



Financial Statements
December 31, 2012

Arrowhead Metropolitan District

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Independent Auditor's Report

Board of Directors
Arrowhead Metropolitan District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Arrowhead Metropolitan District as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Arrowhead Metropolitan District as of December 31, 2012, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Change in Accounting Principles

As described in Note 2 to the financial statements, the District adopted the provisions of GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Our opinions are not modified as a result of the implementation of these GASB Statements.

As also described in Note 2 to the financial statements, the District adopted the provisions of GASB Statement 65, *Items Previously Reported as Assets and Liabilities* which resulted in the restatement of the District's net position as of January 1, 2012 due to a change in the accounting method for bond issuance costs.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 6 and budgetary comparison information on page 31 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 auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Arrowhead Metropolitan District's financial statements. The other supplementary information presented on pages 32 through 34 is presented for purposes of additional analysis and is not a required part of the financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Handwritten signature of Erik Bailly in cursive script.

Golden, Colorado
July 18, 2013

Management's Discussion and Analysis

ARROWHEAD METROPOLITAN DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
December 31, 2012

This management's discussion and analysis of the Arrowhead Metropolitan District's financial statements provides an overview of the District's financial activities for the fiscal year ended December 31, 2012. The intent of this discussion and analysis is to look at the District's financial performance as a whole; it should be read in conjunction with the basic financial statements and notes to enhance the reader's understanding of the District's overall financial performance.

USING THE BASIC FINANCIAL STATEMENTS

This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two types of information on the same statement that present different views of the District:

- *Government-wide financial statements* that provide both *long-term* and *short-term* information about the District's *overall* financial status.
- *Fund financial statements* that focus on *individual parts* of the District government, reporting the District's operations *in more detail* than the government-wide statements.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Additional supplemental information has also been included to enhance the reader's understanding of the financial statements.

Government-wide Statements

The government-wide statements consist of the Statement of Net Position and the Statement of Activities. These statements report information about the District as a whole and include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's *net position* and changes in them. The District's net position—the difference between assets, deferred outflows, liabilities and deferred inflows— is one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position is one indicator of whether its *financial health* is improving or deteriorating. Other non-financial factors, however, such as changes in the District's property tax base and the condition of the infrastructure, are needed to assess the *overall health* of the District.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant funds – not the District as a whole. The District's major governmental funds include the General Fund and the Debt Service Fund. Unlike government-wide financial statements, the focus of the fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

ARROWHEAD METROPOLITAN DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
December 31, 2012

Governmental funds – The District’s activity is reported as a governmental fund, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending in future periods. The funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term view* of the District’s general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net position and the Statement of Activities) and governmental *funds* is provided in reconciliations following the fund financial statements.

THE DISTRICT AS A WHOLE

Statement of Net Position

The perspective of the Statement of Net Position is of the District as a whole. Following is a summary of the District’s net position for the fiscal years 2012 and 2011.

	<u>2012</u>	<u>2011</u> (RESTATED*)
<u>Assets and Deferred Outflows:</u>		
Current and Other Assets	\$ 4,344,135	\$ 4,569,200
Capital Assets, Net	15,852,405	16,060,854
Bond Issuance Cost		
Total Assets and Deferred Outflows	20,196,540	20,630,054
<u>Liabilities:</u>		
Current Liabilities	88,954	146,369
Long-Term Obligations:		
Due within One Year	529,016	489,016
Due in More Than One Year	14,303,637	14,832,654
Total Liabilities	14,921,607	15,468,039
<u>Deferred Inflows:</u>		
Unavailable Property Taxes	1,690,079	1,686,787
Total Deferred Inflows of Revenue	1,690,079	1,686,787
<u>Net Position:</u>		
Net Investment in Capital Assets, net of related debt	1,019,752	739,183
Restricted for Emergencies	46,219	46,219
Restricted for Debt Service	2,059	1,830
Unrestricted	2,516,824	2,687,996
Total Net Position	\$ 3,584,854	\$ 3,475,228

* 2011 restated to implement GASB Statement No. 65 – see footnote on page 20.

The District’s primary assets are the capital assets which have been financed with bonds. Net position of the District increased by \$109,626 in 2012, due largely to the repayment of the District’s bonded debt more rapidly than the acquired assets are being depreciated.

ARROWHEAD METROPOLITAN DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
December 31, 2012

Statement of Activities

The perspective of the Statement of Activities is of the District as a whole. The Statement of Activities reflects the cost of program services and the charges for services and sales, grants and contributions offsetting the cost of the services. The following detail reflects the total cost of services supported by program revenues and general property taxes, as well as other general revenues, resulting in the overall change in net position for the fiscal years 2012 and 2011.

	<u>2012</u>	<u>2011</u> <u>(RESTATED*)</u>
<u>REVENUES:</u>		
GENERAL REVENUES:		
Taxes	\$ 1,749,944	\$ 2,352,271
Interest Income	21,796	24,134
Other Miscellaneous	97,611	93,520
PROGRAM REVENUES:		
Capital Contributions	<u>9,106</u>	<u>37,482</u>
Total Revenues	<u>1,878,457</u>	<u>2,507,407</u>
<u>PROGRAM EXPENSES:</u>		
General Government	143,659	263,337
Public Works	817,766	630,272
Transportation	224,682	229,767
Interest on Long-Term Debt	<u>582,724</u>	<u>701,298</u>
Total Expenses	<u>1,768,831</u>	<u>1,823,674</u>
CHANGE IN NET POSITION		
Net position– beginning of year	<u>3,475,228</u>	<u>2,791,495</u>
Net position– end of year	<u><u>\$ 3,584,854</u></u>	<u><u>\$ 3,475,228</u></u>

* 2011 restated to implement GASB Statement No. 65 – see footnote on page 20.

