

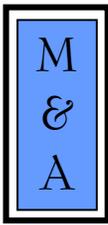
**Upper Eagle Regional Water Authority
Vail, Colorado**

**Financial Statements
December 31, 2011 and 2010**

**Upper Eagle Regional Water Authority
Financial Statements
December 31, 2011 and 2010**

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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
Upper Eagle Regional Water Authority
Vail, Colorado**

We have audited the accompanying basic financial statements of the Upper Eagle Regional Water Authority (the "Authority") as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Upper Eagle Regional Water Authority as of December 31, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles 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 required supplementary information in accordance with U.S. generally accepted auditing standards, 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.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying budgetary comparison and debt service schedules in Section E and the statistical data found in Section F are presented for the purpose of additional analysis and are not a required part of the financial statements. The budgetary comparison and debt service schedules in Section E is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepared the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The statistical data in Section F has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

McMahan and Associates, L.L.C.
July 30, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Upper Eagle Regional Water Authority
Management's Discussion and Analysis
December 31, 2011**

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

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

Financial Highlights

In 2011, total net assets decreased by approximately \$4.1 million from \$74.8 million in 2010 to \$70.7 million in 2011. Depreciation expense of \$4.5 million is the main reason for the decrease in net assets. Overall for the year, current and other assets decreased by \$5.7 million. This was mainly for cash spending on the multi-year capital program. Net capital assets additions of \$3 million were offset by changes in accumulated depreciation for a net decrease in capital asset of \$0.4 million. Additionally total liabilities decreased \$2 million during 2011.

In 2011, total expenses are similar when compared to 2010. The Authority's 2011 financial activity generates a \$0.4 million increase in net assets prior to the depreciation on capital assets. In accordance with Generally Accepted Accounting Principles (GAAP), \$4.5 million of capital asset depreciation is expensed, which does not represent cash funding for capital assets in the current period. The net result is a decrease in net assets of \$4.1 million for 2011, compared to \$3.6 million decrease in 2010.

In 2010, total net assets decreased by approximately \$3.6 million from \$78.4 million in 2009 to 74.8 million in 2010. Depreciation expense of \$4.4 million was the main reason for the decrease in net assets. Expenses for 2010 were \$2 million higher when compared to 2009. An increased effort in repair and maintenance of the system and an increase in legal costs were the reasons for the increase. The Authority's 2010 financial activity generated a \$0.8 million increase in net assets prior to the depreciation on capital assets. In accordance with Generally Accepted Accounting Principles (GAAP), \$4.4 million of capital asset depreciation was expensed, which does not represent cash funding for capital assets in the current period. The net result is a decrease in net assets of \$3.6 million for 2010, compared to \$1.5 million decrease in 2009.

Overview of the Financial Statements

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

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

The *Statements of Revenues, Expenses and Changes in Net Assets* present information that reflects how the Authority's net assets changed during the past year. All changes in the net assets 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 Authority's cash flows from operating, capital and related financing, and investing activities.

These financial statements distinguish functions of the Authority that will be principally supported by service charges. The functions of the Authority include effective and economical operation of water systems within the jurisdictional boundaries of the Authority. The notes to financial statements

**Upper Eagle Regional Water Authority
Management's Discussion and Analysis
December 31, 2011
(continued)**

provide additional information that is essential to a full understanding of the data provided in the financial statements.

	NET ASSETS		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Current and other assets	\$ 18,528,846 ▼	24,230,651	12,756,604
Capital assets, net	83,036,782	83,407,045	83,329,534
Total Assets	<u>101,565,628</u>	<u>107,637,696</u>	<u>96,086,138</u>
Liabilities:			
Long-term liabilities	29,552,733	30,892,355	16,965,303
Other liabilities	1,337,545	1,988,963 ▼	733,062
Total Liabilities	<u>30,890,278</u>	<u>32,881,318</u>	<u>17,698,365</u>
Net Assets:			
Invested in capital assets, net of related debt	59,469,218	64,079,782	68,131,824
Restricted:			
Debt	2,551,906	2,526,980	1,735,795
Unrestricted	8,654,226 ▼	8,149,616 ▼	8,520,154
Total Net Assets	<u>\$ 70,675,350</u>	<u>74,756,378</u>	<u>78,387,773</u>

As noted earlier, net assets may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, assets exceeded liabilities by \$70.7 million in 2011, \$74.8 million in 2010 and \$78.4 million in 2009.

The largest portion of the Authority's net assets reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the Authority's 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 2011, Total Net Assets decreased by \$4.1 million. Current and other assets decreased by \$5.7 million. This was mainly for cash spending on the multi-year capital program. Net capital assets additions of \$3 million were offset by changes in accumulated depreciation for a net decrease in capital asset of \$0.4 million. Additionally total liabilities decreased \$2 million during 2011.

During 2010, Total Net Assets decreased by \$3.6 million. This is the result of funding multi-year capital projects with a bond issued in 2010 and the creation of cash reserves to provide additional security for the revenue bonds debt service payments. Total Assets increased \$11.6 million, due to \$9.9 million of bond proceeds being held at year end for future capital spending and the added investment in Eagle Park Reservoir for \$1.7 million. Total Liabilities increased by \$15.2 million, this was due to the issuance of revenue bonds in March of 2010 for funding of a multi-year capital project per the long term financing plan.

**Upper Eagle Regional Water Authority
Management's Discussion and Analysis
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REVIEW OF REVENUES

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues:			
Operating revenues:			
Service fees	\$ 8,120,458	8,355,216	7,693,024
Non-operating revenues:			
Investment income	41,014	134,458	192,023
Interest credit - Build America Bonds	313,325	259,363	-
Other	(174,888)	47,873	240,538
Capital contributions:			
Plant investment fees	330,392	157,874	412,054
Water storage fees	13,720	18,498	87,220
Contributed assets	149,099	325,396	783,983
Total Revenues	<u>8,793,120</u>	<u>9,298,678</u>	<u>9,408,842</u>

In 2011, Total Revenue of \$8.8 million is generally comparable to 2010 levels of \$9.3 million. The \$0.5 million reduction is caused by \$0.3 million less water sales in the upper tiers and an offset in other revenue of \$0.2 million for writing off historic dedicated equipment no longer used in the water system.

In 2010, Total Revenue of \$9.3 million was comparable to 2009 levels at \$9.4 million. The Authority instituted a new monthly Debt Service Rate, to all customers, to ensure a more stable revenue source for the 2010 bond debt service. As anticipated, the general economic conditions provided less new construction and continued slowing of revenue from Plant Investment Fees (PIF) levied on new construction connections. This new monthly rate base was designed to fund the 2010 bond debt service and did fully offset the reductions in PIF revenue.

**Upper Eagle Regional Water Authority
Management's Discussion and Analysis
December 31, 2011
(continued)**

REVIEW OF EXPENSES

Expenses:			
Operating Expenses:			
Water treatment	3,788,952	3,509,822	3,207,840
Water distribution	4,359,055	4,121,717	3,832,969
Other operating	1,047,843	896,920	734,899
General and administrative	2,075,516	2,645,800	2,142,057
Non-operating expenses:			
Interest expense	1,456,924	1,695,301	963,520
Bond issue cost amortization	143,333	59,238	37,276
Other	2,525	1,275	1,275
Total Expenses	<u>12,874,148</u>	<u>12,930,073</u>	<u>10,919,836</u>
Change in Net Assets	(4,081,028)	(3,631,395)	(1,510,994)
Net Assets - Beginning of Year	<u>74,756,378</u>	<u>78,387,773</u>	<u>79,898,767</u>
Net Assets - End of Year	<u>\$ 70,675,350</u>	<u>74,756,378</u>	<u>78,387,773</u>

In 2011, Total Expenses are comparable to 2010 levels at \$12.9 million. Management made budgeting efforts to hold expenses stable in 2011.

In 2010, Total Expenses increased \$2 million over the 2009 levels. The Interest Expense on the new 2010 revenue bonds made up \$0.7 million of the increase. This expense was fully offset by the revenue source created by the new Debt Service Rate to all customers. The remaining increase in Expenses of \$1.3 million is related to an increased effort in repair and maintenance work on the treatment and distribution system's capital assets to ensure optimum operation and water quality, per the long term master plan and increased legal costs associated with water rights protection and other legal costs.

For 2011, the Authority's operating activities, prior to depreciation expense, provides a \$1.3 million increase in net assets. This is offset by \$4.5 million in depreciation expense which leads to a loss from operations of \$3.2 million. In addition, the Authority earned \$0.4 million in net investment income and interest credits offset by \$0.2 million in asset deletions, collects \$0.5 million in contributed capital, and funds \$1.6 million in interest and amortization on debt service. All these factors result in a decrease in net assets of \$4.1 million for the year.

For 2010, the Authority's operating activities, prior to depreciation expense, provided a \$1.5 million increase in net assets. This was offset by \$4.4 million in depreciation expense which led to a loss from operations of \$2.8 million. In addition, the Authority earned \$0.4 million in net investment income and other income, collected \$0.5 million in contributed capital, and funded \$1.7 million in interest on debt service. All these factors resulted in a decrease in net assets of \$3.6 million for the year.

**Upper Eagle Regional Water Authority
Management's Discussion and Analysis
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CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's investment in capital assets, net of accumulated depreciation, as of December 31, 2011 and 2010 was \$83 million and \$83.4 million, respectively. This investment in capital assets includes land and land improvements, water rights and storage, treatment plants, distribution systems, telemetry, water wells and construction in process.

Most of the water and storage rights currently used by the Authority were provided by the member government entities at no cost to the Authority. In accordance with Governmental Accounting Standards Board (GASB), only owned water and storage rights are shown on the Authority's Statement of Net Assets at historic cost, totaling \$1.5 million. This cost represents mostly legal expenditures to establish the Authority's ability to use these rights to provide water directly to the customers of each of its members 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 \$4.4 million. Management of the Authority believes the actual value of these water and storage rights used by the Authority to be greater than historical cost at December 31, 2011. See the Schedule of Water and Storage Rights in the Statistical Section (page F8-10) for additional information.

Analysis of changes in capital assets in 2011 is as follows:

	1/1/11 Beginning Balance	Additions	Reclasses and Retirements	12/31/11 Ending Balance
Capital assets, not being depreciated:				
Land and land improvements	\$ 780,962	-	-	780,962
Water/storage rights	1,539,404	-	-	1,539,404
Construction in progress	4,911,210	4,238,740	(1,997,354)	7,152,596
Total capital assets, not being depreciated	<u>7,231,576</u>	<u>4,238,740</u>	<u>(1,997,354)</u>	<u>9,472,962</u>
Capital assets, being depreciated:				
Treatment plants	32,563,919	1,106,364	(657,527)	33,012,756
Distribution system	76,911,831	939,825	(131,402)	77,720,254
Water wells	8,186,470	55,504	(587,167)	7,654,807
Total capital assets being depreciated	<u>117,662,220</u>	<u>2,101,693</u>	<u>(1,376,096)</u>	<u>118,387,817</u>
Less accumulated depreciation for:				
Treatment plants	(13,533,911)	(1,498,496)	655,512	(14,376,895)
Distribution system	(25,594,028)	(2,656,096)	131,402	(28,118,722)
Water wells	(2,358,812)	(315,846)	346,278	(2,328,380)
Total accumulated depreciation	<u>(41,486,751)</u>	<u>(4,470,438)</u>	<u>1,133,192</u>	<u>(44,823,997)</u>
Total capital assets, being depreciated, net	<u>76,175,469</u>	<u>(2,368,745)</u>	<u>(242,904)</u>	<u>73,563,820</u>
Total capital assets, net	<u>\$ 83,407,045</u>	<u>1,869,995</u>	<u>(2,240,258)</u>	<u>83,036,782</u>

**Upper Eagle Regional Water Authority
Management's Discussion and Analysis
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In 2011, total net capital assets are \$83 million, reduced by \$0.4 million from the 2010 amount of \$83.4 million. Net capital asset additions of \$3 million were offset by changes in accumulated depreciation for a net decrease in capital assets of \$0.4 million.

Analysis of changes in capital assets in 2010 is as follows:

	1/1/10 Beginning Balance	Additions	Reclasses and Retirements	12/31/10 Ending Balance
Capital assets, not being depreciated:				
Land and land improvements	\$ 780,962	-	-	780,962
Water/storage rights	1,539,404	-	-	1,539,404
Construction in progress	2,398,678	3,236,353	(723,821)	4,911,210
Total capital assets, not being depreciated	4,719,044	3,236,353	(723,821)	7,231,576
Capital assets, being depreciated:				
Treatment plants	31,222,715	1,615,270	(274,066)	32,563,919
Distribution system	76,586,435	325,396	-	76,911,831
Water wells	8,194,535	-	(8,065)	8,186,470
Total capital assets being depreciated	116,003,685	1,940,666	(282,131)	117,662,220
Less accumulated depreciation for:				
Treatment plants	(12,412,451)	(1,395,526)	274,066	(13,533,911)
Distribution system	(22,934,797)	(2,659,231)	-	(25,594,028)
Water wells	(2,045,947)	(320,930)	8,065	(2,358,812)
Total accumulated depreciation	(37,393,195)	(4,375,687)	282,131	(41,486,751)
Total capital assets, being depreciated, net	78,610,490	(2,435,021)	-	76,175,469
Total capital assets, net	\$ 83,329,534	801,332	(723,821)	83,407,045

During 2010, total net capital assets of \$83.4 million remained consistent with the 2009 amount of \$83.3 million. The Authority started a capital repair, replacement and upgrade program according to a recent capital master plan and proposed regulatory requirements for water quality. As a result \$4.5 million dollars were capitalized for spending on treatment and distribution improvements. This increase was offset by the annual depreciation expense, which reduced net assets by \$4.4 million.

