | 123,416                        | 1.1%                                |
| Apartment Complex                  |                          | 105,299                        | 1.0%                                |
| Hotel / Resort                     |                          | 104,900                        | 1.0%                                |
| Condominiums / Resort              |                          | 96,304                         | 0.9%                                |
| Condominiums / Resort              |                          | 90,927                         | 0.8%                                |
| Apartment Complex/ Housing         |                          | 90,134                         | 0.8%                                |
| <b>Total - Top 10 Customers</b>    |                          | <u>\$ 1,358,205</u>            | <u>12.6%</u>                        |
| <b>Total - All Other Customers</b> |                          | <u>9,449,659</u>               | <u>87.4%</u>                        |
| <b>Total Service Fees</b>          |                          | <u>\$ 10,807,864</u>           | <u>100.0%</u>                       |

**Eagle River Water and Sanitation District**  
**Rate Maintenance Covenant - Water**  
**Five Year Comparison**  
**December 31, 2012**  
**(Unaudited)**



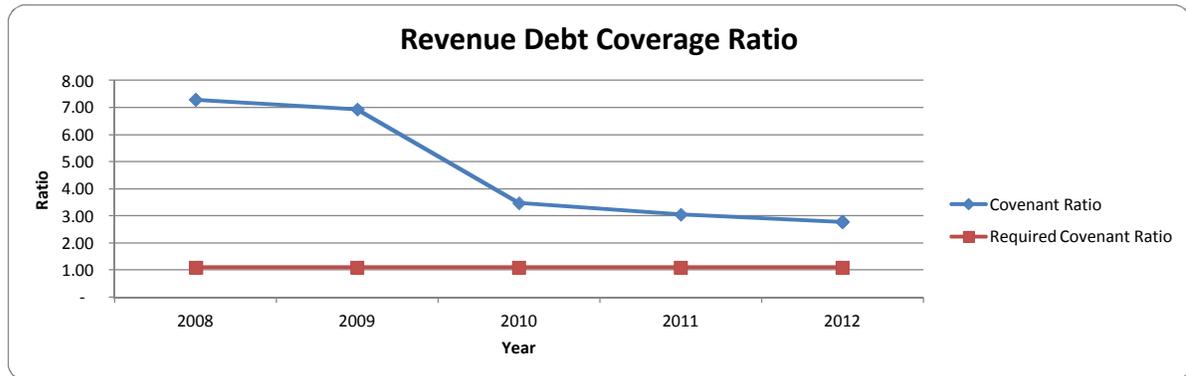
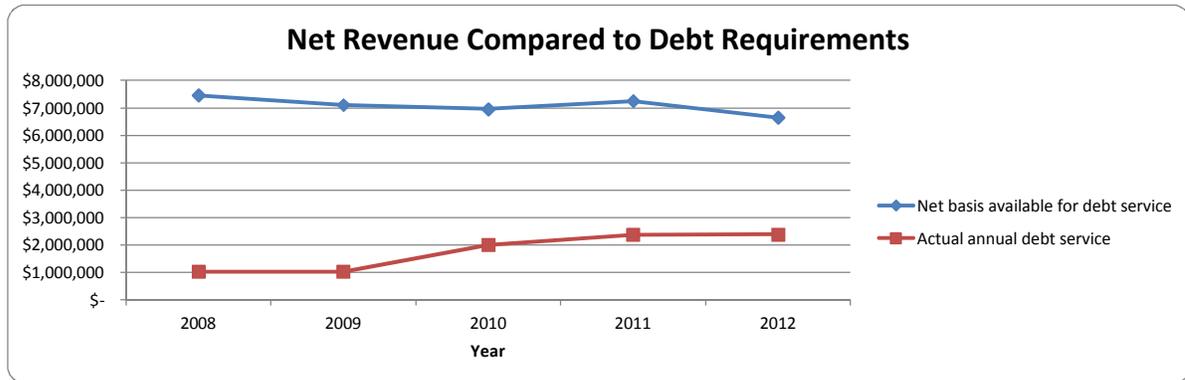
Per the bond covenants, the District is to assess a fee to cover operations and maintenance and 115% of water debt service.