The District’s primary source of revenues is property taxes. These revenues are used to pay the cost of operating and maintaining the District as well as to pay the District’s debt service obligations. The District operated at a surplus in both 2012 and 2011 and the operating surplus has either been used to pay the principal on the District’s bond debt or is being held for future operations and replacements. The District’s net position increased by \$109,626 during 2012.

The District also implemented GASB No. 65 (see page 20) to remove capitalized bond issuance costs. The 2011 comparative information above was restated for this change.

THE DISTRICT’S FUNDS

The fund level financial statements focus on how services were financed in the short-term as well as what remains for future spending. The fund level financial statements are reported on the modified accrual basis of accounting.

At the fund level, under the modified accrual basis of accounting, depreciable assets and their related depreciation expense are not reflected as they are not a current period financial resource or use. In addition, at the fund level, inflows from operating loans are presented as a revenue item while outflows

ARROWHEAD METROPOLITAN DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
December 31, 2012

for capital outlay and debt service payments are presented as an expenditure item, as these items represent current period financial resources and uses.

The General Fund ending fund balance decreased from \$2,814,095 to \$2,610,740 during the fiscal year ended December 31, 2012. This is mainly due to transfers from the General Fund to the Debt Service Fund to pay debt service. The District anticipated the decreased property tax revenues and had built up a surplus over prior years. These excess funds from prior years are expected to be used in subsequent years to make debt service payments and for capital asset replacements.

The Debt Service Fund ending fund balance is substantially the same as last year at approximately \$2,000.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund budget comparison is reflected on page 31 of this report. It shows that during 2012 the District earned \$15,520 more in revenues than budgeted and the District expended \$5,871 less than was budgeted.

DEBT SERVICE FUND BUDGETARY HIGHLIGHTS

The Debt Service Fund budget comparison is reflected on page 32 of this report. The comparison shows the District earned approximately \$8,000 less in specific ownership taxes and interest income than budgeted but this was primarily offset by lower than budgeted expenditures and a larger transfer from the general fund.

CAPITAL ASSETS

At the beginning of 2012, the District had a total of \$20,707,220 invested in capital assets. During 2012, the District invested an additional \$312,302 in capital assets bringing the total capital assets, before accumulated depreciation, to \$21,019,522. The detailed capital asset categories can be seen in *Note 4, Capital Assets* on page 22 of this report.

DEBT ADMINISTRATION

The District paid down the outstanding balance of its long term debt by \$480,000 during 2012 resulting in an outstanding balance of \$14,832,653 (including unamortized bond premium) at December 31, 2012. See *Note 5 – Long-term Liabilities* on pages 23- 24 of this report for a detail of the terms and the *Schedule of Bond Obligations* on page 33 for details on the annual requirements to amortize the District's long-term debt.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our residents, customers, taxpayers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions regarding this report or need additional financial information, please contact the Arrowhead Metropolitan District Manager, c/o Robertson & Marchetti, P.C., 28 Second Street, Suite 213, Edwards, CO 81632, Telephone (970) 926-6060, Fax: (970) 926-6040

Government-wide Financial Statements

Arrowhead Metropolitan District
Statement of Net Position
December 31, 2012

Assets

Current Assets

Cash and investments	\$ 2,640,099
Amounts due from Eagle County	5,055
Property taxes receivable	1,690,079
Other receivables	2,206
Prepaid expenses	<u>6,696</u>
Total Current Assets	4,344,135

Noncurrent Assets

Capital Assets	
Non-depreciable	7,794,817
Depreciable	13,224,705
Less accumulated depreciation	<u>(5,167,117)</u>
	<u>15,852,405</u>
 Total Assets	 <u>20,196,540</u>

Liabilities

Current Liabilities

Accounts payable	40,552
Accrued expenses	48,402
Current maturities of long-term debt	<u>529,016</u>
Total Current Liabilities	<u>617,970</u>

Noncurrent Liabilities

Long-term debt	<u>14,303,637</u>
Total noncurrent liabilities	<u>14,303,637</u>
Total Liabilities	<u>14,921,607</u>

Deferred Inflows of Resources

Unavailable revenue - property taxes	<u>1,690,079</u>
Total Deferred Inflows of Revenues	<u>1,690,079</u>

Net Position

Invested in capital assets, net of related debt	1,019,752
Restricted for emergencies	46,219
Restricted for debt service	2,059
Unrestricted	<u>2,516,824</u>
Total Net Position	<u>\$ 3,584,854</u>

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

Arrowhead Metropolitan District
Statement of Net Position
For the year ended December 31, 2012

	<u>Expenses</u>	<u>Capital Contributions</u>	<u>Net (Expense) Revenue</u>
Government Operations			
General government	\$ 143,659	\$ 9,106	\$ (134,553)
Public works	817,766	-	(817,766)
Transportation	224,682	-	(224,682)
Interest	<u>582,724</u>	-	<u>(582,724)</u>
Totals	<u>\$ 1,768,831</u>	<u>\$ 9,106</u>	<u>(1,759,725)</u>
General Revenues			
Property taxes			1,684,813
Specific ownership taxes			65,131
Other income			97,611
Interest income			<u>21,796</u>
Total General Revenues			<u>1,869,351</u>
Change in Net Position			109,626
Net Position, beginning of year - as previously reported			3,763,359
Restatement due to change in accounting principle			<u>(288,131)</u>
Net Position, beginning of year - as restated			<u>3,475,228</u>
Net Position, end of year			<u>\$ 3,584,854</u>