Additional information on the Authority's capital assets can be found in Note III.G to the financial statements.

**Upper Eagle Regional Water Authority
Management's Discussion and Analysis
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(continued)**

Long-term Debt

At the end of 2011, the Authority has revenue bonds of \$28.3 million and assessment payable to Eagle Park Reservoir Company of \$1.7 million. The changes in debt during 2011 are representative of scheduled reductions of long-term obligations.

At the end of 2010, the Authority had revenue bonds of \$29.5 million and an assessment payable to Eagle Park Reservoir Company of \$1.7 million. The changes in debt during 2010 are related to a new bond issue, refunding activities and scheduled reductions of long-term obligations.

The Authority issued \$23,345,000 in new bonds in 2010, including Build America Bonds, as disclosed in Note III.H.6 & 7 to the financial statements. As part of this issuance, the Authority's debt ratings, as rated by Standard & Poor's, increased from A to A+.

The Authority issued new bonds totaling \$23.3 million in March 2010. The tax-exempt Bonds of \$8.7 million were used to prepay the Colorado Water Resource and Power Development Authority 2000 Loan. The taxable Build America Bonds of \$14.6 million will be used to finance capital improvements required by new water quality regulations. The annual debt service payments associated with the Build America Bonds range from \$0.6 million to \$1.4 million. The interest rates on the bonds range from 2.50% to 6.52%. The Series 2010 Bonds Debt Service Base Rate will be determined on an annual basis by dividing the net annual debt service requirements on the Series 2010 Build America Bonds by the actual number of SFE's receiving service as of January 1 of the year the Series 2010 Build America Bonds debt service is scheduled. For 2010, this rate was \$3.91 per month per SFE.

BUDGET VARIANCES AND FUTURE CONSIDERATIONS

Budget Variances

In 2011, the expenditure budget was \$16.4 million. Actual Expenditures were \$2.6 million less than the budget, largely due to multi-year capital project spending being completed in another year.

In 2010, the expenditure budget was \$27.1 million. The budget was amended during the year by \$8 million to accommodate timing for the multi-year capital project spending estimated to be completed early. Actual Expenditures were \$2.7 million less than the amended budget, due to actual timing of capital spending.

2012 Budget Considerations

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

In 2012, the approved expenditure budget is \$13.2 million.

The 2012 water use rates are changed to include two additional tiers. Each tier allows 10,000 gallons of water use per SFE. The tier pricing will progressively increase above previous rates to further promote wise use of water. The service base rate was increased 3% and the debt service base rate remains unchanged.

The 2012 water rates are \$15.11 service base rate per SFE, plus \$3.00 debt service base rate per SFE, and tiered usage rates of \$3.16 per 1,000 gallons for tier one, \$4.75 per 1,000 gallons for tier two, \$6.18 per 1,000 gallons for tier three, \$8.03 per 1,000 gallons for tier four and \$10.44 per 1,000 gallons for tier five (over 50,000 gallons).

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Management's Discussion and Analysis
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(continued)**

Plant investment fees increased 3% effective January 1, 2012.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

Upper Eagle Regional Water Authority
Statements of Net Assets
December 31, 2011 and 2010

	2011	2010
Assets:		
Current Assets:		
Cash and cash equivalents - Unrestricted	4,876,651	2,649,539
Cash and cash equivalents - Restricted	6,883,173	12,379,817
Receivables, net of allowance for uncollectibles:		
Accounts	1,231,147	1,056,728
Interest - Build America Bonds	26,110	26,110
Current portion of notes receivable	4,820	4,571
Prepaid expenses	84,010	170
Total Current Assets	13,105,911	16,116,935
Non-current Assets:		
Other Assets:		
Patronage dividend receivable	386,625	381,952
Notes receivable - Due in more than one year	124,729	2,676,849
Debt issue costs, net of accumulated amortization	465,664	608,998
Investment in Eagle Park Reservoir Company	4,445,917	4,445,917
Total Other Assets	5,422,935	8,113,716
Capital Assets:		
Land and improvements	780,962	780,962
Water/storage rights	1,539,404	1,539,404
Construction in progress	7,152,596	4,911,210
Treatment plants	33,012,756	32,563,919
Distribution system	77,720,254	76,911,831
Water wells	7,654,807	8,186,470
Less: Accumulated depreciation	(44,823,997)	(41,486,751)
Total Capital Assets	83,036,782	83,407,045
Total Non-current Assets	88,459,717	91,520,761
Total Assets	101,565,628	107,637,696

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

Upper Eagle Regional Water Authority
Statements of Net Assets
December 31, 2011 and 2010
(Continued)

	<u>2011</u>	<u>2010</u>
Liabilities:		
Current Liabilities:		
Accounts payable	880,639	1,422,669
Management fee payable	161,964	204,034
Interest payable	141,169	145,734
Loans and bonds payable - Due within one year	1,486,533	1,413,353
Deposits	<u>5,363</u>	<u>10,758</u>
Total Current Liabilities	<u>2,675,668</u>	<u>3,196,548</u>
Non-current Liabilities:		
Other payables	148,410	205,768
Loans and bonds payable - Due in more than one year	<u>28,066,200</u>	<u>29,479,002</u>
Total Non-current Liabilities	<u>28,214,610</u>	<u>29,684,770</u>
Total Liabilities	<u>30,890,278</u>	<u>32,881,318</u>
Net Assets:		
Invested in capital assets, net of related debt	59,469,218	64,079,782
Restricted for Debt	2,551,906	2,526,980
Unrestricted	<u>8,654,226</u>	<u>8,149,616</u>
Total Net Assets	<u><u>70,675,350</u></u>	<u><u>74,756,378</u></u>

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

Upper Eagle Regional Water Authority
Statements of Revenues, Expenses and Changes in Fund Net Assets
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Service fees	8,120,458	8,355,216
Total Operating Revenues	<u>8,120,458</u>	<u>8,355,216</u>
Operating Expenses:		
Water treatment	3,788,952	3,509,822
Water distribution	4,359,055	4,121,717
Other operating	1,047,843	896,920
General and administrative	2,075,516	2,645,800
Total Operating Expenses	<u>11,271,366</u>	<u>11,174,259</u>
Operating Income (Loss)	<u>(3,150,908)</u>	<u>(2,819,043)</u>
Non-operating Revenues (Expenses):		
Investment income	41,014	134,458
Interest credit - Build America Bonds	313,325	259,363
Gain (loss) on disposal of capital assets	(242,904)	-
Other non-operating revenues	68,016	47,873
Interest expense	(1,456,924)	(1,695,301)
Paying agent fees	(2,525)	(1,275)
Amortization of bond issue costs	(143,333)	(59,238)
Total Non-operating Revenues	<u>(1,423,331)</u>	<u>(1,314,120)</u>
Income (Loss) Before Capital Contributions	<u>(4,574,239)</u>	<u>(4,133,163)</u>
Capital Contributions:		
Plant investment fees	330,392	157,874
Water storage fees, net of refunds	13,720	18,498
Contributed assets	149,099	325,396
Total Capital Contributions	<u>493,211</u>	<u>501,768</u>
Change in Net Assets	(4,081,028)	(3,631,395)
Net Assets - Beginning of Year	<u>74,756,378</u>	<u>78,387,773</u>
Net Assets - End of Year	<u><u>70,675,350</u></u>	<u><u>74,756,378</u></u>

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

Upper Eagle Regional Water Authority
Statements of Cash Flows
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities:		
Cash received from customers and others	7,946,039	8,276,422
Cash payments for goods and services	<u>(7,317,646)</u>	<u>(5,945,700)</u>
Net Cash Provided (Used) by Operating Activities	<u>628,393</u>	<u>2,330,722</u>
Cash Flows From Non-capital Financing Activities:		
Patronage dividend received	23,758	29,078
Other cash receipts	<u>39,585</u>	<u>6,469</u>
Net Cash Provided (Used) by Non-capital Financing Activities	<u>63,343</u>	<u>35,547</u>
Cash Flows From Capital and Related Financing Activities:		
Proceeds from bond issuance, including premium	-	23,680,834
Cash received from system development fees	330,392	157,874
Cash received from water storage fees	13,720	18,498
Interest subsidy payment received - Build America Bonds	313,325	233,253
Cash paid for return of capital asset deposit	(5,395)	(1,744)
Cash paid for principal on debt	(1,413,352)	(1,122,004)
Cash paid for interest and paying agent fees on debt	(1,518,037)	(1,619,817)
Debt issuance cost	-	(386,176)
Cash paid to refunded bond escrow agent to retire bond principal	-	(8,565,833)
Cash paid for capital acquisitions	<u>(4,274,806)</u>	<u>(3,727,372)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(6,554,153)</u>	<u>8,667,513</u>
Cash Flows From Investing Activities:		
Interest income received	16,006	31,912
Interest received on notes receivable	197,310	7,545
Principal received on notes receivable	2,379,569	33,941
Purchase of investments - Eagle Park Reservoir Company	-	<u>(1,725,000)</u>
Net Cash Provided (Used) by Investing Activities	<u>2,592,885</u>	<u>(1,651,602)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(3,269,532)	9,382,180
Cash and Cash Equivalents - Beginning of Year	<u>15,029,356</u>	<u>5,647,176</u>
Cash and Cash Equivalents - End of Year	<u><u>11,759,824</u></u>	<u><u>15,029,356</u></u>
Represented by Balance Sheet Captions:		
Cash and cash equivalents - Unrestricted	4,876,651	2,649,539
Cash and cash equivalents - Restricted	<u>6,883,173</u>	<u>12,379,817</u>
Cash and Cash Equivalents - End of Year	<u><u>11,759,824</u></u>	<u><u>15,029,356</u></u>

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

Upper Eagle Regional Water Authority
Statement of Cash Flows
For the Years Ended December 31, 2011 and 2010
(Continued)

	<u>2011</u>	<u>2010</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	<u>(3,150,908)</u>	<u>(2,819,043)</u>
Adjustments:		
Depreciation	4,470,438	4,375,688
Prior year capitalized assets expensed in the current year	9,303	360,269
(Increase) decrease in accounts receivable	(174,419)	(78,794)
(Increase) decrease in prepaid expenses	(83,840)	71,137
Increase (decrease) in accounts payable	(342,753)	353,853
Increase (decrease) in management fee payable	(42,070)	65,087
Increase (decrease) in other liabilities	(57,358)	2,525
Total Adjustments	<u>3,779,301</u>	<u>5,149,765</u>
Net Cash Provided (Used) by Operating Activities	<u>628,393</u>	<u>2,330,722</u>
Non-cash Investing, Capital, and Financing Activities:		
Contribution of capital assets from developers	<u>149,099</u>	<u>325,396</u>

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

NOTES TO THE FINANCIAL STATEMENTS

Upper Eagle Regional Water Authority
Notes to the Financial Statements
December 31, 2011 and 2010

I. Summary of Significant Accounting Policies

Upper Eagle Regional Water Authority (the "Authority") was formed September 18, 1984 pursuant to an establishing contract by the following entities located in Eagle County, Colorado (the "members")

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

The Authority, a quasi-municipal corporation, is governed pursuant to provisions of the Colorado Special District Act. The Authority was established to make the best practical use of the members' joint resources to supply water and to further develop water resources and facilities in a portion of Eagle County, Colorado. The Authority also provides water service to the Cordillera and Bachelor Gulch developments through contracts with members.

The Authority may not be terminated while bonds, notes, or other obligations are outstanding, unless provision for full payment of such obligation has been made. At December 31, 2011, the Authority had debt with maturities through 2039.

The Authority has a service contract with the members. Under the terms of the agreement, the Authority provides residents of the members water service; the Authority bills these residents at rates which are expected to cover its costs of providing water services and other functions. Such costs specifically include debt service requirements, depreciation, replacements, operations, and maintenance. As part of the agreement, the members have leased all of their rights, associated easements, and improvements to the Authority at no cost. As return consideration, the Authority has agreed to maintain the associated improvements and to administer and protect the members' plan for augmentation and water decrees at no cost to the members.

Effective January 1, 1998, the members approved an Amended and Restated Master Service Contract (the "Master Service Contract"). In addition to the provisions described above, the Master Service Contract stipulated that:

- The members convey their individual water systems to the Authority.
- All member customers become customers of the Authority.
- Tap fees and water surcharges will remain revenue of the individual members.
- Maintenance of the existing individual water systems becomes the responsibility of the Authority.
- Construction of new lines and the extension of existing lines to serve new developments remains the responsibility of the individual members.
- The members retain ownership of water rights and an interest in assets, including rights to capacity in the system to the extent necessary to ensure service to their service areas and to retain individual enterprise status.