|   | <u>2008</u>      | <u>2009</u>      | <u>2010</u>      | <u>2011</u>      | <u>2012</u>      |
|---|------------------|------------------|------------------|------------------|------------------|
| Operating revenue   | 3,378,319        | 3,343,283        | 3,771,932        | 4,070,509        | 4,498,998        |
| Plus:   |                  |                  |                  |                  |                  |
| Tap fees and other contributed cash                                   | 560,093          | 1,049,473        | 322,576          | 160,635          | 308,895          |
| Investment income   | 622,548          | 993,132          | 131,572          | 33,651           | 15,620           |
| Property taxes for general operating                                  | 483,467          | 468,958          | 512,644          | 516,076          | 424,746          |
| Other non-operating revenues  | 18,606           | 38,181           | 22,982           | 123,791          | 27,076           |
| Proceeds from sale of system  | -                | -                | -                | 2,375,000        | -                |
| Rate stabilization funds  | -                | -                | 600,000          | 600,000          | 600,000          |
| Total revenues available for debt service                             | <u>5,063,033</u> | <u>5,893,027</u> | <u>5,361,706</u> | <u>7,879,662</u> | <u>5,875,335</u> |
| Expenses  | 4,858,252        | 6,272,541        | 6,643,552        | 6,330,821        | 6,442,116        |
| Less:   |                  |                  |                  |                  |                  |
| Interest expense  | (622,548)        | (993,132)        | (1,176,984)      | (1,153,948)      | (1,047,355)      |
| Depreciation  | (1,077,119)      | (1,306,573)      | (1,403,302)      | (1,422,477)      | (1,418,591)      |
| Major capital additions   | (364,315)        | (702,545)        | (449,675)        | (188,747)        | (142,970)        |
| Total expenses available for debt service                             | <u>2,794,270</u> | <u>3,270,291</u> | <u>3,613,591</u> | <u>3,565,649</u> | <u>3,833,200</u> |
| <b>Net basis available for debt service</b>                           | <u>2,268,763</u> | <u>2,622,736</u> | <u>1,748,115</u> | <u>4,314,013</u> | <u>2,042,135</u> |
| <b>Actual annual debt service (excluding general obligation debt)</b> | <u>187,600</u>   | <u>323,450</u>   | <u>618,162</u>   | <u>618,162</u>   | <u>1,207,444</u> |
| <b>Covenant Ratio</b>   | <u>12.09</u>     | <u>8.11</u>      | <u>2.83</u>      | <u>6.98</u>      | <u>1.69</u>      |
| <b>Required Covenant Ratio</b>  | <u>1.15</u>      | <u>1.15</u>      | <u>1.15</u>      | <u>1.15</u>      | <u>1.15</u>      |

**Rate Maintenance Covenant:** The District's Water Enterprise Series 2009 bonds include a Rate Maintenance Covenant sufficient revenues to pay: (i) Operation and Maintenance Expenses, (ii) 115% of each Fiscal Year's Bond Requirements of the Bonds (iii) any amounts required to pay all Policy Costs then due and owing and all sums, (iv) any amounts required to meet the existing deficiencies pertaining to any fund or account relating to the Gross Pledged Revenues or any securities payable there from

The above Rate Maintenance Covenant is tested annually. It is the District's policy to use unrestricted cash (\$3,280,972 at December 31, 2012) to meet the Rate Maintenance Covenant if necessary

**Eagle River Water and Sanitation District  
Rate Maintenance Covenant - Sanitation  
Five Year Comparison  
December 31, 2012  
(Unaudited)**



Per the bond covenants, the District is to assess a fee to cover operations and maintenance and 110% of sewer debt service