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

Fund Financial Statements

Arrowhead Metropolitan District
Balance Sheets
Governmental Funds
December 31, 2012

	General	Debt Service	Total Governmental Funds
Assets			
Equity in pooled cash and investments	\$ 2,640,099	\$ -	\$ 2,640,099
Amounts due from Eagle County	2,996	2,059	5,055
Property taxes receivable	1,001,521	688,558	1,690,079
Other receivables	2,206	-	2,206
Prepaid expenses	6,696	-	6,696
Total Assets	\$ 3,653,518	\$ 690,617	\$ 4,344,135
Liabilities			
Accounts payable	\$ 40,552	\$ -	\$ 40,552
Accrued expenses	705	-	705
Total Liabilities	41,257	-	41,257
Deferred Inflows of Revenues			
Unavailable revenue - property taxes	1,001,521	688,558	1,690,079
Total Deferred Inflows of Revenues	1,001,521	688,558	1,690,079
Fund Balances			
Nonspendable - prepaid expenses	6,696	-	6,696
Restricted for emergencies	46,219	-	46,219
Restricted for debt service	-	2,059	2,059
Assigned for future operations and capital replacement	2,557,825	-	2,557,825
Total Fund Balances	2,610,740	2,059	2,612,799
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 3,653,518	\$ 690,617	\$ 4,344,135
Reconciliation to the Statement of Net Position			
Total Fund Balance			\$ 2,612,799
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets, net of accumulated depreciation, used in governmental funds are not financial resources, and, therefore, are not reported in the governmental funds.			15,852,405
Accrued expenses, including interest payable on outstanding bonds, do not require current financial resources, and therefore are not reported in the governmental funds.			(47,697)
Long-term liabilities, including bond payable, are not due and payable in the current period, and, therefore, are not reported in the governmental funds.			(14,832,653)
Total Net Position			\$ 3,584,854

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

Arrowhead Metropolitan District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
Revenues			
Property taxes	\$ 998,400	\$ 686,413	\$ 1,684,813
Specific ownership taxes	38,596	26,535	65,131
Water tap fees	9,106	-	9,106
Charges for services	93,781	-	93,781
Lottery proceeds	1,309	-	1,309
Other income	23,500	-	23,500
Interest income	19,547	2,339	21,886
Total Revenues	<u>1,184,239</u>	<u>715,287</u>	<u>1,899,526</u>
Expenditures			
General government	122,579	20,630	143,209
Public works	315,416	-	315,416
Transportation	206,282	-	206,282
Debt service			
Principal	-	480,000	480,000
Interest and fiscal charges	-	615,358	615,358
Capital outlay	<u>342,387</u>	<u>-</u>	<u>342,387</u>
Total Expenditures	<u>986,664</u>	<u>1,115,988</u>	<u>2,102,652</u>
Revenue Over (Under) Expenditures	<u>197,575</u>	<u>(400,701)</u>	<u>(203,126)</u>
Other Financing Sources (Uses)			
Transfers in (out)	<u>(400,930)</u>	<u>400,930</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(400,930)</u>	<u>400,930</u>	<u>-</u>
Revenue and Other Financing Sources (Uses) Over (Under) Expenditures	(203,355)	229	(203,126)
Fund Balances, beginning of year	<u>2,814,095</u>	<u>1,830</u>	<u>2,815,925</u>
Fund Balances, end of year	<u>\$ 2,610,740</u>	<u>\$ 2,059</u>	<u>\$ 2,612,799</u>

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

Arrowhead Metropolitan District
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended December 31, 2012

Total net change in fund balance - governmental funds \$ (203,126)

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

Governmental funds reported capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period. 312,302

Depreciation expense on capital assets was reported in the Statement of Activities, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as an expenditure in governmental funds. (520,750)

Accrued interest expense on long-term debt is reported in the Statement of Activities, but does not require the use of current financial resources; therefore, the change in accrued interest expense is not reported as an expenditure in governmental funds. 32,184

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of bond premiums and similar items when debt is issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 489,016

Change in net assets of government activities \$ 109,626

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

Arrowhead Metropolitan District
Notes to the Financial Statements
December 31, 2012

1. DEFINITION OF REPORTING ENTITY

The District is a quasi-municipal corporation and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Eagle County, Colorado. The District was established to be able to provide water, recreation, transportation, fire protection, roads, drainage, and television services. Fire protection services are provided by the Eagle River Fire Protection District. Water services are provided by the Upper Eagle Regional Water Authority (see Note 7).

The District has no employees and all operations and administrative functions are contracted (see Notes 6 and 7).

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the District are as follows:

Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government.

Arrowhead Metropolitan District
Notes to the Financial Statements
December 31, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Statement of Net Position presents the financial condition of the governmental activities at year-end. The Statement of Activities presents a comparison between program expenses and the program revenues for each program or function of the District's governmental activities. Program expenses are those that are specifically associated with a service, program, or department; and therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of program expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds.

Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. Fund types used by the District are described below.