The Authority has no employees; all operations and administrative functions are contracted with Eagle River Water and Sanitation District (the "District"), as subsequently explained.

Upper Eagle Regional Water Authority
Notes to the Financial Statements
December 31, 2011 and 2010
(Continued)

I. Summary of Significant Accounting Policies (continued)

The Authority'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). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board ("FASB") issued through November 30, 1989, when applicable, that do not conflict with or contradict GASB pronouncements. Although the Authority has the option to apply FASB pronouncements after that date to its enterprise fund, the Authority has chosen not to do so. The more significant accounting policies established by GAAP used by the Authority are discussed below.

A. Reporting Entity

The reporting entity consists of (a) the primary government; i.e., the Authority, and (b) organizations for which the Authority is financially accountable. The Authority 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 Authority. 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 Authority. Organizations for which the nature and significance of their relationship with the Authority 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 on the criteria above, the Authority is not financially accountable for any other entity nor is the Authority a component unit of any other government.

B. Fund Accounting

The Authority 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 Authority uses a proprietary fund-type, an enterprise fund, to account for its activity, providing water services to residents within the Authority'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.

Upper Eagle Regional Water Authority
Notes to the Financial Statements
December 31, 2011 and 2010
(Continued)

I. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

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 Authority'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.

D. Financial Statement Accounts and Accounting Policies

1. Cash and Cash Equivalents

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

2. Receivables

Receivables are reported net of an allowance for uncollectible accounts. However, no allowance for uncollectible accounts has been established at December 31, 2011, as the Authority considers all accounts to be collectible.

3. Capital Assets

Capital assets, which include water/storage rights, land and improvements, construction in progress, treatment plants, distribution systems, and water wells, are reported in the financial statements. The Authority 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 and storage rights includes acquisition cost, legal and engineering costs related to the development and augmentation of those rights. Since the rights have a perpetual life, they are not amortized. All other costs, including costs incurred for the protection of those rights, are expensed. See the Schedule of Water and Storage Rights in the Statistical Section (pages F8-F10) for additional information.

Each of the participating members leased or subleased sufficient water rights to the Authority at no cost to the Authority to meet their projected needs upon full build-out within their current boundaries.

Upper Eagle Regional Water Authority
Notes to the Financial Statements
December 31, 2011 and 2010
(Continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts and Accounting Policies (continued)

3. Capital Assets (continued)

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. During the years ended December 31, 2011 and 2010, the Authority capitalized interest of \$69,068 and \$0, respectively, as part of capital assets.

Treatment plants, distribution systems, and water wells 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
Water wells	5 - 40

In the event of the dissolution of the Authority, all of the assets of the Authority shall immediately vest in the participating members, subject to any outstanding liens, mortgages, or other pledges of such assets. The interest in the assets of the Authority conveyed to each member shall be that proportion which the average annual amount of treated water sold within the boundaries of each member, bears to the average annual total amount of all treated water sold by the Authority.

4. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, 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 assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net assets are reported as unrestricted.

The Authority applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Upper Eagle Regional Water Authority
Notes to the Financial Statements
December 31, 2011 and 2010
(Continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts and Accounting Policies (continued)

5. Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in Statement of Net Assets. Bond premiums and discounts, as well as debt issuance costs, are deferred and amortized over the respective life of the respective debt using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Debt issuance costs are reported as other assets and are amortized over the term of the related debt.

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 reduction of bonds payable.

6. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the Authority'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.

7. Restricted and Unrestricted Resources

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

8. Subsequent Events

The Authority is currently in negotiation to issue approximately \$8M in debt secured by the revenues of Traer Creek Metropolitan District in order to fund the construction of a new water tank.

Management has evaluated subsequent events through July 30, 2012, the date these financial statements were available to be issued.

9. Comparative Data and Reclassifications

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

Upper Eagle Regional Water Authority
Notes to the Financial Statements
December 31, 2011 and 2010
(Continued)

II. Stewardship, Compliance, and Accountability

A. Budgetary Information

In the fall of each year, the Authority'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 and all appropriations lapse at year-end.

As required by Colorado statutes, the Authority followed the required timetable noted below in preparing, approving, and enacting its budget for 2011:

1. The Authority submitted, on or before October 15, 2010, a recommended budget that detailed the necessary revenues to meet the Authority's operating requirements.
2. On or prior to December 31, 2010, after a required publication of "Notice of Budget" and a public hearing, the Authority adopted the proposed budget and a resolution that legally appropriated expenditures for the upcoming year.
3. After adoption of the budget resolution, the Authority may make the following changes: a) it may approve supplemental appropriations to the extent of revenues in excess of estimated revenues in the budget; b) it may approve emergency appropriations; and c) it may reduce appropriations for which originally estimated revenues are insufficient.

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.

Upper Eagle Regional Water Authority
Notes to the Financial Statements
December 31, 2011 and 2010
(Continued)

II. Stewardship, Compliance, and Accountability (continued)

B. TABOR Amendment (continued)

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 Authority's management believes its operations qualify for this exclusion.

The Authority 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.

III. Detailed Notes on All Funds

A. Deposits and Investments

The Authority'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 interest bearing accounts and provides unlimited coverage for non-interest bearing accounts. Interest bearing deposit balances over \$250,000 are collateralized as required by PDPA. The carrying amounts of the Authority's cash and cash equivalents were \$11,759,824 and \$15,029,356 as of December 31, 2011 and 2010, respectively.

Upper Eagle Regional Water Authority
Notes to the Financial Statements
December 31, 2011 and 2010
(Continued)

III. Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

At December 31, 2011 and 2010, the Authority had the following cash and investments with the following maturities:

December 31, 2011				
	Standard & Poors Rating	Carrying Amounts	Maturities	
			Less than one year	1 - 5 years
<i>Deposits:</i>				
Checking	Not rated	54,188	54,188	-
Money market	Not rated	5,342	5,342	-
<i>Investment pools</i>	AAAm	11,700,294	11,700,294	-
Total		<u>11,759,824</u>	<u>11,759,824</u>	<u>-</u>
December 31, 2010				
	Standard & Poors Rating	Carrying Amounts	Maturities	
			Less than one year	1 - 5 years
<i>Deposits:</i>				
Checking	Not rated	148,217	148,217	-
Money market	Not rated	5,553	5,553	-
<i>Investment pools</i>	AAAm	14,875,586	14,875,586	-
Total		<u>15,029,356</u>	<u>15,029,356</u>	<u>-</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 pool is determined by the pool's share price. The Authority has no regulatory oversight for the pool.

Interest Rate Risk. As a means of limiting its exposure to interest rate risk, the Authority coordinates its investment maturities to closely match cash flow needs and restricts the maximum investment term to less than two years from the purchase date.

Credit Risk. The Authority's investment policy implements the prudent investor rule as a guideline for investment decisions.

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

Upper Eagle Regional Water Authority
Notes to the Financial Statements
December 31, 2011 and 2010
(Continued)

III. Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Concentration of Credit Risk. According to the Authority's investment policy, it is permitted to invest up to the following maximum limits:

<u>Investment Type</u>	<u>Maximum Percentage</u>
U.S. Treasury obligations	100%
Qualified certificates of deposit	50%
Qualified local government investment pools	100%
Federal instrumentality securities	50%
Repurchase agreements collateralized by U.S. Treasury obligations	100%
Bankers acceptances and commercial paper - combined total	30%

B. Restricted Cash and Cash Equivalents

At December 31, 2011 and 2010, cash has been restricted for the following purposes:

	<u>12/31/11</u>	<u>12/31/10</u>
Debt covenant and operations reserves	2,551,906	2,526,980
Restricted for capital projects	4,331,267	9,852,837
Total	<u>6,883,173</u>	<u>12,379,817</u>

C. Summary of Cash and Investments

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

	<u>12/31/11</u>	<u>12/31/10</u>
Cash and cash equivalents - Unrestricted	4,876,651	2,649,539
Cash and cash equivalents - Restricted	6,883,173	12,379,817
Total	<u>11,759,824</u>	<u>15,029,356</u>

Upper Eagle Regional Water Authority
Notes to the Financial Statements
December 31, 2011 and 2010
(Continued)

III. Detailed Notes on All Funds (continued)

D. Notes Receivable

The following is an analysis of changes in notes receivable for past two fiscal years:

	1/1/10			12/31/10			12/31/11
	Beginning			Ending			Ending
	Balance	Additions	Reductions	Balance	Additions	Reductions	Balance
Flat Tops	2,452,302	95,000	-	2,547,302	17,699	(2,565,001)	-
WECMRD	24,510	-	(24,510)	-	-	-	-
Shaw Cancer Caring House	5,097	-	(5,097)	-	-	-	-
Traer Creek	138,452	-	(4,334)	134,118	-	(4,569)	129,549
	<u>2,620,361</u>	<u>95,000</u>	<u>(33,941)</u>	<u>2,681,420</u>	<u>17,699</u>	<u>(2,569,570)</u>	<u>129,549</u>
Less: Current portion	<u>(12,152)</u>			<u>(4,571)</u>			<u>(4,820)</u>
Long-term portion	<u>2,608,209</u>			<u>2,676,849</u>			<u>124,729</u>

1. Flat Tops

In 2005, the Authority and the District jointly entered into an agreement to purchase water rights. In 2009, due to the determination that alternative water rights available would be of greater benefit to the Authority, the purchase of these water rights was rescinded by the Authority. In addition to a cash payment, the District received a \$2,375,000 note receivable in exchange for its claim to these water rights. The annual interest rate on the note was 4% and was paid off during 2011.

2. Western Eagle County Metropolitan Recreation District (“WECMRD”)

On July 23, 2009, the Authority entered into an agreement with WECMRD whereby the Authority received \$27,235 plus interest payments in exchange for a deferred tap fee. Annual principal and interest payments were due to the Authority on October 1st through 2018. The loan bore interest at 4.00% per annum. This note was paid off early by WECMRD in 2010.

3. Shaw Cancer Caring House (“Shaw”)

On October 16, 2002, the Authority entered into an agreement with Shaw Outreach Team, also known as the Shaw Cancer Caring House, a nonprofit organization, whereby the Authority received \$25,455 for tap fees. Annual principal payments of \$5,091 were due to the Authority on November 1st through 2010. The loan was non-interest bearing. The loan was paid off during 2010.

4. Traer Creek Metropolitan District (“Traer Creek”)

On November 4, 2002, the Authority entered into a service agreement with Traer Creek for augmentation water. This agreement requires Traer Creek to pay an amount equal to the cost of 300 shares of Eagle Park Reservoir Company (the “Reservoir Company”) stock for use in connection with the augmentation water. The Authority is to remain the record titleholder of the 300 shares of the Reservoir Company stock and will retain all shareholder rights. Pursuant to this agreement, the purchase price of the Reservoir Company stock was \$163,070. Annual combined principal and interest payments of \$11,880 are due to the Authority on September 15th through 2028. The loan bears interest at 5.45% per annum.

Upper Eagle Regional Water Authority
Notes to the Financial Statements
December 31, 2011 and 2010
(Continued)

III. Detailed Notes on All Funds (continued)

E. Patronage Dividend Receivable

The Authority 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 years ended December 31, 2011 and 2010, the Authority received refunds of \$23,758 and \$29,079, respectively, from Holy Cross. The balances due to the Authority at December 31, 2011 and 2010, were \$386,625 and \$381,952, 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, including the Arkansas well water 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 Authority acquired 3830 Class A Shares (approximately 19%) and 125 Class B shares of the stock in the Reservoir Company for \$2,216,574 and the contribution/pledge of certain water rights. The \$2,216,574 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 \$143,420 of legal costs related to the issuance of the assessment payable. Since 1998, the Authority has acquired additional shares of the Reservoir Company through various transactions. As of December 31, 2010, the Authority held 5390 Class A Shares (approximately 21%), 125 Class B Series 1 and 131.5 Class B Series 2 shares of the stock in the Reservoir Company at a cost of \$4,445,917.

During 2011, the Authority’s investment in the Reservoir Company was unchanged.

As of December 31, 2011, the Authority held 5390 Class A Shares (approximately 21%), 125 Class B Series 1 and 131.5 Class B Series 2 shares of the stock in the Reservoir Company at a cost of \$4,445,917. See the Schedule of Water and Storage Rights in the Statistical Section (pages F8-F10) for additional information.