|   | <b>2008</b>       | <b>2009</b>       | <b>2010</b>       | <b>2011</b>       | <b>2012</b>       |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Operating revenue   | 13,727,373        | 13,809,866        | 14,517,372        | 15,560,966        | 16,000,377        |
| Plus:   |                   |                   |                   |                   |                   |
| Tap fees and other contributed cash                                   | 1,750,716         | 1,336,452         | 461,095           | 667,464           | 542,998           |
| Investment income   | 660,499           | 610,851           | 83,262            | 33,834            | 30,623            |
| Interest credit - Build America Bonds                                 | -                 | -                 | 355,015           | 347,298           | 347,298           |
| Property taxes for general operating                                  | 605,475           | 619,079           | 651,496           | 650,756           | 513,105           |
| Other non-operating revenues  | 52,236            | 112,765           | 68,947            | 161,421           | 140,215           |
| Rate stabilization funds  | -                 | -                 | 600,000           | 600,000           | 600,000           |
| <b>Total revenues available for debt service</b>                      | <b>16,796,299</b> | <b>16,489,013</b> | <b>16,737,187</b> | <b>18,021,739</b> | <b>18,174,616</b> |
| Expenses  | 15,414,766        | 15,361,249        | 17,561,107        | 17,721,463        | 18,865,900        |
| Less:   |                   |                   |                   |                   |                   |
| Interest expense  | (660,499)         | (610,851)         | (1,400,562)       | (1,278,024)       | (1,309,408)       |
| Depreciation  | (4,682,141)       | (5,169,048)       | (5,493,091)       | (5,248,218)       | (5,463,258)       |
| Major capital additions   | (739,389)         | (205,315)         | (886,801)         | (429,580)         | (569,755)         |
| <b>Total expenses available for debt service</b>                      | <b>9,332,737</b>  | <b>9,376,035</b>  | <b>9,780,653</b>  | <b>10,765,641</b> | <b>11,523,479</b> |
| <b>Net basis available for debt service</b>                           | <b>7,463,562</b>  | <b>7,112,978</b>  | <b>6,956,534</b>  | <b>7,256,098</b>  | <b>6,651,137</b>  |
| <b>Actual annual debt service (excluding general obligation debt)</b> | <b>1,023,726</b>  | <b>1,025,726</b>  | <b>2,002,861</b>  | <b>2,378,633</b>  | <b>2,390,602</b>  |
| <b>Covenant Ratio</b>   | <b>7.29</b>       | <b>6.93</b>       | <b>3.47</b>       | <b>3.05</b>       | <b>2.78</b>       |
| <b>Required Covenant Ratio</b>  | <b>1.10</b>       | <b>1.10</b>       | <b>1.10</b>       | <b>1.10</b>       | <b>1.10</b>       |

**Rate Maintenance Covenant:** The District's Wastewater Revenue Bonds, Series 2009A, 2009B, and 2012 include a Rate Maintenance Covenant sufficient revenues to pay: (i) Operation and Maintenance Expenses, (ii) 110% of each Fiscal Year's Bond Requirements of the Bonds; (iii) any amounts required to pay all Policy Costs then due and owing and all sums, (iv) any amounts required to meet the existing deficiencies pertaining to any fund or account relating to the Gross Pledged Revenues or any securities payable there from

The above Rate Maintenance Covenant is tested annually. It is the District's policy to use unrestricted cash (\$3,117,923 at December 31, 2012) to meet the Rate Maintenance Covenant if necessary

**Eagle River Water and Sanitation District**  
**Assessed Valuation, Property Taxes Levied and Collected - Water**  
**Five Year Comparison**  
**December 31, 2012**  
**(Unaudited)**

| <b>Calendar<br/>Year Ended<br/>December 31</b> | <b>Prior Year Assessed<br/>Valuation for Current<br/>Year Property Tax Levy</b> | <b>Total Mills Levied</b>         |                                      | <b>Total Property Tax</b> |                  | <b>%<br/>Collected<br/>to Levied</b> |
|--|---|-----------------------------------|--------------------------------------|---------------------------|------------------|--------------------------------------|
|  |   | <b>Operating<br/>Mills Levied</b> | <b>Debt Service<br/>Mills Levied</b> | <b>Levied</b>             | <b>Collected</b> |                                      |
| 2008   | \$ 935,720,350 *  | 0.519                             | 1.055                                | \$1,472,824               | \$1,390,548      | 94.4%                                |
| 2009   | 904,546,748 *   | 0.519                             | 1.090                                | 1,455,416                 | 1,403,972        | 96.5%                                |
| 2010   | 1,047,156,590 *   | 0.475                             | 0.940                                | 1,481,727                 | 1,473,417        | 99.4%                                |
| 2011   | 1,059,176,210 *   | 0.475                             | 0.934                                | 1,492,379                 | 1,481,122        | 99.2%                                |
| 2012   | 871,564,200 *   | 0.475                             | 1.135                                | 1,403,218                 | 1,384,378        | 98.7%                                |
| 2013   | 867,000,510 *   | 0.475                             | 1.109                                | 1,373,329                 |                  |                                      |

Note: Property taxes collected in any one year include collection of delinquent property taxes assessed in prior years. Information received from the County Treasurer does not permit identification of specific year of assessment.