Governmental Fund Types

General Fund – the General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – the Debt Service Fund is used to account for the accumulation of resources for and the payment of long-term obligation principal, interest and related costs.

**Arrowhead Metropolitan District
Notes to the Financial Statements
December 31, 2012**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included in the Statement of Net Position.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues

Revenues resulting from exchange transactions, in which each party gives and receives essentially the same value, is recorded on the accrual basis, when the exchange takes place. On a modified accrual basis revenue is recorded in the fiscal year in which the resources are both measurable and available to finance expenditures of the fiscal period, typically within sixty days of realization.

**Arrowhead Metropolitan District
Notes to the Financial Statements
December 31, 2012**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting (continued)

Revenues (continued)

Nonexchange transactions, in which the District receives value without directly giving value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

Budgets

In accordance with State Budget Law, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The budget is adopted and mill levies are certified no later than December 15. Budget appropriations are at the total fund expenditures level and lapse at year-end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

Encumbrance accounting (open purchase orders, contracts in process and other commitments for the expenditures of funds in future periods) is not used by the District for budget or financial reporting purposes.

**Arrowhead Metropolitan District
Notes to the Financial Statements
December 31, 2012**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pooled Cash

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

Capital Assets

General capital assets are those assets not specifically related to activities reported in other funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost), and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. The District maintains a capitalization policy of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets except water rights are depreciated. Depreciation is computed using the straight-line method over the asset's estimated useful life. The estimated useful lives are as follows:

Machinery and equipment	5-10 years
Roads and landscaping	20-40 years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. Long-term bonds are recognized as a liability on the governmental fund financial statements when due.

Arrowhead Metropolitan District
Notes to the Financial Statements
December 31, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item which arises only under a full accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the statement of net position. The governmental funds report unavailable revenues from property taxes for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance year 2013. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position

In the government-wide financial statements, net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net Position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District, or through external restrictions imposed by creditors, grantors, or laws, or regulations of other governments.

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

**Arrowhead Metropolitan District
Notes to the Financial Statements
December 31, 2012**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Balances

The District presents its fund balances in accordance with GASB Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent.

In the fund financial statements the following classifications describe the relative strength of the spending constraints.

- Non-spendable fund balance – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid expenses) or it is legally or contractually required to be maintained intact.
- Restricted fund balance – The portion of fund balance constrained to being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions or enabling legislation. The District’s restricted fund balance represent amounts reserved for emergencies under the Colorado State Constitution (see Note 9) and amounts restricted for debt service.
- Committed fund balance – The portion of fund balance constrained for specific purposes according to limitations imposed by the Board of Directors prior to the end of the fiscal year. The constraint may be removed or changed only through formal action of the Board of Directors. The District has no committed fund balance.
- Assigned fund balance – The portion of fund balance set aside for planned or intended purposes. The intended use may be expressed by the Board of Directors or other individuals authorized to assign funds to be used for a specific purpose. This classification is necessary to indicate that those funds are, at a minimum, intended to be used for the purpose of that particular fund. The fund balance in the District’s general fund is assigned for future operations or capital replacement.
- Unassigned fund balance – The residual portion of fund balance that does not meet any of the above criteria. The District will only report a positive unassigned fund balance in the general fund.

If both restricted and unrestricted amounts of fund balance are available for use when expenditure is made, it is the District’s policy to use restricted amounts first. Unrestricted fund balance will be used in the following order: committed, assigned, and then unassigned.

Arrowhead Metropolitan District
Notes to the Financial Statements
December 31, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property Taxes

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

Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Implementation of New GASB Statements

The District has implemented GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. As a result of implementing this statement, the District was not required to change the reporting of current and past transactions.

The District has implemented GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. As a result of implementing this statement, the computation of equity on the Statement of Net Position was changed and equity has been retitled "net position".

**Arrowhead Metropolitan District
Notes to the Financial Statements
December 31, 2012**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Implementation of New GASB Statements (continued)

The District has early implemented the provisions of GASB Statement 65, *Items Previously Reported as Assets and Liabilities* which clarifies the use of deferred outflows and inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources or as revenues and expenditures. As a result of implementing this statement, the District changed the classification of certain assets to deferred outflows and certain liabilities to deferred inflows. In addition, beginning net position has been restated to reflect a charge of \$288,131 representing capitalized bond issuance costs from previous years that are required to be expensed under the provisions of this statement.

3. CASH AND INVESTMENTS

The District has implemented Governmental Accounting Standards Board Statement No. 40 – *Deposit and Investment Risk Disclosures*.

Cash Deposits

At December 31, 2012, the District's cash deposits had a book balance of \$2,593,172 and bank balance of \$2,615,844 which was federally insured by FDIC.

Deposits are exposed to custodial credit risk (the risk that, in the event of the failure of a depository financial institution, the government would not be able to recover deposits or would not be able to recover collateral securities that are in the possession of an outside party), if they are not covered by depository insurance and are collateralized with securities held by the pledging financial institution, except for deposits collateralized by certain types of collateral pools including a single financial institution collateral pool where the fair value of the pool is equal to or exceeds all uninsured public deposits held by the financial institution (e.g. deposits insured by PDPA).

Accordingly, none of the District's deposits at December 31, 2012, are deemed to be exposed to custodial credit risk.