Upper Eagle Regional Water Authority
Notes to the Financial Statements
December 31, 2011 and 2010
(Continued)

III. Detailed Notes on All Funds (continued)

G. Capital Assets

Capital asset activity for the past two fiscal years was as follows:

	<u>1/1/10 Beginning Balance</u>	<u>Additions</u>	<u>Reclasses and Retirements</u>	<u>12/31/10 Ending Balance</u>	<u>Additions</u>	<u>Reclasses and Retirements</u>	<u>12/31/11 Ending Balance</u>
Capital assets, not being depreciated:							
Land and land improvements	780,962	-	-	780,962	-	-	780,962
Water/storage rights	1,539,404	-	-	1,539,404	-	-	1,539,404
Construction in progress	2,398,678	3,236,353	(723,821)	4,911,210	4,238,740	(1,997,354)	7,152,596
Total capital assets, not being depreciated	<u>4,719,044</u>	<u>3,236,353</u>	<u>(723,821)</u>	<u>7,231,576</u>	<u>4,238,740</u>	<u>(1,997,354)</u>	<u>9,472,962</u>
Capital assets, being depreciated:							
Treatment plants	31,222,715	1,615,270	(274,066)	32,563,919	1,106,364	(657,527)	33,012,756
Distribution system	76,586,435	325,396	-	76,911,831	939,825	(131,402)	77,720,254
Water wells	8,194,535	-	(8,065)	8,186,470	55,504	(587,167)	7,654,807
Total capital assets being depreciated	<u>116,003,685</u>	<u>1,940,666</u>	<u>(282,131)</u>	<u>117,662,220</u>	<u>2,101,693</u>	<u>(1,376,096)</u>	<u>118,387,817</u>
Less accumulated depreciation for:							
Treatment plants	(12,412,451)	(1,395,526)	274,066	(13,533,911)	(1,498,496)	655,512	(14,376,895)
Distribution system	(22,934,797)	(2,659,231)	-	(25,594,028)	(2,656,096)	131,402	(28,118,722)
Water wells	(2,045,947)	(320,930)	8,065	(2,358,812)	(315,846)	346,278	(2,328,380)
Total accumulated depreciation	<u>(37,393,195)</u>	<u>(4,375,687)</u>	<u>282,131</u>	<u>(41,486,751)</u>	<u>(4,470,438)</u>	<u>1,133,192</u>	<u>(44,823,997)</u>
Total capital assets, being depreciated, net	<u>78,610,490</u>	<u>(2,435,021)</u>	<u>-</u>	<u>76,175,469</u>	<u>(2,368,745)</u>	<u>(242,904)</u>	<u>73,563,820</u>
Total capital assets, net	<u>83,329,534</u>	<u>801,332</u>	<u>(723,821)</u>	<u>83,407,045</u>	<u>1,869,995</u>	<u>(2,240,258)</u>	<u>83,036,782</u>

Depreciation expense for the years ended 2010 and 2011 was charged to the following departments:

	<u>2010</u>	<u>2011</u>
Water treatment	1,716,456	1,814,343
Water distribution	2,659,231	2,656,095
Total	<u>4,375,687</u>	<u>4,470,438</u>

Upper Eagle Regional Water Authority
Notes to the Financial Statements
December 31, 2011 and 2010
(Continued)

III. Detailed Notes on All Funds (continued)

H. Long-Term Debt

The Authority had the following long-term debt outstanding during the past two fiscal years:

1. 1998 Assessment Obligation Note

As previously explained in Note III.F, the Authority financed its 1998 investment in the Reservoir Company through the execution of an assessment obligation note in the amount of \$2,216,574. This note bears interest at 5.45% annually. Debt service payments of \$151,671 are due annually on September 16th through 2028.

The obligation is secured by the Authority's ownership of common stock of the Reservoir Company and certain water rights owned by participating members and leased to the Authority. 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 Authority is maintaining a reserve equal to the next fiscal year's principal and interest payments for this obligation.

2. 2000 Colorado Water Resources and Power Development Authority ("CWRPDA" Loan)

In February 2000, the Authority entered a \$10,745,000 loan agreement with CWRDPA, the proceeds of which were used to construct the Edwards treatment plant, purchase land for the Edwards treatment plant, and to design a regional storage tank. Principal and variable interest payments were due monthly through October 1, 2020. The loan bore interest between 4.30% and 5.80% annually. During 2010, proceeds from the Tax-Exempt Water Revenue Bonds, Series 2010, were used to prepay this loan as mentioned in Note III.H.6. Prepayment of the loan was permitted upon written notice to CWRPDA and upon payment of certain administrative fees and a redemption premium.

The Authority pledged revenues from the operation and use of the water 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 loan agreement contained various restrictive covenants and requirements, including a rate covenant, maintenance of a three month operating reserve, and compliance with an additional bond test.

3. Water Refunding and Improvement Revenue Bonds, Series 2002

The Authority issued \$5,155,000 of bonds in November 2002, the proceeds of which were used to refund the Authority's 1994 Bonds, finance improvements to the Authority's water system, purchase water rights, purchase municipal bond insurance, and pay the costs of issuance. The interest rates on the bonds range from 3.00% to 4.90%. Interest is payable on June 1st and December 1st through 2022. The principal is payable on December 1st and matures in various increments through 2022.

Upper Eagle Regional Water Authority
Notes to the Financial Statements
December 31, 2011 and 2010
(Continued)

III. Detailed Notes on All Funds (continued)

H. Long-Term Debt (continued)

3. Water Refunding and Improvement Revenue Bonds, Series 2002 (continued)

As special, limited obligations of the Authority, principal and interest on the bonds are payable solely from net pledged revenues. Such net revenue includes income derived from the water treatment facilities 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 Authority to establish service rates at a level sufficient to cover operating, maintenance, system improvement, insurance, and other expenses, as well as 110% of each fiscal year's debt service requirements of outstanding Authority bonds.

These bonds are secured by a Reserve Fund equal to the least of 1) 10% of the aggregate principal amount of outstanding 2002 Bonds and any Future Reserve Fund Bonds (as defined in the bond documents), 2) the maximum annual principal and interest on outstanding 2002 Bonds and any Future Reserve Fund Bonds, or 3) 125% of average principal and interest on the bonds and any Reserve Fund Bonds. The Authority has purchased an insurance policy to provide reserve funds if needed; therefore, no reserve has been reflected in these financial statements for this purpose.

In accordance with bond indentures, the Authority has restricted cash and net assets equal to one-sixth (1/6) of the next installment and one-twelfth (1/12) of the next principal installment.

Pursuant to bond documents, the Authority has also created an Operations Reserve in an amount equal to three months of operations and maintenance expenses as set forth in the Authority's annual budget.

Only bonds maturing on and after December 1, 2013, are subject to redemption prior maturity: these bonds are subject to redemption prior to maturity at the option of the Authority at par value.

4. Water Refunding Revenue Bonds, Series 2003

The Authority issued \$5,155,000 of bonds in July 2003, the proceeds of which were used to refund a portion of the Authority's 1995 Bonds, purchase municipal bond insurance, and pay the costs of issuance. The interest rates on the bonds range from 2.00% to 3.80%. Interest is payable on June 1 and December 1, through 2018. The principal is payable on December 1 and matures in various increments through 2018.

As special, limited obligations of the Authority, principal and interest on the bonds are payable solely from net pledged revenues. Such net revenue includes income derived from the water treatment facilities and other legally available revenue after payment of operation and maintenance expenses of the system.

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

Upper Eagle Regional Water Authority
Notes to the Financial Statements
December 31, 2011 and 2010
(Continued)

III. Detailed Notes on All Funds (continued)

H. Long-Term Debt (continued)

4. Water Refunding Revenue Bonds, Series 2003 (continued)

These bonds are secured by a Reserve Fund equal to the least of 1) 10% of the aggregate principal amount of outstanding 2003 Bonds and any Future Reserve Fund Bonds (as defined in the bond documents), 2) the maximum annual principal and interest on outstanding 2003 Bonds and any Future Reserve Fund Bonds, or 3) 125% of average principal and interest on the bonds and any Reserve Fund Bonds. The Authority has purchased an insurance policy to provide reserve funds if needed; therefore, no reserve has been reflected in these financial statements for this purpose.

In accordance with bond indentures, the Authority has restricted cash and net assets equal to one-sixth (1/6) of the next installment and one-twelfth (1/12) of the next principal installment.

Pursuant to bond documents, the Authority has also created an Operations Reserve in an amount equal to three months of operations and maintenance expenses as set forth in the Authority's annual budget.

Only bonds maturing on and after December 1, 2014, are subject to redemption prior maturity: these bonds are subject to redemption prior to maturity at the option of the Authority at par value.

5. Water Refunding Revenue Bonds, Series 2007

The Authority issued \$2,040,000 of bonds in October 2007, the proceeds of which were used to refund the outstanding Authority's 1995 Bonds, purchase municipal bond insurance, and pay the costs of issuance. The interest rates on the bonds range from 3.70% to 4.00%. Interest is payable on June 1st and December 1st, through 2018. This bond issue consists of serial bonds due annually on December 1st in various increments through 2014 and term bonds due on December 1, 2016 and December 1, 2018. The serial bonds are subject to mandatory sinking fund redemption at par, plus accrued interest to the redemption date.

As special, limited obligations of the Authority, principal and interest on the bonds are payable solely from net pledged revenues. Such net revenue includes income derived from the water treatment facilities 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 Authority to establish service rates at a level sufficient to cover operating, maintenance, system improvement, insurance, and other expenses, as well as 110% of each fiscal year's debt service requirements of outstanding Authority bonds.

These bonds are secured by a Reserve Fund equal to the least of 1) 10% of the aggregate principal amount of outstanding 2002 Bonds and any Reserve Fund Bonds (as defined in the bond documents), 2) the maximum annual principal and interest on outstanding 2002 Bonds and any Reserve Fund Bonds, or 3) 125% of average principal and interest on the bonds and any Reserve Fund Bonds. The Authority has purchased an insurance policy to provide reserve funds if needed; therefore, no reserve has been reflected in these financial statements for this purpose.

Upper Eagle Regional Water Authority
Notes to the Financial Statements
December 31, 2011 and 2010
(Continued)

III. Detailed Notes on All Funds (continued)

H. Long-Term Debt (continued)

5. Water Refunding Revenue Bonds, Series 2007 (continued)

In accordance with bond indentures, the Authority has restricted cash and net assets equal to one-sixth (1/6) of the next installment and one-twelfth (1/12) of the next principal installment.

Pursuant to bond documents, the Authority has also created an Operations Reserve in an amount equal to three months of operations and maintenance expenses as set forth in the Authority's annual budget.

Only bonds maturing on and after December 1, 2016, are subject to redemption prior maturity: these bonds are subject to redemption prior to maturity at the option of the Authority at par value.

6. Tax-Exempt Water Revenue Bonds, Series 2010

The Authority issued \$8,695,000 of tax-exempt water revenue bonds in February 2010, the proceeds of which were used to retire the aforementioned CWRPDA loan (Note III.H.2), finance deposits to Reserve Fund (which is subsequently explained), and pay the costs of issuance. The interest rates on the bonds range from 2.50% to 4.00%. Interest is payable on June 1st and December 1st, through 2020. The principal is payable on December 1st and matures in various increments through 2020.

As special, limited obligations of the Authority, principal and interest on the bonds are payable solely from net pledged revenues. Such net revenue includes income derived from the water 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 Authority has adopted a resolution imposing a new Water Debt Service Rate which is collected monthly from each single family equivalent ("SFE") in the system.

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

These bonds and the Taxable Water Revenue Bonds, Series 2010 (collectively referred to as the "2010 Bonds"), are secured by a common Reserve Fund equal to the least of 1) 10% of the aggregate principal amount of outstanding 2010 Bonds and any Reserve Fund Bonds (as defined in the bond documents), 2) the maximum annual principal and interest on outstanding 2010 Bonds and any Reserve Fund Bonds, or 3) 125% of average principal and interest on the bonds and any Reserve Fund Bonds. The Authority has purchased an insurance policy to provide reserve funds if needed; therefore, no reserve has been reflected in these financial statements for this purpose.

Upper Eagle Regional Water Authority
Notes to the Financial Statements
December 31, 2011 and 2010
(Continued)

III. Detailed Notes on All Funds (continued)

H. Long-Term Debt (continued)

6. Tax-Exempt Water Revenue Bonds, Series 2010 (continued)

In conjunction with the issuance of the 2010 Bonds, the Authority is required to maintain a Rate Stabilization Fund of \$600,000; the Rate Stabilization Fund was created to help offset or reduce any increases 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 Authority has restricted cash and net assets equal to one-sixth (1/6) of the next installment and one-twelfth (1/12) of the next principal installment.

Pursuant to bond documents, the Authority has also created an Operations Reserve in an amount equal to three months of operations and maintenance expenses as set forth in the Authority's annual budget.

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

7. Taxable Water Revenue Bonds, Series 2010

The Authority issued \$14,650,000 of taxable water revenue bonds in February 2010, the proceeds of which were used to finance improvements to the water system, finance deposits to Reserve Fund (which is subsequently explained), and pay the costs of issuance. The interest rates on the bonds range from 5.36% to 6.52%. Interest is payable on June 1st and December 1st, through 2039. This bond issue consists of term bonds due on December 1, 2025, December 1, 2030, 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 Authority may apply for interest cost subsidies from the federal government. Such subsidies will be used by the Authority to pay debt service on these bonds. During the fiscal year ended December 31, 2011, the Authority recognized revenue of \$313,325 related to this subsidy.

As special, limited obligations of the Authority, principal and interest on the bonds are payable solely from net pledged revenues. Such net revenue includes income derived from the water 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 Authority has adopted a resolution imposing a new Water Debt Service Rate which is collected monthly from each single family equivalent ("SFE") in the system.