\* Net of Tax Increment Funding Areas (TIF), not generating Tax Revenue to the Sanitation District.

**Eagle River Water and Sanitation District**  
**Assessed Valuation, Property Taxes Levied and Collected - Sanitation**  
**Five Year Comparison**  
**December 31, 2012**  
**(Unaudited)**

| Calendar<br>Year Ended<br>December 31 | Prior Year Assessed<br>Valuation for Current<br>Year Property Tax Levy | Total Mills Levied        |                              | Total Property Tax |             | %<br>Collected<br>to Levied |
|---------------------------------------|--|---------------------------|------------------------------|--------------------|-------------|-----------------------------|
|                                       |  | Operating<br>Mills Levied | Debt Service<br>Mills Levied | Levied             | Collected   |                             |
| 2008                                  | \$ 2,280,914,900 *   | 0.263                     | 0.563                        | \$ 1,884,035       | \$1,809,813 | 96.1%                       |
| 2009                                  | 2,284,276,380 *  | 0.263                     | 0.563                        | 1,886,812          | 1,856,359   | 98.4%                       |
| 2010                                  | 2,533,899,100 *  | 0.251                     | 0.544                        | 2,014,450          | 1,994,677   | 99.0%                       |
| 2011                                  | 2,537,532,640 *  | 0.251                     | 0.545                        | 2,019,876          | 1,999,673   | 99.0%                       |
| 2012                                  | 2,020,250,180 *  | 0.247                     | 0.685                        | 1,882,873          | 1,865,020   | 99.1%                       |
| 2013                                  | 2,012,536,240 *  | 0.247                     | 0.684                        | 1,873,671          |             |                             |

Note: Property taxes collected in any one year include collection of delinquent property taxes assessed in prior years. Information received from the County Treasurer does not permit identification of specific year of assessment.

\* Net of Tax Increment Funding Areas (TIF), not generating Tax Revenue to the Sanitation District.

**Eagle River Water and Sanitation District  
Schedule of Water & Storage Rights  
December 31, 2012  
(Unaudited)**

Most of the water and storage rights currently used by the District were provided by the previous water utilities at no cost to the District. In accordance with Governmental Accounting Standards Board (GASB), only owned water and storage rights are shown on the District's Statement of Net Position at historic cost, totaling \$1,496,416. This cost represents mostly legal expenditures to establish the District's ability to use these rights to provide water directly to the customers and a small acquisition of new rights. Also in accordance with GASB, the investment in Eagle Park Reservoir Company Stock, which provides a valuable source of raw water supply, is not reflected in capital assets, but is shown in Other Assets at the historic cost of \$3,466,756. Management of the District believes the actual value of these water and storage rights used by the District to be greater than historical cost as of December 31, 2012.

The appraisal value as of January 24, 2013, performed by Porzak Browning & Bushong LLP (Special Water Rights Counsel for the District) is recited here solely for informational purposes.

| <b>Water Right</b>                         | <b>Quantity<br/>(a.f.)</b> | <b>Price per<br/>a.f.</b> | <b>Historical<br/>Cost</b> | <b>Appraisal<br/>Value</b> |
|--|----------------------------|---------------------------|----------------------------|----------------------------|
| Investment in Eagle Park Reservoir Company | 434.5                      | \$23,100                  | \$3,466,756                | \$10,036,950               |
| Homestake Reservoir                        | 250                        | 23,100                    | 0                          | 5,775,000                  |
| Green Mtn. Res. contract                   | 934                        | 1,000                     | 0                          | 934,000                    |
| Wolford Mtn. Res. contract                 | 500                        | 3,060                     | 0                          | 1,530,000                  |
| Black Lakes storage                        | 425                        | 23,100                    | 0                          | 9,817,500                  |
| Conditional storage                        | 7,684.76042                | 100                       | 0                          | 768,476                    |
| In-basin consumptive use                   | 902                        | 7,250                     | 1,496,416                  | 6,539,500                  |
| Direct flow HUP water (winter)             | 89                         | 23,100                    | 0                          | 2,055,900                  |
| <b>TOTAL</b>                               |                            |                           | <b>\$4,963,172</b>         | <b>\$37,457,326</b>        |

**Water Rights Owned**

Eagle Park Reservoir

The District owns or has a perpetual contractual right to the water rights in connection with Eagle Park Reservoir (434.5 a.f.). Refer to footnote III.F. for additional terms. The value of Eagle Park Reservoir is based on the District's dedication replacement cost of \$23,100 per acre-foot for non-irrigation season in-basin storage. That replacement cost is established by the District's water dedication policy, which is the basis by which water service is approved for and provided to all new development in the District's service area.