**Arrowhead Metropolitan District
Notes to the Financial Statements
December 31, 2012**

3. CASH AND INVESTMENTS (continued)

Cash Deposits (continued)

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is specified under the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

The Colorado Divisions of Banking and Financial Services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

Investments

Colorado statutes specify in which investment instruments the units of local government may invest:

- Obligations of the United States and certain United States government agency securities.
- Certain international agency securities.
- General obligation and revenue bonds of United States local government 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.

At December 31, 2012, the District had \$46,927 invested in Colorado Local Government Liquid Asset Trust (COLOTRUST), an investment vehicle established for government entities in Colorado to pool surplus funds. As an investment pool, COLOTRUST operates under the Colorado Revised Statutes (24-75-701) and are overseen by the Colorado

**Arrowhead Metropolitan District
Notes to the Financial Statements
December 31, 2012**

3. CASH AND INVESTMENTS (continued)

Investments (continued)

Securities Commissioner. The Trust invests in securities that are specified by the Colorado Revised Statutes (24-75-601). Authorized securities include US Treasuries, US Agencies, commercial paper, repurchase agreements and bank deposits (collateralized through PDPA). The Trust operates similar to a money market fund as regulated by rule 2a-7 of the Investment Company Act of 1940 of the Securities and Exchange Commission. The Trust has a share value equal to \$1.00 and a maximum weighted average maturity of 60 days. COLOTRUST is rated AAA by the Standard & Poor's Corporation. Designated custodial banks provide safekeeping and depository services to the Trusts in connection with the direct investment and withdrawal functions of the Trusts. Substantially all securities owned by the Trusts are held by the Federal Reserve Bank in the account maintained for the custodial bank.

4. CAPITAL ASSETS

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

	Balance January 1, 2012	Additions	Deletions	Balance December 31, 2012
Water rights	\$ 294,817	\$ -	\$ -	\$ 294,817
Equipment and vehicles	416,001	-	-	416,001
Parking lot	8,705,576	-	-	8,705,576
Roads and landscaping	11,290,826	312,302	-	11,603,128
Total Capital Assets	20,707,220	312,302	-	21,019,522
Less accumulated depreciation				
Equipment and vehicles	(209,485)	(61,100)	-	(270,585)
Parking lot	(350,306)	(23,123)	-	(373,429)
Roads and landscaping	(4,086,576)	(436,527)	-	(4,523,103)
Total accumulated depreciation	(4,646,367)	(520,750)	-	(5,167,117)
 Net Capital Assets	 \$ 16,060,853	 \$ (208,448)	 \$ -	 \$ 15,852,405

Depreciation expense of \$502,350 was charged to the public works function and \$18,400 was charged to the transportation function for a total 2012 depreciation expense of \$520,750.

**Arrowhead Metropolitan District
Notes to the Financial Statements
December 31, 2012**

5. LONG-TERM LIABILITIES

The following is an analysis of the changes in long – term obligations of the District for the year ended December 31, 2012:

	<u>January 1, 2012</u>	<u>Additions</u>	<u>Principal Repayments</u>	<u>December 31, 2012</u>	<u>Due Within One Year</u>
G.O. Bonds, Series 2009	\$ 10,820,000	\$ -	\$ 340,000	\$ 10,480,000	\$ 355,000
Premium on 2009 bonds	81,590	-	3,943	77,647	3,943
G.O. Bonds, Series 2011	4,315,000	-	140,000.00	4,175,000	165,000
Premium on 2011 bonds	<u>105,079</u>	<u>-</u>	<u>5,073</u>	<u>100,006</u>	<u>5,073</u>
	<u>\$ 15,321,669</u>	<u>\$ -</u>	<u>\$ 489,016</u>	<u>\$ 14,832,653</u>	<u>\$ 529,016</u>

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

\$4,315,000 General Obligation Refunding Bonds, Series 2011, dated December 1, 2011, with interest of 3.625% to 4.1% payable semiannually on June 1 and December 1 of each year. The bonds maturing on or after December 1, 2031, are subject to redemption prior to maturity at the option of the District, in whole or in part, in any order determined by the District and by lot within maturity, at any time on and after December 1, 2021, at a redemption price equal to 100% of the principal amount to be redeemed, without premium, plus interest accrued at the date of redemption. The bonds were issued for the purpose of refunding \$4,310,000 of the District’s General Obligation Refunding Bonds, Series 2001. The District completed the refunding to level and extend its annual debt service payments which will enable the District to maintain a lower annual debt service mill levy rate. The District also obtained an economic gain (difference between the present values of the old and new debt service payments) of \$211,940 on the refunding.

\$10,950,000 General Obligation Refunding and Improvement Bonds, Series 2009, dated September 10, 2009, with interest of 2.50% to 4.75% payable semiannually on June 1 and December 1 of each year. The bonds maturing on or after December 1, 2020, are subject to redemption prior to maturity at the option of the District, in whole or in part, in any order determined by the District and by lot within maturity, at any time on and after December 1, 2019, at a redemption price equal to 100% of the principal amount to be redeemed, without premium, plus interest accrued at the date of redemption. The bonds were issued for the purpose of refunding the District’s General Obligation Improvement Bonds, Series 1998, to fund approximately \$8,650,000 of capital improvements as discussed below and to pay the cost of issuing the bonds.