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

Upper Eagle Regional Water Authority
Notes to the Financial Statements
December 31, 2011 and 2010
(Continued)

III. Detailed Notes on All Funds (continued)

H. Long-Term Debt (continued)

7. Taxable Water Revenue Bonds, Series 2010 (continued)

As previously discussed, these bonds and the Tax-Exempt Water Revenue Bonds, Series 2010 (collectively referred to as the "2010 Bonds"), are secured by a common Reserve Fund equal to the least of 1) 10% of the aggregate principal amount of outstanding 2010 Bonds and any Reserve Fund Bonds (as defined in the bond documents), 2) the maximum annual principal and interest on outstanding 2010 Bonds and any Reserve Fund Bonds, or 3) 125% of average principal and interest on the bonds and any Reserve Fund Bonds. The Authority has purchased an insurance policy to provide reserve funds if needed; therefore, no reserve has been reflected in these financial statements for this purpose.

In conjunction with the issuance of the 2010 Bonds, the Authority is required to maintain a Rate Stabilization Fund of \$600,000; the Rate Stabilization Fund was created to help offset or reduce any increases 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 Authority has restricted cash and net assets equal to one-sixth (1/6) of the next installment and one-twelfth (1/12) of the next principal installment.

Pursuant to bond documents, the Authority has also created an Operations Reserve in an amount equal to three months of operations and maintenance expenses as set forth in the Authority's annual budget.

These bonds are subject to redemption prior to maturity at the option of the Authority at par plus accrued interest without a redemption premium.

I. Long-term Liability Activity Schedules

Long-term liability activity for 2010 was as follows:

	1/1/10 Beginning Balance	Additions	Reductions	12/31/10 Ending Balance	Due Within One Year
1998 assessment obligation note	1,767,593	-	(55,338)	1,712,255	58,353
2000 CWRPDA loan	8,657,500	-	(8,657,500)	-	-
2002 refunding and improvement revenue bonds	1,150,000	-	(70,000)	1,080,000	70,000
2003 refunding revenue bonds	4,300,000	-	(415,000)	3,885,000	425,000
2007 refunding revenue bonds	1,720,000	-	(165,000)	1,555,000	170,000
2010 tax-exempt revenue bonds	-	8,695,000	(325,000)	8,370,000	690,000
2010 taxable revenue bonds	-	14,650,000	-	14,650,000	-
Unamortized bond premiums	67,850	335,834	(32,106)	371,578	-
Unamortized bond discounts	(34,712)	-	34,712	-	-
Unamortized deferred cost on refunding	(662,928)	(150,296)	81,746	(731,478)	-
Total	16,965,303	23,530,538	(9,603,486)	30,892,355	1,413,353

Upper Eagle Regional Water Authority
Notes to the Financial Statements
December 31, 2011 and 2010
(Continued)

III. Detailed Notes on All Funds (continued)

I. Long-term Liability Activity Schedules (continued)

Long-term liability activity for 2011 was as follows:

	1/1/11 Beginning Balance	Additions	Reductions	12/31/11 Ending Balance	Due Within One Year
1998 assessment obligation note	1,712,255	-	(58,353)	1,653,902	61,533
2002 refunding and improvement revenue bonds	1,080,000	-	(70,000)	1,010,000	75,000
2003 refunding revenue bonds	3,885,000	-	(425,000)	3,460,000	445,000
2007 refunding revenue bonds	1,555,000	-	(170,000)	1,385,000	180,000
2010 tax-exempt revenue bonds	8,370,000	-	(690,000)	7,680,000	725,000
2010 taxable revenue bonds	14,650,000	-	-	14,650,000	-
Unamortized bond premiums	371,578	-	(71,747)	299,831	-
Unamortized deferred cost on refunding	(731,478)	-	145,478	(586,000)	-
Total	30,892,355	-	(1,339,622)	29,552,733	1,486,533

J. Debt Service Schedules

Aggregate debt service requirements at December 31, 2011, were as follows for the Authority:

	Principal	Interest	Total
2012	1,486,533	1,468,678	2,955,211
2013	1,544,887	1,422,278	2,967,165
2014	1,618,423	1,373,317	2,991,740
2015	1,662,152	1,318,468	2,980,620
2016	1,731,085	1,262,100	2,993,185
2017 - 2021	6,712,331	5,348,834	12,061,165
2022 - 2026	3,703,260	4,199,774	7,903,034
2027 - 2031	3,885,231	3,133,599	7,018,830
2032 - 2036	4,385,000	1,894,783	6,279,783
2037 - 2040	3,110,000	410,960	3,520,960
Total	29,838,902	21,832,791	51,671,693

Upper Eagle Regional Water Authority
Notes to the Financial Statements
December 31, 2011 and 2010
(Continued)

IV. Other Information

A. Risk Management

The Authority 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 Authority 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.

The Authority 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.

The Authority carries commercial insurance coverage for other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

B. Intergovernmental Agreements

1. Interconnect

The Authority and the District 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 1st to April 30th. 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, 2011 and 2010, the net amount payable from the Authority to the District was \$148,410 and \$205,768, respectively.

2. Management and Operations Agreement

Through an agreement, the District provides administration, operations, accounting and maintenance services to the Authority. The District bills customers for the water service provided and collects and remits the monies to the Authority. Costs incurred under the terms of this agreement amounted to \$3,513,190 and \$3,367,845 during the years ended December 31, 2011 and 2010, respectively. Outstanding management fees due to the District as of December 31, 2011 and 2010 totaled \$161,964 and \$204,034, respectively. There were other outstanding payables, for operation services, due to the District as of December 31, 2011 and 2010 totaling \$147,133 and \$396,816, respectively. As of December 31, 2011 there was \$1,105,977 due from the District, for water service billed, included in the \$1,231,147 accounts receivable balance.

Upper Eagle Regional Water Authority
Notes to the Financial Statements
December 31, 2011 and 2010
(Continued)

IV. Other Information (continued)

B. Intergovernmental Agreements (continued)

3. Ground Lease

On April 30, 1985, the Authority entered into a lease agreement with the Town of Avon for the land upon which the water treatment facility is located. The term of the lease is for 99 years. Minimal consideration for the lease was paid in advance. In addition, the Town of Avon has reserved the right to use the airspace above the water treatment facility for construction of municipal facilities.

C. Commitments and Contingencies

1. 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 Authority expects such amounts, if any, to be immaterial.

SUPPLEMENTARY INFORMATION

Upper Eagle Regional Water Authority
Schedule of Revenues, Expenditures, and Changes in Funds Available
Budget (Non-GAAP Basis) and Actual With Reconciliation to GAAP Basis
For the Year Ended December 31, 2011
(With Comparative Actual Amounts for the Year Ended 2010)

	<u>2011</u>			<u>Final Budget</u>	<u>2010</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>	<u>Actual</u>
	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>Positive</u>	<u>Actual</u>
				<u>(Negative)</u>	
Revenues:					
Water service fees	8,628,216	8,628,216	8,063,100	(565,116)	8,357,741
Investment income	81,697	81,697	41,014	(40,683)	31,912
Plant investment fees	91,409	91,409	330,392	238,983	157,874
Water storage fees	-	-	13,720	13,720	18,498
Proceeds from issuance of bonds	-	-	-	-	23,680,834
Principal collections of notes receivable	2,204,335	2,204,335	2,379,571	175,236	33,940
Interest credit - Build America Bonds	313,325	313,325	313,325	-	259,363
Proceeds for interest on notes receivable	-	-	172,302	172,302	7,546
Other	123,917	123,917	63,343	(60,574)	29,169
Total Revenues	<u>11,442,899</u>	<u>11,442,899</u>	<u>11,376,767</u>	<u>(66,132)</u>	<u>32,576,877</u>
Expenditures:					
Water Treatment:					
Management contract	997,050	997,050	1,112,933	(115,883)	1,039,154
Utilities	564,500	564,500	578,495	(13,995)	541,504
Chemicals and supplies	257,500	257,500	283,181	(25,681)	212,708
Subtotal - Water Treatment	<u>1,819,050</u>	<u>1,819,050</u>	<u>1,974,609</u>	<u>(155,559)</u>	<u>1,793,366</u>
Water Distribution:					
Management contract	775,200	775,200	1,162,791	(387,591)	901,155
Utilities	371,000	371,000	322,373	48,627	311,955
Repairs and maintenance	85,000	85,000	217,796	(132,796)	249,376
Subtotal - Water Distribution	<u>1,231,200</u>	<u>1,231,200</u>	<u>1,702,960</u>	<u>(471,760)</u>	<u>1,462,486</u>
Other Operating:					
Utilities	23,000	23,000	20,199	2,801	19,287
Chemicals and supplies	43,000	43,000	61,900	(18,900)	54,213
Repairs and maintenance	577,976	577,976	830,835	(252,859)	653,573
Outside services	178,220	178,220	134,909	43,311	167,895
Subtotal - Other Operating	<u>822,196</u>	<u>822,196</u>	<u>1,047,843</u>	<u>(225,647)</u>	<u>894,968</u>
General and Administrative:					
Insurance	79,000	79,000	76,080	2,920	71,307
Legal - General	225,000	225,000	163,073	61,927	319,302
Legal - Water rights	338,000	338,000	264,713	73,287	328,667
Engineering	60,000	60,000	106,072	(46,072)	49,916
Consulting	50,000	50,000	91,395	(41,395)	24,507
Management and accounting	1,625,600	1,625,600	1,258,467	367,133	1,439,836
Conservation awareness	10,000	10,000	2,595	7,405	5,096
Directors' fees and expenses	11,600	11,600	8,301	3,299	10,641
Watershed projects	45,000	45,000	73,840	(28,840)	29,768
Other	8,300	8,300	21,431	(13,131)	9,643
Subtotal - General & Administrative	<u>2,452,500</u>	<u>2,452,500</u>	<u>2,065,967</u>	<u>386,533</u>	<u>2,288,683</u>

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

Upper Eagle Regional Water Authority
Schedule of Revenues, Expenditures, and Changes in Funds Available
Budget (Non-GAAP Basis) and Actual With Reconciliation to GAAP Basis
For the Year Ended December 31, 2011
(With Comparative Actual Amounts for the Year Ended 2010)
(Continued)

	2011			Final Budget Variance Positive (Negative)	2010
	Original Budget	Final Budget	Actual		Actual
Expenditures (continued):					
Debt Service:					
Principal payments	1,413,353	1,413,353	1,413,353	-	1,122,004
Interest payments	1,511,027	1,511,027	1,510,946	81	1,714,169
Paying agent fees	2,275	2,275	2,525	(250)	1,275
Principal paid to refunded bond escrow agent	-	-	-	-	8,565,833
Bond issue costs	-	-	-	-	386,176
Subtotal - Debt Service	<u>2,926,655</u>	<u>2,926,655</u>	<u>2,926,824</u>	<u>(169)</u>	<u>11,789,457</u>
Other:					
Capital outlay	7,153,667	7,153,667	4,075,529	3,078,138	4,467,926
Eagle Park Reservoir Company stock purchases - Water rights	-	-	-	-	1,725,000
Subtotal - Other	<u>7,153,667</u>	<u>7,153,667</u>	<u>4,075,529</u>	<u>3,078,138</u>	<u>6,192,926</u>
Total Expenditures	<u>16,405,268</u>	<u>16,405,268</u>	<u>13,793,732</u>	<u>2,611,536</u>	<u>24,421,886</u>
Excess (Deficiency) of Revenues Over Expenditures	(4,962,369)	(4,962,369)	(2,416,965)	2,545,404	8,154,991
Funds Available - Beginning of Year	<u>13,079,078</u>	<u>13,079,078</u>	<u>14,333,741</u>	<u>1,254,663</u>	<u>6,178,750</u>
Funds Available - End of Year	<u>8,116,709</u>	<u>8,116,709</u>	<u>11,916,776</u>	<u>3,800,067</u>	<u>14,333,741</u>
Funds available at year-end is computed as follows:					
Current assets			13,105,911		16,116,935
Current liabilities			(2,675,668)		(3,196,547)
Current portion of long-term obligations			1,486,533		1,413,353
			<u>11,916,776</u>		<u>14,333,741</u>
Reconciliation to GAAP Basis:					
Excess (deficiency) of revenues over expenditures			(2,416,965)		8,154,991
Contributed assets from developers			149,099		325,396
Proceeds from bond issue			-		(23,680,834)
Principal payment to refunded bond escrow agent			-		8,565,833
Change in patronage dividends receivable			4,673		18,704
Gain (loss) on disposition of property			(242,904)		-
Collection of notes receivable - Principal			(2,379,571)		(33,940)
Collection of notes receivable - Interest			(179,611)		(7,546)
Increase in accrued interest on notes receivable			7,062		103,747
Depreciation			(4,470,438)		(4,375,687)
Bond and loan issue cost amortization			(143,333)		(59,238)
Amortization of bond premiums and discounts			(73,731)		(50,201)
Debt principal payments			1,413,353		1,122,004
Capitalized debt issue costs			-		386,176
Capitalized assets			4,075,529		4,467,926
Prior year capitalized assets expensed in the current year			(9,303)		(360,269)
Capitalized interest			127,754		69,068
Increase in Investment in Eagle Park Reservoir Company			-		1,725,000
Change in other long-term payables (interconnect)			57,358		(2,525)
Change in Net Assets - GAAP Basis			<u>(4,081,028)</u>		<u>(3,631,395)</u>