Homestake Reservoir

The District owns or has a perpetual contractual right to the water rights in connection with Homestake Reservoir (250 a.f.). The value of Homestake Reservoir storage is based on the District's dedication replacement cost of \$23,100 per acre-foot for non-irrigation season in-basin storage. That replacement cost is established by the District's water dedication policy, which is the basis by which water service is approved for and provided to all new development in the District's service area.

**Eagle River Water and Sanitation District**  
**Schedule of Water & Storage Rights**  
**December 31, 2012**  
**(Unaudited)**  
**(Continued)**

Green Mountain Reservoir

The District owns water related contracts in connection with Green Mountain Reservoir (934 a.f.).

Contract 9-07-60-W0408: This contract was executed on April 6, 1989, for a total of 934 acre-feet per year, 264 acre-feet for municipal and domestic use, and 670 acre-feet for industrial use which includes snowmaking. The annual contract payment is \$10 per acre-foot for municipal and domestic use water (264 acre-feet). The annual contract payment for industrial use water (670 acre-feet) is \$55 per acre-foot for the first 385 acre-feet, and a \$15 per acre foot standby charge and a \$40 per acre foot delivery charge for the remaining 285 acre-feet. The \$40 delivery charge is paid only for actual water delivered, while the standby charge is paid regardless of actual delivery. This lease is for a term of 40 years (expires April 5, 2029), with an option to renew for an additional 40 years.

Green Mountain Reservoir contract water value is based on the fact that Green Mountain Reservoir is a finite pool, that there are no new contracts being let by the U.S. Bureau of Reclamation for this pool, but also reflecting its lower value compared with Wolford Mountain Reservoir contract water due to less reliability and transfer issues with the Bureau. The term of the Green Mountain Reservoir contract is also less than the term of the Wolford Mountain Reservoir contract.

Wolford Mountain Reservoir

The District owns water related contracts in connection with Wolford Mountain Reservoir (500 a.f.).

Contract CW08010: This contract was executed on February 9, 2009, for 500 acre-feet per year. The base price was \$260.25 per acre-foot for the first year, and annual contract payments are \$260.25 per acre-foot, but they can be increased each year up to the amount of increase in the Consumer Price Increase plus the New Growth Index. It is for an initial term of 75 years (expiring February 9, 2084), with a right of first refusal at the end of the initial term on the same terms at which the River District is offering similar supplies to other municipal water providers.

Wolford Mountain Reservoir contract water value is based on a ten (10) year cost at \$306 per acre-foot per year, or a total of \$3,060 per acre-foot. A ten year lease cost is an approximation of the purchase value of this water.

Black Lakes

The Black Lakes water rights consist of two structures, Black Lake and Black Lake No. 2, and three separate water rights decreed to those structures. Pursuant to the decrees in Case Nos. W-4003, 79CW296, 82CW328, 05CW257, and 10CW200, the District's interest in the Black Lake No.1 water right is 352 a.f. absolute, and its interest in the Black Lake No.2 water right is 73 a.f. absolute. These structures and water rights are subject to two agreements: the Memorandum of Agreement dated January 30, 1986, between the Vail Valley Consolidated Water District and the Colorado Department of Natural Resources; and the Memorandum of Agreement dated June 23, 2005, between the Eagle River Water & Sanitation District and the Colorado Department of Natural Resources (together, the "MOAs").

By virtue of the decrees described above and the MOAs, the District owns a total of 425 a.f. absolute in the Black Lakes. Pursuant to the 2005 MOA, the District is free to use 125 a.f. for all uses any time of year. The District must release the other 300 a.f. during the December through March period to augment stream flows during that period. However, to the extent that the District diverts water from the System Interconnect and/or Dowds Junction diversions during the December through March period instead of diverting water at its Gore Creek wellfield, then it can keep an equivalent amount of water in Black Lakes for its use any time of year. (For example, if the District

**Eagle River Water and Sanitation District**  
**Schedule of Water & Storage Rights**  
**December 31, 2012**  
**(Unaudited)**  
**(Continued)**

diverts 150 a.f. of water at the System Interconnect during December through March, then it may use 150 a.f. of the 300 a.f. of Black Lakes water for any decreed use any time of year, and it would release the other 150 a.f. to Gore Creek during the December through March period to augment stream flows.)