**Arrowhead Metropolitan District
Notes to the Financial Statements
December 31, 2012**

5. LONG-TERM LIABILITIES (continued)

The District's long-term obligations mature as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 520,000	\$ 572,365	\$ 1,092,365
2014	540,000	560,190	1,100,190
2015	550,000	548,359	1,098,359
2016	565,000	534,709	1,099,709
2017-2021	3,190,000	2,386,996	5,576,996
2022-2026	3,810,000	1,700,688	5,510,688
2027-2031	4,640,000	841,420	5,481,420
2032-2036	840,000	39,900	879,900
	<u>\$ 14,655,000</u>	<u>\$ 7,184,627</u>	<u>\$ 21,839,627</u>

Remaining Authorized but Unissued Indebtedness. In November 2008 the District's voters authorized the issuance of up to \$9,500,000 of debt for the acquisition and improvement of parking lot facilities. During 2009 the District issued bonds in the amount of \$9,020,000 pursuant to this authorization and has \$480,000 in remaining authorized but unissued indebtedness as of December 31, 2012.

6. DEVELOPER CONTRACTS

Vail Resorts (VR) was the primary developer within the District. Effective January 1, 2004, the District entered into an Operations Agreement with VR to perform operations and maintenance services for the District's road improvements. This agreement is effective through December 31, 2012, and automatically renews, subject to annual appropriation by the District. The District is to reimburse VR for costs related to these services. In connection with this agreement, the District also signed a Lease Agreement for the use of a maintenance facility owned by Vail Resorts Development Co., a subsidiary of VR. The Lease Agreement requires monthly lease of approximately \$3,600. Annual increases in future years will be based on the Consumer Price Index – All Urban Consumers for the Denver-Boulder area.

**Arrowhead Metropolitan District
Notes to the Financial Statements
December 31, 2012**

6. DEVELOPER CONTRACTS (continued)

Costs incurred during 2012 under the terms of the Operations Agreement and Lease Agreements amounted to \$195,608 and \$44,955, respectively.

This Agreement is effective through December 31, 2012 and automatically renews for future years, subject to annual appropriation by the District.

The District also contracts with the Developer for transportation services. During 2012, the District paid the Developer \$197,536 for transportation services.

On May 1, 1998, the District entered into an Infrastructure Acquisition Agreement with Vail/Arrowhead, Inc. (Developer) (See above). In accordance with the agreement, the Developer constructed road and water improvements, as well as drainage, lighting, and landscaping improvements (improvements), for the development of the Mountain Road area.

For those improvements completed by the Developer pursuant to the agreement, the District issued \$3,365,000 of its Series 2001 General Obligation Bonds (see Note 5).

7. AGREEMENTS WITH OTHER GOVERNMENTAL ENTITIES

Upper Eagle Regional Water Authority

The District is a participant in the Upper Eagle Regional Water Authority (Authority). The Authority was formed pursuant to an establishing contract on September 18, 1984, by the following quasi-municipal corporations (members) located in Eagle County, Colorado:

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

The Authority also provides water service to the Cordillera and Bachelor Gulch Developments through contracts with members.

The Authority was formed to make the best practicable use of the members' joint resources to supply water to the members and to further develop water resources and facilities in a portion of Eagle County Colorado.

The Authority may not be terminated so long as bonds, notes or other obligations are outstanding, unless provision for full payment of such obligations has been made. At December 31, 2012, the Authority had debt maturities through the year 2028.

**Arrowhead Metropolitan District
Notes to the Financial Statements
December 31, 2012**

7. AGREEMENTS WITH OTHER GOVERNMENTAL ENTITIES (continued)

Upper Eagle Regional Water Authority (continued)

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 assets. The interest in the assets of the Authority conveyed to each district shall be that proportion which the average annual amount of treated water sold within each district bears to the average annual total amount of all treated water sold by the Authority.

The District has a service contract with the Authority. Under the terms of the agreement, the Authority provides and bills residents of the District with water at a rate which is expected to cover its costs in providing water services and other functions. Such costs specifically include debt service requirements, depreciation and replacements, and operations and maintenance, including maintenance of the District's water distribution system. As part of the agreement, the District has leased all of its water rights, associated easements and improvements to the Authority at no cost. In consideration, the Authority has agreed to maintain the associated improvements and to administer and protect the District's plan for augmentation and water decrees at no cost to the District.

The participating members have given the Authority a general obligation pledge to their service contract obligations. Essentially, the members will levy taxes sufficient to meet said service contract obligations if other revenue sources are not available.

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

- The members convey their individual water system to the Authority.
- All customers become customers of the Authority.
- Tap fees and water surcharges will remain revenue of the individual members.
- Maintenance of the existing individual water system becomes the responsibility of the Authority.
- Construction of new lines or 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 assure service to their service areas and retain individual enterprise status.

The cost of the water system conveyed by the District to the Authority in 1998 was \$2,301,936. Additionally, the District incurred costs of \$169,261 and \$915,000 in 1998 and 2001, respectively, for water systems that have been conveyed to the Authority.