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

Upper Eagle Regional Water Authority
Schedule of Debt Service Requirements to Maturity
December 31, 2011

1998 Assessment Obligation Note
Payable to Eagle Park Reservoir Company
Original Principal - \$2,216,574
Interest Rate - 5.45%

<u>Year Ending</u> <u>December 31,</u>	<u>Principal Due</u> <u>September 16</u>	<u>Interest Due</u> <u>September 16</u>	<u>Total</u>
2012	61,533	90,138	151,671
2013	64,887	86,784	151,671
2014	68,423	83,248	151,671
2015	72,152	79,519	151,671
2016	76,085	75,586	151,671
2017	80,231	71,440	151,671
2018	84,604	67,067	151,671
2019	89,215	62,456	151,671
2020	94,077	57,594	151,671
2021	99,204	52,467	151,671
2022	104,611	47,060	151,671
2023	110,312	41,359	151,671
2024	116,324	35,347	151,671
2025	122,664	29,007	151,671
2026	129,349	22,322	151,671
2027	136,399	15,272	151,671
2028	143,832	7,839	151,671
	<u>1,653,902</u>	<u>924,505</u>	<u>2,578,407</u>

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

Upper Eagle Regional Water Authority
Schedule of Debt Service Requirements to Maturity
December 31, 2011

2002 Water Refunding and Improvement
Revenue Bonds
Original Principal - \$5,155,000
Interest Rate - 3.00% to 4.90%

Year Ending December 31,	Principal Due December 1	Interest Due June 1 and December 1	Total
2012	75,000	44,598	119,598
2013	75,000	41,785	116,785
2014	80,000	38,860	118,860
2015	80,000	35,660	115,660
2016	85,000	32,340	117,340
2017	90,000	28,685	118,685
2018	95,000	24,725	119,725
2019	100,000	20,450	120,450
2020	105,000	15,850	120,850
2021	110,000	10,915	120,915
2022	115,000	5,635	120,635
	<u>1,010,000</u>	<u>299,503</u>	<u>1,309,503</u>

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

Upper Eagle Regional Water Authority
Schedule of Debt Service Requirements to Maturity
December 31, 2011

2003 Water Refunding Revenue Bonds

Original Principal - \$5,830,000

Interest Rate - 2.00% to 3.80%

Year Ending December 31,	Principal Due December 1	Interest Due June 1 and December 1	Total
2012	445,000	123,163	568,163
2013	460,000	108,255	568,255
2014	480,000	92,155	572,155
2015	490,000	75,835	565,835
2016	505,000	58,685	563,685
2017	535,000	40,505	575,505
2018	545,000	20,710	565,710
	<u>3,460,000</u>	<u>519,308</u>	<u>3,979,308</u>

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

Upper Eagle Regional Water Authority
Schedule of Debt Service Requirements to Maturity
December 31, 2011

2007 Water Refunding Revenue Bonds
Original Principal - \$2,040,000
Interest Rate - 3.70% to 4.00%

Year Ending December 31,	Principal Due December 1	Interest Due June 1 and December 1	Total
2012	180,000	53,340	233,340
2013	185,000	46,140	231,140
2014	190,000	38,740	228,740
2015	195,000	31,140	226,140
2016	205,000	23,925	228,925
2017	210,000	16,340	226,340
2018	220,000	8,360	228,360
	<u>1,385,000</u>	<u>217,985</u>	<u>1,602,985</u>

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

Upper Eagle Regional Water Authority
Schedule of Debt Service Requirements to Maturity
December 31, 2011

2010 Water Revenue Bonds			
Original Principal - \$8,695,000			
Interest Rate - 2.50% to 4.00%			
Year Ending	Interest Due		
December 31,	Principal Due	June 1 and	
December 31,	December 1	December 1	Total
2012	725,000	262,225	987,225
2013	760,000	244,100	1,004,100
2014	800,000	225,100	1,025,100
2015	825,000	201,100	1,026,100
2016	860,000	176,350	1,036,350
2017	890,000	148,400	1,038,400
2018	920,000	112,800	1,032,800
2019	950,000	76,000	1,026,000
2020	950,000	38,000	988,000
	7,680,000	1,484,075	9,164,075
	7,680,000	1,484,075	9,164,075

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

Upper Eagle Regional Water Authority
Schedule of Debt Service Requirements to Maturity
December 31, 2011

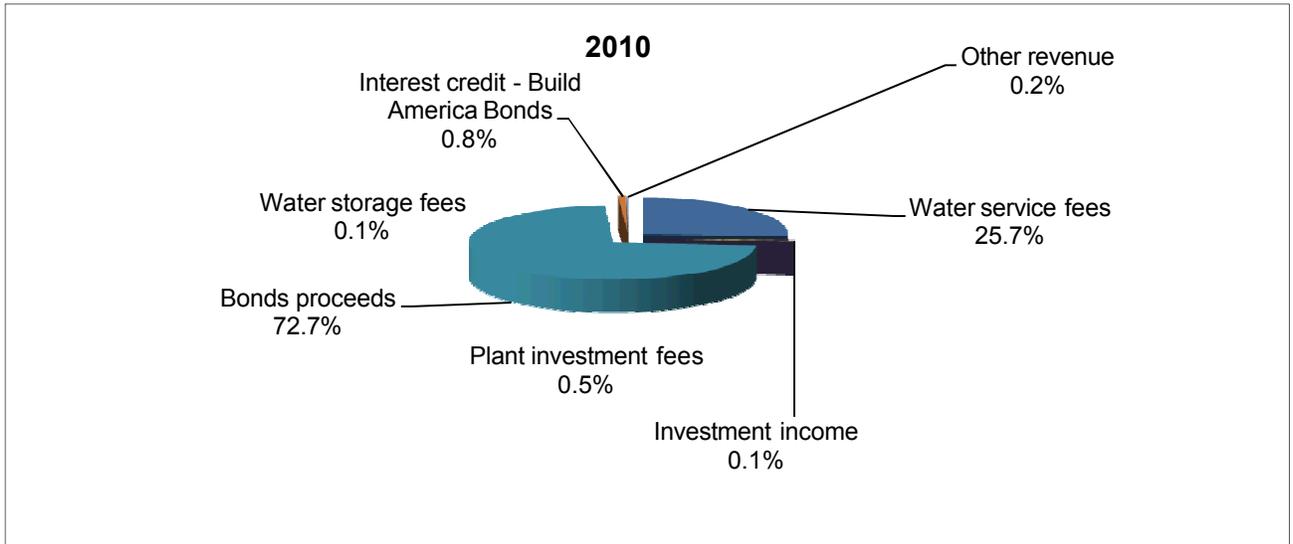
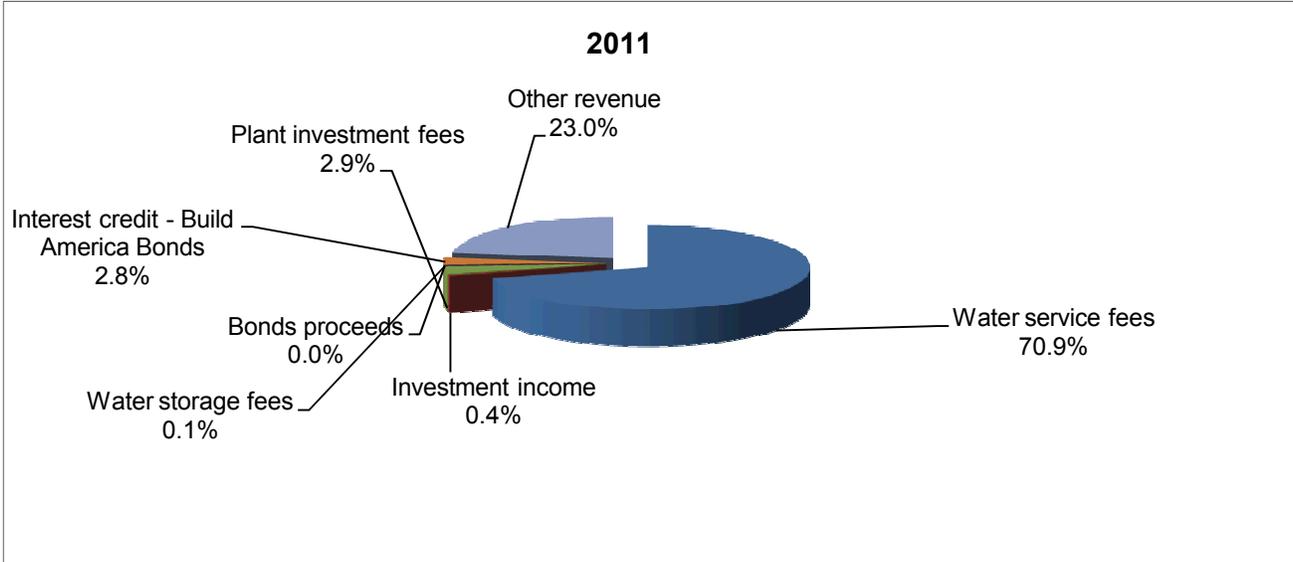
2010 Water Revenue Bonds
Direct Pay Build America Bonds
Original Principal - \$14,650,000
Interest Rate - 5.36% to 6.52%

<u>Year Ending December 31,</u>	<u>Principal Due December 1</u>	<u>Interest Due June 1 and December 1</u>	<u>Total</u>
2012	-	895,214	895,214
2013	-	895,214	895,214
2014	-	895,214	895,214
2015	-	895,214	895,214
2016	-	895,214	895,214
2017	-	895,214	895,214
2018	-	895,214	895,214
2019	-	895,214	895,214
2020	-	895,214	895,214
2021	545,000	895,214	1,440,214
2022	560,000	865,996	1,425,996
2023	580,000	835,975	1,415,975
2024	600,000	804,881	1,404,881
2025	620,000	772,715	1,392,715
2026	645,000	739,477	1,384,477
2027	670,000	702,273	1,372,273
2028	695,000	663,627	1,358,627
2029	720,000	623,540	1,343,540
2030	745,000	582,010	1,327,010
2031	775,000	539,039	1,314,039
2032	805,000	488,524	1,293,524
2033	840,000	436,054	1,276,054
2034	875,000	381,303	1,256,303
2035	915,000	324,271	1,239,271
2036	950,000	264,631	1,214,631
2037	995,000	202,710	1,197,710
2038	1,035,000	137,856	1,172,856
2039	1,080,000	70,393	1,150,393
	<u>14,650,000</u>	<u>18,387,415</u>	<u>33,037,415</u>

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

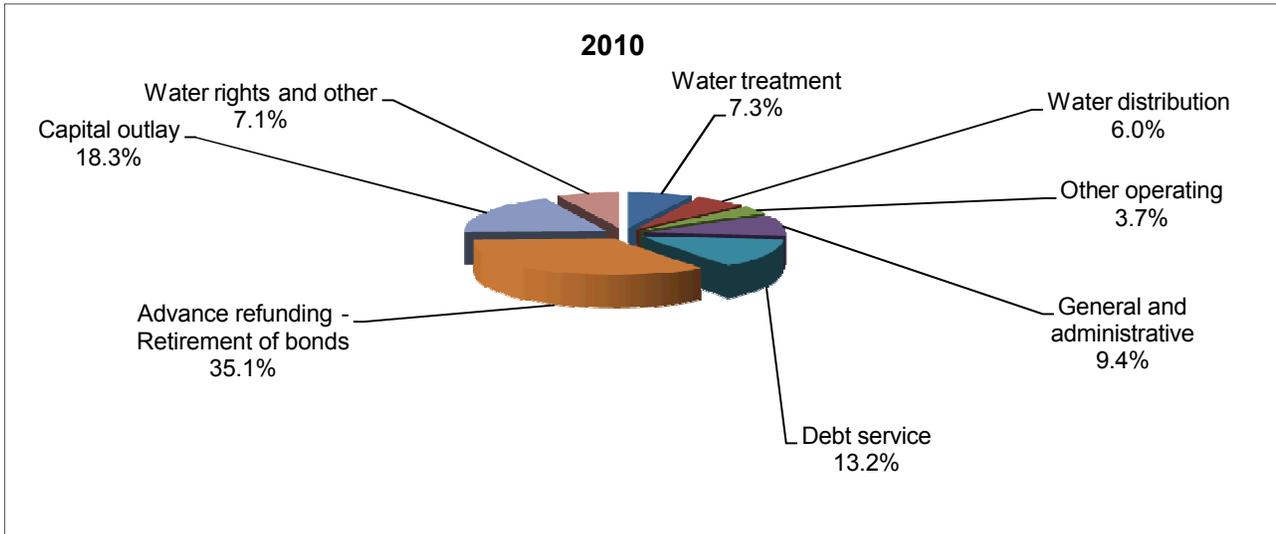
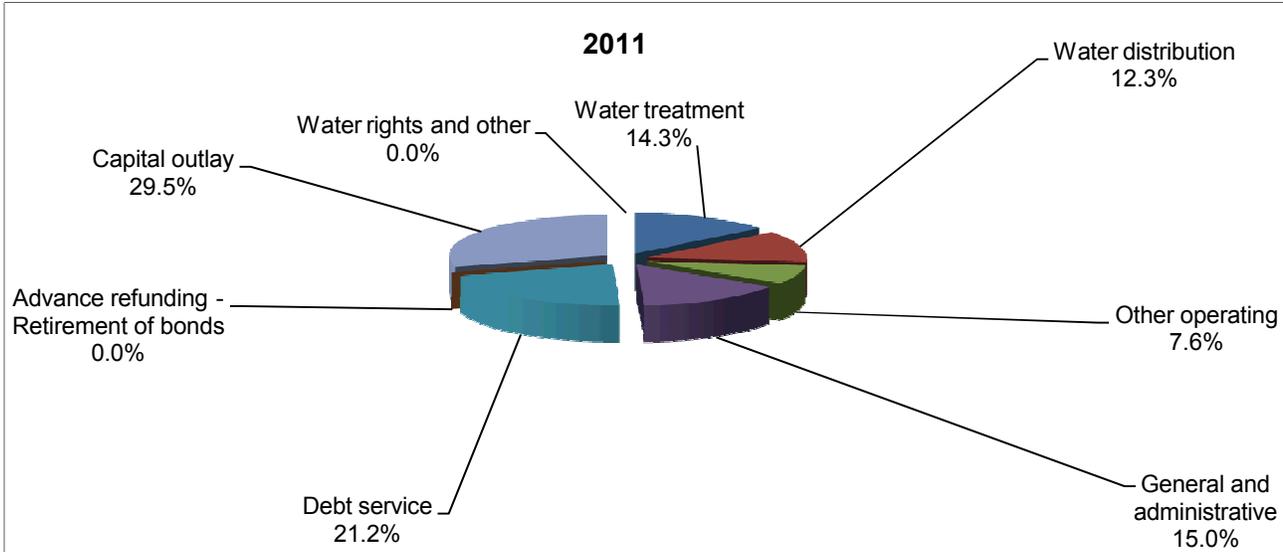
STATISTICAL SECTION