The value of Black Lakes storage is based on the District's dedication replacement cost of \$23,100 per acre-foot for non-irrigation season in-basin storage. The value to the District of Black Lakes is that these reservoirs fill each year and the water is stored very high in the Gore Creek drainage. Therefore, the water is available for direct use and/or augmentation (i.e., replace out of priority depletions resulting from the diversion of other water rights) without causing any "gap" in the creek between the point of depletions and location of the replacement water. In other words, this water can be delivered directly to the location of the points of diversion and/or depletion.

Conditional Storage

The District's conditional storage (7,684.76042 a.f.) are decreed, but not yet completed, water rights. These water rights of the District exist in several locations throughout the District's service area and given a nominal value of \$100 per acre-foot due to the high cost of developing these storage rights.

In-Basin Consumptive Use

The District's in-basin consumptive use water rights (902 a.f.) includes senior irrigation water rights that were changed, and their historical consumptive use was quantified in Case Nos. W-2256, W-2264, 79CW124, and 82CW328. In-basin consumptive use credits are valued at the District's dedication replacement cost of \$7,250 per acre-foot of irrigation season water. This replacement cost is established by the District's water dedication policy, which is the basis by which water service is approved for and provided to all new development in the District's service area. These water rights are generally quite senior and are not subject to curtailment; hence, their higher value. Further, these water rights have been changed to be used for municipal uses, including augmentation, thus permitting the District to divert and use other water rights when they are out of priority. The value of these water rights to the District is derived from their seniority and that they have already been quantified and changed to municipal uses and augmentation, and included in the District's plan for augmentation. The only reason why these are not the most valuable of the District's water rights on a per-acre-foot basis is due to the fact that they can only be used during the irrigation season, not year-round, unless they are diverted and placed in storage.

Direct Flow Historical Users' Pool

The District's historical users' pool (HUP) beneficiary water rights (89 a.f.) are decreed for non-irrigation season use as HUP rights, and the fact that 4.35 cfs of the District's HUP rights are senior to the CWCB instream flow water right. As a result, 89 acre-feet of winter use is not subject to curtailment. This quality makes these rights as valuable as in-basin storage such as Eagle Park Reservoir water, so we assigned a value of \$23,100 to these rights, equivalent to the District's non-irrigation season dedication cost.

These are water rights that are protected by Green Mountain Reservoir pursuant to the decrees for Green Mountain Reservoir, Senate Document 80 (which established the federal basis for Green Mountain Reservoir), and the final Operating Policy for Green Mountain Reservoir, Colorado-Big Thompson Project, Colorado (48 P.R. 56657). Pursuant to these Green Mountain Reservoir documents, as specifically described in the final Operating Policy, West Slope domestic and irrigation water rights that were "perfected" (actually diverted and used) as of October 15, 1977 are allowed to continue to divert at times when they otherwise would be curtailed. At such times, Green Mountain Reservoir will release water to downstream senior water rights to allow such continued diversions by the HUP "beneficiaries."

**Eagle River Water and Sanitation District**  
**Schedule of Water & Storage Rights**  
**December 31, 2012**  
**(Unaudited)**  
**(Continued)**

This category of HUP water rights typically consists of what are deemed to be fairly junior water rights (priorities between approximately 1940 and 1977) that would be curtailed in most years due to a call administered to protect either the Shoshone Power Plant or the Grand Valley "Cameo" water rights. However, because the HUP water rights benefit from the releases from Green Mountain Reservoir, they are allowed to continue to divert water at times when either Shoshone or Cameo is placing a call for water. This has the effect of enhancing the period of time, and thus the amount of water, that these HUP water rights can divert. This enhances their value. The District owns a number of such water rights that were perfected as of October 15, 1977. In fact, the District's augmentation plan decree in Case No. 82CW328 expressly recognizes the HUP status of a number of its water rights and incorporates these water rights, as so protected by Green Mountain Reservoir, in its plan for augmentation.