**Arrowhead Metropolitan District
Notes to the Financial Statements
December 31, 2012**

7. AGREEMENTS WITH OTHER GOVERNMENTAL ENTITIES (continued)

Upper Eagle Regional Water Authority (continued)

A summary of the audited financial information for the Authority as of and for the year ended December 31, 2012 is as follows:

	Upper Eagle Regional Water Authority
Assets	
Current	\$ 10,540,843
Other	4,946,137
Property and equipment - net	81,003,626
Deferred outflow of resources	502,462
	\$ 96,993,068
Liabilities and Equity	
Current	\$ 2,724,335
Long-term debt	27,268,204
Net position	67,000,529
	\$ 96,993,068
Operations	
Operating revenue	\$ 8,668,868
Operating expense	11,612,755
Operating loss	(2,943,887)
Non-operating revenue (expense)	(984,139)
Capital contributions	718,870
Change in net position	(3,209,156)
Net position - beginning of year	70,209,685
Net position - end of year	\$ 67,000,529

**Arrowhead Metropolitan District
Notes to the Financial Statements
December 31, 2012**

8. CONTRACT FOR ACCOUNTING AND ADMINISTRATIVE SERVICES

The District contracts with Robertson & Marchetti, P.C., a metro district advisory services and CPA firm located in Edwards, CO, to provide financial management, accounting and administration services to the District. Pursuant to this agreement, Robertson & Marchetti, P.C. has agreed to take primary responsibility for financial management of the District with oversight from the Board of Directors. Robertson & Marchetti's responsibilities under this agreement include:

- the preparation and fair presentation of the District's financial statements in accordance with accounting principles generally accepted in the United States of America;
- designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
- shared responsibility with the Board of Directors and other management for preventing and detecting fraud;
- with the assistance of the District's legal counsel, identifying and ensuring that the entity complies with the laws and regulations applicable to its activities;
- making all financial records and related information available.

The District paid Robertson & Marchetti \$34,807 for services provided in 2012 pursuant to this agreement.

9. RISK MANAGEMENT

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

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2012. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery, and workers compensation coverage to its members. The Pool provides coverage for property claims and liability coverage claims and workers' compensation. Settled claims have not exceeded this coverage in the past three years.

The District pays annual premiums to the Pool for liability, property, and public officials' 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.

**Arrowhead Metropolitan District
Notes to the Financial Statements
December 31, 2012**

9. RISK MANAGEMENT (continued)

A summary of the most recent, available, audited financial information for the Pool as of and for the year ended December 31, 2012, is as follows:

Assets	\$	34,428,555
Liabilities	\$	15,471,242
Capital and surplus		18,957,313
Total liabilities and surplus	\$	34,428,555
Revenue	\$	11,863,661
Underwriting expenses		10,444,729
Underwriting gain		1,418,932
Investment income		211,299
Net income	\$	1,630,231

There is no current or long-term debt outstanding in the Pool; the above liabilities represent incurred claims and an estimated liability for incurred but not reported claims at December 31, 2012.

10. COMMITMENTS

Tax, Spending, and Debt Limitations

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

Enterprises, defined as government-owned business authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR.

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

**Arrowhead Metropolitan District
Notes to the Financial Statements
December 31, 2012**

10. COMMITMENTS (continued)

Tax, Spending, and Debt Limitations (continued)

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

On November 8, 1994, the voters of the District authorized the issuance of \$1,130,000 in debt and approved up to \$125,518 in tax revenue annually to pay such debt.

On May 7, 1996, the voters of the District authorized the issuance of \$6,620,000 in debt and approved up to \$697,000 in tax revenue annually to pay such debt.

On May 5, 1998, the voters authorized property taxes to be increased up to \$800,000 in 1999 and by whatever additional amounts are raised annually thereafter from an increase in the District's property tax levy for operating purposes of an additional 17.0 mills increasing the total operating tax levy to 18.0 mills, all with the present expectation that the debt service mill levy will decrease by an amount equal to the operating mill levy increase so as to maintain the current total mill levy of 28.8 mills.

Also, on May 5, 1998, the voters authorized the District to collect, retain, and spend all revenue and other funds collected in 1998 and any year thereafter without regard to any limitations under TABOR.

On November 4, 2008, the voters authorized the issuance of \$9,500,000 in debt and approved up to \$980,000 in tax revenue annually to pay such debt.

The District's management believes it is in compliance with the provisions of TABOR.

Required Supplementary Information

Arrowhead Metropolitan District
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2012

	Original and Final Budget	Actual	Variance Over (Under)
Revenues			
Property taxes	\$ 999,570	\$ 998,400	\$ (1,170)
Specific ownership taxes	46,980	38,596	(8,384)
Water tap fees	18,633	9,106	(9,527)
Charges for services	93,781	93,781	-
Lottery proceeds	1,600	1,309	(291)
Other income	-	23,500	23,500
Interest income	8,155	19,547	11,392
Total Revenues	1,168,719	1,184,239	15,520
Expenditures			
General government			
Accounting and administration	36,000	34,807	(1,193)
Legal	8,000	3,140	(4,860)
Audit	7,250	7,535	285
Insurance	10,000	8,925	(1,075)
Directors' fees	6,000	5,300	(700)
Treasurer's Fees	29,987	30,007	20
Edwards Community Authority	11,111	11,111	-
Engineering	6,000	9,695	3,695
Other	23,226	12,059	(11,167)
Contingency	79,000	-	(79,000)
Public works			
Maintenance and snow removal	320,425	315,416	(5,009)
Transportation	197,536	206,282	8,746
Capital expenditures	258,000	342,387	84,387
Total Expenditures	992,535	986,664	(5,871)
Revenue Over Expenditures	176,184	197,575	21,391
Other Financing Uses			
Transfers out	(396,572)	(400,930)	(4,358)
Total Other Financing Uses	(396,572)	(400,930)	(4,358)
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)			
	(220,388)	(203,355)	17,033
Fund Balance, beginning of year	2,718,200	2,814,095	95,895
Fund Balance, end of year	\$ 2,497,812	\$ 2,610,740	\$ 112,928