**Upper Eagle Regional Water Authority
Budgetary Revenue Analysis
Two Year Comparison
December 31, 2011
(Unaudited)**



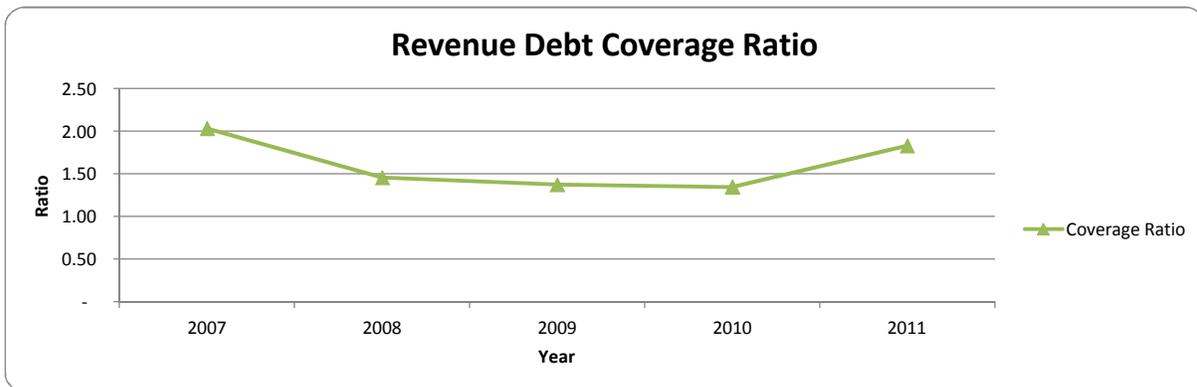
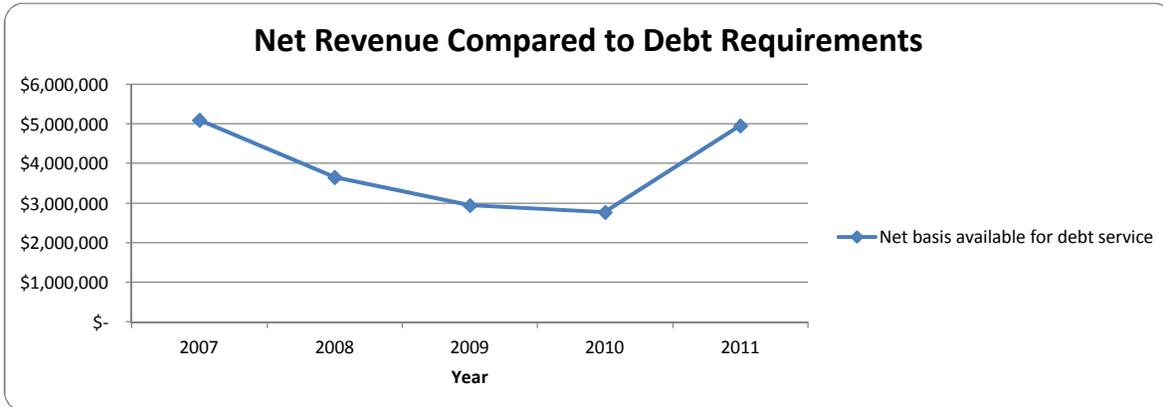
	2011	2010
Water service fees	\$ 8,063,100	8,357,741
Investment income	41,014	31,912
Plant investment fees	330,392	157,874
Water storage fees	13,720	18,498
Bonds proceeds	-	23,680,834
Interest credit - Build America Bonds	313,325	259,363
Other revenue	2,615,216	70,655
Total revenue (budgetary basis)	<u>\$ 11,376,767</u>	<u>32,576,877</u>

**Upper Eagle Regional Water Authority
Budgetary Expenditures Analysis
Two Year Comparison
December 31, 2011
(Unaudited)**



	<u>2011</u>	<u>2010</u>
Water treatment	\$ 1,974,609	1,793,366
Water distribution	1,702,960	1,462,486
Other operating	1,047,843	894,968
General and administrative	2,065,967	2,288,683
Debt service	2,926,824	3,223,624
Advance refunding - Retirement of bonds	-	8,565,833
Capital outlay	4,075,529	4,467,926
Water rights and other	-	1,725,000
Total expenditures (budgetary basis)	<u><u>\$ 13,793,732</u></u>	<u><u>24,421,886</u></u>

**Upper Eagle Regional Water Authority
Revenue Debt Coverage
Five Year Comparison
December 31, 2011
(Unaudited)**



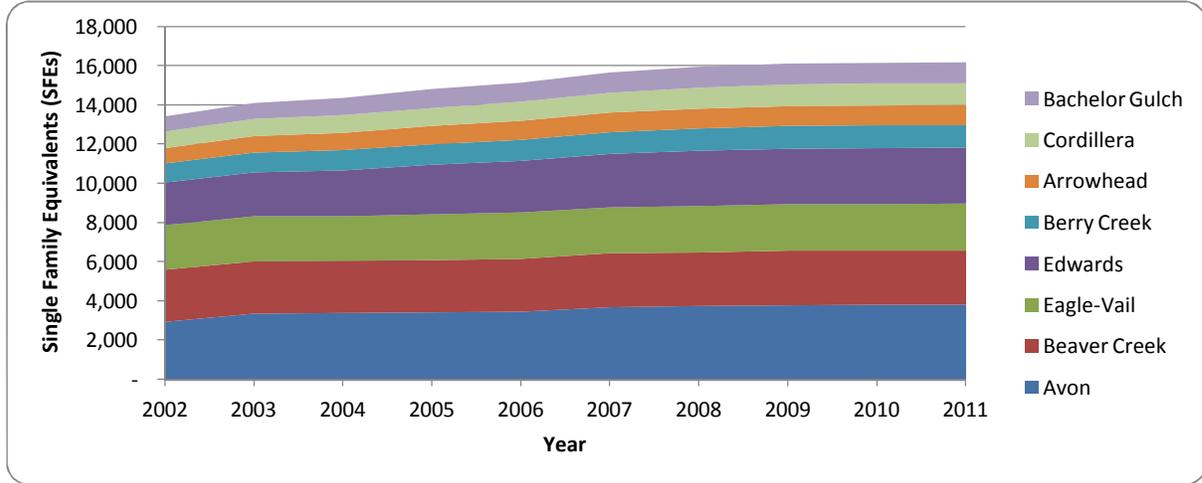
Per the bond covenants, the Authority is to assess a fee to cover operations and maintenance and 110% of debt service.

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operating Income (Loss)	\$ (1,352,933)	(2,297,239)	(2,224,741)	(2,819,043)	(3,150,908)
Plus:					
Investment income	441,733	195,907	192,023	134,458	41,014
Depreciation	4,157,456	4,184,831	4,236,564	4,375,687	4,470,438
Plant investment fees and water storage fees	1,815,638	1,249,886	499,274	176,372	344,112
Life cycle capital expenses	-	276,627	114,265	117,587	32,892
Non-reoccurring or replacement expenses	33,174	38,153	121,543	181,473	244,690
Proceeds from sale of system	-	-	-	-	2,375,000
Rate stabilization funds	-	-	-	600,000	600,000
Net basis available for debt service	<u>\$ 5,095,068</u>	<u>3,648,165</u>	<u>2,938,928</u>	<u>2,766,534</u>	<u>4,957,237</u>
Actual annual debt service (net of BAB interest credit)	2,278,480	2,278,480	1,946,284	1,865,509	2,463,870
Rate maintenance covenant factor	110%	110%	110%	110%	110%
110% of annual debt service requirement to be covered	<u>\$ 2,506,328</u>	<u>2,506,328</u>	<u>2,140,912</u>	<u>2,052,060</u>	<u>2,710,257</u>
Coverage Ratio	<u>2.03</u>	<u>1.46</u>	<u>1.37</u>	<u>1.35</u>	<u>1.83</u>

Rate Maintenance Covenant: The Authority's Series 2010A&B bonds 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) an amount equal to current costs of improvements to the System, excluding major capital additions, made in the ordinary course of business, (iv) any amounts required to meet then existing deficiencies pertaining to any fund or account relating to the Net Revenues or any securities payable therefrom, and (v) 100% of any account relating to the Net Revenues or any securities payable therefrom, and Policy Costs then due and owing.

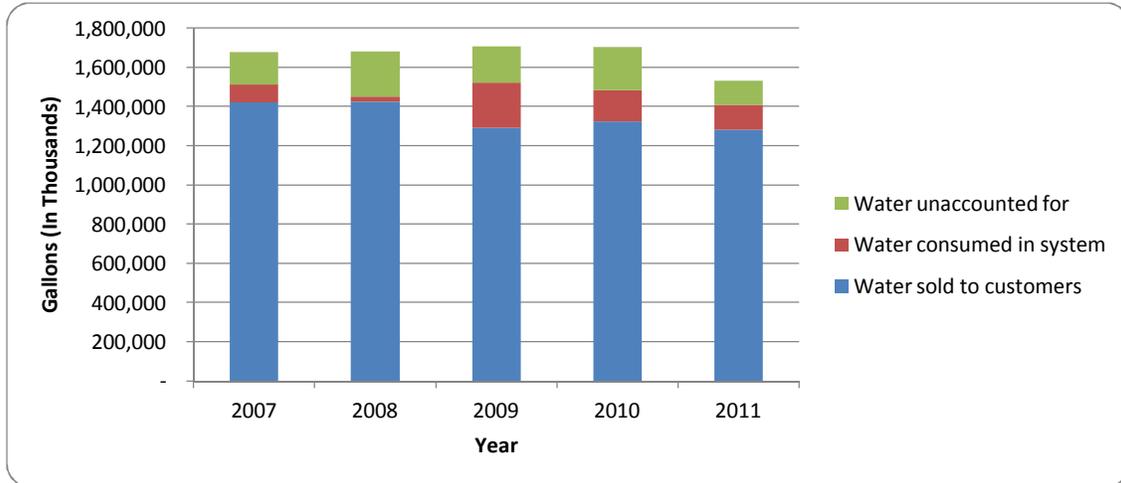
The above Rate Maintenance Covenant is tested annually. It is the Authority's policy to use unrestricted cash (\$4,876,651 at December 31, 2011) to meet the Rate Maintenance Covenant if necessary.

**Upper Eagle Regional Water Authority
Single Family Equivalents (SFEs) in Service
Ten Year Comparison
December 31, 2011
(Unaudited)**



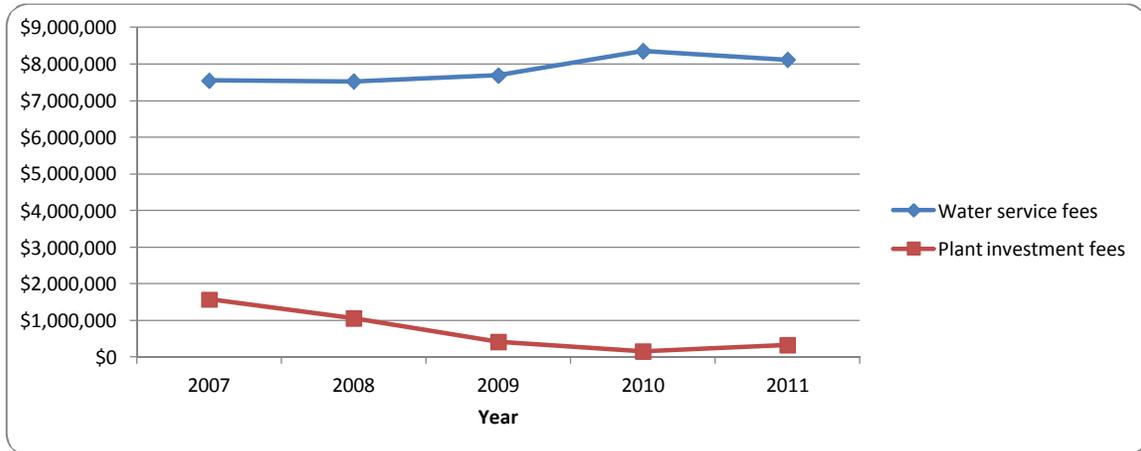
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Avon	2,940	3,358	3,376	3,420	3,462	3,675	3,760	3,787	3,802	3,799
Beaver Creek	2,650	2,664	2,665	2,678	2,706	2,756	2,731	2,776	2,781	2,790
Eagle-Vail	2,292	2,296	2,302	2,331	2,352	2,362	2,362	2,368	2,369	2,374
Edwards	2,159	2,250	2,339	2,521	2,621	2,729	2,814	2,842	2,853	2,859
Berry Creek	969	999	1,023	1,041	1,080	1,100	1,148	1,161	1,163	1,164
Arrowhead	804	842	891	936	978	991	1,009	1,015	1,024	1,020
Cordillera	836	887	901	923	968	1,020	1,070	1,113	1,115	1,111
Bachelor Gulch	788	808	878	959	980	1,039	1,052	1,050	1,054	1,061
Total SFEs	<u>13,438</u>	<u>14,104</u>	<u>14,375</u>	<u>14,809</u>	<u>15,147</u>	<u>15,672</u>	<u>15,946</u>	<u>16,112</u>	<u>16,161</u>	<u>16,178</u>
Percent increase	<u>7.31%</u>	<u>4.96%</u>	<u>1.92%</u>	<u>3.02%</u>	<u>2.28%</u>	<u>3.47%</u>	<u>1.75%</u>	<u>1.04%</u>	<u>0.30%</u>	<u>0.11%</u>

**Upper Eagle Regional Water Authority
Water Production Analysis - Gallons
Five Year Comparison
December 31, 2011
(Unaudited)**



	Gallons (in Thousands)				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Water sold to customers	1,419,384	1,425,025	1,289,737	1,324,885	1,280,280
Water consumed in system	92,144	24,357	231,950	157,804	128,943
Water unaccounted for	<u>166,802</u>	<u>230,144</u>	<u>183,507</u>	<u>221,893</u>	<u>123,447</u>
Total water treated	<u>1,678,330</u>	<u>1,679,526</u>	<u>1,705,194</u>	<u>1,704,582</u>	<u>1,532,670</u>
 Unaccounted for water percentage	<u>9.94%</u>	<u>13.70%</u>	<u>10.76%</u>	<u>13.02%</u>	<u>8.05%</u>

**Upper Eagle Regional Water Authority
Water Statistics
Five Year Comparison
December 31, 2011
(Unaudited)**



	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Water service fees	7,549,088	7,527,812	7,693,024	8,355,216	8,120,458
Average single family equivalent (SFE)	<u>15,381</u>	<u>15,809</u>	<u>16,031</u>	<u>16,148</u>	<u>16,169</u>
Average service fee per SFE	<u>\$ 491</u>	<u>476</u>	<u>480</u>	<u>517</u>	<u>502</u>
Plant investment fees	<u>\$ 1,570,937</u>	<u>1,062,251</u>	<u>412,054</u>	<u>157,874</u>	<u>330,392</u>
Gallons sold (in thousands)	1,419,384	1,425,025	1,289,737	1,324,885	1,280,280
Average single family equivalent (SFE)	<u>15,381</u>	<u>15,809</u>	<u>16,031</u>	<u>16,148</u>	<u>16,169</u>
Factor (days per year)	<u>365</u>	<u>365</u>	<u>365</u>	<u>365</u>	<u>365</u>
Average gallons sold per day per SFE	<u>253</u>	<u>247</u>	<u>220</u>	<u>225</u>	<u>217</u>

**Upper Eagle Regional Water Authority
Top 10 Customers
December 31, 2011
(Unaudited)**

Customer Type	Member District	1,000 Gallons	Sales Dollar Amount	% of Total Sales Dollars
Apartment complex	Edwards	26,237	\$ 137,248	1.7%
Hotel / Resort	Bachelor Gulch	19,640	113,178	1.4%
Apartment complex	Avon	16,931	105,295	1.3%
Condominiums / Resort	Beaver Creek	13,106	92,756	1.1%
Hotel / Resort	Avon	17,782	92,554	1.1%
Condominiums HOA	Avon	14,958	91,301	1.1%
Mobile Home Park	Avon	15,165	81,873	1.0%
Ski Company/ Resort	Beaver Creek	11,366	81,736	1.0%
Condominiums HOA	Avon	7,602	63,451	0.8%
Condominiums HOA	Avon	8,424	62,034	0.8%
Total - Top 10 Customers		<u>151,211</u>	<u>921,426</u>	<u>11.3%</u>
Total - All Other Customers		<u>1,129,069</u>	<u>7,199,032</u>	<u>88.7%</u>
Total Service Fees		<u>1,280,280</u>	<u>\$ 8,120,458</u>	<u>100.0%</u>

**Upper Eagle Regional Water Authority
Schedule of Water & Storage Rights
December 31, 2011
(Unaudited)**

Most of the water and storage rights currently used by the Authority were provided by the member government entities at no cost to the Authority. In accordance with Governmental Accounting Standards Board (GASB), only owned water and storage rights are shown on the Authority's Statement of Net Assets at historic cost, totaling \$1,539,404. This cost represents mostly legal expenditures to establish the Authority's ability to use these rights to provide water directly to the customers of each of its members 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 \$4,445,917. Management of the Authority believes the actual value of these water and storage rights used by the Authority to be greater than historical cost at December 31, 2011.

The appraisal value as of December 22, 2011, performed by Porzak Browning & Bushong LLP (Special Water Rights Counsel for the Authority) is recited here solely for informational purposes.

Water Right	Quantity (a.f.)	Price per a.f.	Historical Cost	Appraisal Value
Investment in Eagle Park Reservoir Company	579	\$21,600	\$4,445,917	\$12,506,400
Homestake Reservoir	256.5	21,600	0	5,540,400
Black Lakes Lease	200	0	0	0
Green Mtn. Res. contract	548	1,000	0	548,000
Wolford Mtn. Res. contract	710.8	2,600	0	1,848,080
In-basin consumptive use	2,285.335	6,800	1,539,404	15,540,278
Beaver Creek (summer)	215	6,800	0	1,462,000
Beaver Creek (winter)	17	21,600	0	367,200
TOTAL			\$5,985,321	\$37,812,358

Water Rights Owned

Eagle Park Reservoir

The Authority owns or has a perpetual contractual right to the water rights in connection with Eagle Park Reservoir (579 a.f.). Refer to footnote III.F. for additional terms. The value of Eagle Park Reservoir is based on the Authority's dedication replacement cost of \$21,600 per acre-foot for non-irrigation season in-basin storage. That replacement cost is established by the Authority's water dedication policy, which is the basis by which water service is approved for and provided to all new development in the Authority's service area.

Homestake Reservoir

The Authority owns or has a perpetual contractual right to the water rights in connection with Homestake Reservoir (256.5 a.f.). The value of Homestake Reservoir storage is based on the Authority's dedication replacement cost of \$21,600 per acre-foot for non-irrigation season in-basin storage. That replacement cost is established by the Authority's water dedication policy, which is the basis by which water service is approved for and provided to all new development in the Authority's service area.

Green Mountain Reservoir

The Authority owns water related contracts in connection with Green Mountain Reservoir (548 a.f.).

Contract 9-07-60-W0413: This contract was executed on July 17, 1989, for 220 acre-feet per year. The annual lease payment is \$10 per acre-foot, which can be adjusted to cover operation and maintenance costs if such costs exceed \$10 per acre-foot. This lease is for a

Upper Eagle Regional Water Authority
Schedule of Water & Storage Rights
December 31, 2011
(Unaudited)
(continued)

term of 40 years (expires July 16, 2029), with an option to renew for an additional 40 years. By virtue of an assignment from Kensington Partners, Squaw Creek Metropolitan District, and Cordillera Metropolitan District of 255 acre-feet of water annually from Kensington Partner's Green Mountain Reservoir Contract No. 4-07-60-W1015, the Bureau is amending the Authority's Contract 9-07-60-W0413 to include this assigned amount, resulting in a total of 475 acre-feet under this contract. All of the terms of the Authority's Contract 9-07-60W0413 will apply to the entire 475 acre-feet of water per year. The Bureau's approval of the assignment is pending of the 255 acre-feet is pending.

Contract 9-07-60-W0401: This contract was executed by Kensington Partners on January 11, 1989, for 25 acre-feet per year, and it was amended on October 25, 1989, to include an additional 48 acre-feet per year, for a total of 73 acre-feet of water per year. The annual lease payment is \$10 per acre-foot, which can be adjusted to cover operation and maintenance costs if such costs exceed \$10 per acre-foot. This lease is for a term of 40 years (expires January 10, 2029), with an option to renew for an additional 40 years. Kensington Partners assigned this contract to Squaw Creek Metropolitan District and Cordillera Metropolitan District, and they assigned it to the Authority on March 25, 2004. The Bureau approved the assignment to the Authority effective October 4, 2010.

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 Authority owns water related contracts in connection with Wolford Mountain Reservoir (710.8 a.f.).

Contract CW08011: This contract was executed on February 10, 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 increase each year up to the amount of increase in the Consumer Price Index plus 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.

Contract CW02020: This contract was executed by the Squaw Creek Metropolitan District on December 13, 2002, and it was assigned from Squaw Creek Metropolitan District to the Authority on June 4, 2004. It is for 200 acre-feet per year, and the initial cost was \$105.00 per acre-foot, with an annual lease payment is \$105.00 per acre-foot, which can be increased each year up to the increase in the Boulder-Denver Metro Area Consumer Price Index. It is for an initial term of 40 years (expiring December 12, 2042), with a right to renew for an additional 35 years.

Contract CW03005: This contract was executed by Traer Creek Metropolitan District on February 3, 2003, and it was assigned from Traer Creek Metropolitan District to the Authority on April 16, 2003. It is for 10.8 acre-feet per year, with an initial cost of \$750.00 per acre-foot. The annual lease payment is \$20.00 per acre-foot, which can be adjusted every five (5) years based on the cumulative in the Boulder-Denver Metro Area Consumer Price Index. It is for an initial term of 40 years (expires February 2, 2043), with a right to renew for an additional 35 years.

Upper Eagle Regional Water Authority
Schedule of Water & Storage Rights
December 31, 2011
(Unaudited)
(continued)

Wolford Mountain Reservoir contract water value is based on a ten (10) year cost at \$260 per acre-foot per year, or a total of \$2,600 per acre-foot. A ten year lease cost is an approximation of the purchase value of this water.

In-Basin Consumptive Use

The Authority owns or has a perpetual contractual right to in-basin consumptive use water rights (437.081 a.f.). In-basin consumptive use credits are valued at the Authority's dedication replacement cost of \$6,800 per acre-foot of irrigation season water. This replacement cost is established by the Authority's water dedication policy, which is the basis by which water service is approved for and provided to all new development in the Authority's service area.

Water Rights Leased

In-Basin Consumptive Use

The Authority has leased in-basin consumptive use water rights (1848.254 a.f.) from its members and Traer Creek Metropolitan District. The essential terms of the leases are that the members lease these water rights at no cost to the Authority for so long as the Authority exists and provides water service to these members. In-basin consumptive use credits are valued at the Authority's dedication replacement cost of \$6,800 per acre-foot of irrigation season water. This replacement cost is established by the Authority's water dedication policy, which is the basis by which water service is approved for and provided to all new development in the Authority's service area.

Beaver Creek

The Authority has leased water rights (232 a.f.) from Beaver Creek. The essential terms of the lease is that the members lease these water rights at no cost to the Authority for so long as the Authority exists and provides water service to these members. The Beaver Creek direct flow summer rights are valued at the Authority's dedication replacement cost of \$6,800 per acre foot of irrigation season water, and the Beaver Creek direct flow winter rights are valued at the Authority's dedication replacement cost of \$21,600 per acre foot of non-irrigation season water. These replacement costs are established by the Authority's water dedication policy, which is the basis by which water service is approved for and provided to all new development in the Authority's service area.