Other Supplementary Information

Arrowhead Metropolitan District
Budgetary Comparison Schedule
Debt Service Fund
For the Year Ended December 31, 2012

	Original and Final Budget	Actual	Variance Over (Under)
Revenues			
Property taxes	\$ 687,217	686,413	\$ (804)
Specific ownership taxes	32,299	26,535	(5,764)
Interest income	3,436	2,339	(1,097)
Total Revenues	722,952	715,287	(7,665)
Expenditures			
Bond interest	614,908	614,908	-
Bond principal	480,000	480,000	-
Treasurer fees	20,617	20,630	13
Paying agent fees	4,000	450	(3,550)
Total Expenditures	1,119,525	1,115,988	(3,537)
Revenue (Under) Expenditures	(396,573)	(400,701)	(4,128)
Other Financing Sources & (Uses)			
Transfers in	396,572	400,930	4,358
Total Other Financing Sources & (Uses)	396,572	400,930	4,358
Revenue and Other Financing Sources Over (Under) Expenditures	(1)	229	230
Fund Balance, beginning of year	1,830	1,830	-
Fund Balance, end of year	\$ 1,829	\$ 2,059	\$ 230

Arrowhead Metropolitan District
Schedule of Bond Obligations and Interest Requirements to Maturity
December 31, 2012

Year Ending December 31	\$10,950,000 General Obligation Refunding Bonds September 10, 2009, Principal Due December 1, Interest at 2.50% to 4.75%			\$4,315,000 General Obligation Refunding Bonds December 1, 2011, Principal Due December 1, Interest at 3.625% to 4.1%			Total		
	Due June 1 and December 1			Due June 1 and December 1			Due June 1 and December 1		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 355,000	\$ 441,269	\$ 796,269	\$ 165,000	\$ 131,096	\$ 296,096	\$ 520,000	\$ 572,365	\$ 1,092,365
2014	165,000	432,394	597,394	375,000	127,796	502,796	540,000	560,190	1,100,190
2015	265,000	428,063	693,063	285,000	120,296	405,296	550,000	548,359	1,098,359
2016	-	420,113	420,113	565,000	114,596	679,596	565,000	534,709	1,099,709
2017	-	420,113	420,113	575,000	97,646	672,646	575,000	517,759	1,092,759
2018	-	420,113	420,113	600,000	80,396	680,396	600,000	500,509	1,100,509
2019	650,000	420,113	1,070,113	-	62,396	62,396	650,000	482,509	1,132,509
2020	670,000	394,113	1,064,113	-	62,396	62,396	670,000	456,509	1,126,509
2021	695,000	367,313	1,062,313	-	62,396	62,396	695,000	429,709	1,124,709
2022	730,000	337,775	1,067,775	-	62,396	62,396	730,000	400,171	1,130,171
2023	575,000	306,750	881,750	150,000	62,396	212,396	725,000	369,146	1,094,146
2024	595,000	283,750	878,750	160,000	56,959	216,959	755,000	340,709	1,095,709
2025	620,000	259,950	879,950	165,000	51,159	216,159	785,000	311,109	1,096,109
2026	645,000	234,375	879,375	170,000	45,178	215,178	815,000	279,553	1,094,553
2027	675,000	206,963	881,963	175,000	39,015	214,015	850,000	245,978	1,095,978
2028	700,000	177,938	877,938	185,000	32,015	217,015	885,000	209,953	1,094,953
2029	735,000	147,313	882,313	190,000	24,615	214,615	925,000	171,928	1,096,928
2030	765,000	114,238	879,238	200,000	17,015	217,015	965,000	131,253	1,096,253
2031	800,000	77,900	877,900	215,000	4,408	219,408	1,015,000	82,308	1,097,308
2032	840,000	39,900	879,900	-	-	-	840,000	39,900	879,900
	<u>\$ 10,480,000</u>	<u>\$ 5,930,456</u>	<u>\$ 16,410,456</u>	<u>\$ 4,175,000</u>	<u>\$ 1,254,171</u>	<u>\$ 5,429,171</u>	<u>\$ 14,655,000</u>	<u>\$ 7,184,627</u>	<u>\$ 21,839,627</u>

Arrowhead Metropolitan District
Summary of Assessed Valuation, Mill Levy and
Property Tax Collections
December 31, 2012

Year Ending December 31	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied	Property Taxes		Percent Collected to Levied
			Levied	Collected	
2003	\$ 79,488,240	24.300	\$ 1,931,564	\$ 1,924,701	99.6%
2004	76,630,020	23.000 (1)	1,762,490	1,746,281	99.1%
2005	78,263,640	20.000	1,565,273	1,565,123	100.0%
2006	86,092,500	20.000	1,721,850	1,720,168	99.9%
2007	89,493,320	20.000	1,789,866	1,787,557	99.9%
2008	115,184,770	17.000	1,958,141	1,954,281	99.8%
2009	115,436,520	17.000	1,962,421	1,961,748	100.0%
2010	135,933,930	17.000	2,310,877	2,298,735	99.5%
2011	134,150,510	17.000	2,280,559	2,279,856	100.0%
2012	99,220,770	17.000	1,686,787	1,684,813	99.9%

NOTE:

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

(1) Consists of a mill levy of 23.299 less a temporary mill levy reduction of .299 mills in accordance with Section 39-1-111.5 of the Colorado Revised Statutes.