



FREMONT SANITATION DISTRICT

FINANCIAL STATEMENTS

December 31, 2009 and 2008

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BONDI & Co. LLC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

44 INVERNESS DRIVE EAST
ENGLEWOOD, COLORADO 80112

www.bondico.com

(303) 799-6826 PHONE
(800) 250-9083 TOLL-FREE

(303) 799-6926 FAX

**Board of Directors
Fremont Sanitation District
Canon City, Colorado**

Independent Auditors' Report

We have audited the accompanying financial statements of Fremont Sanitation District (District), as of and for the years ended December 31, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the District, as of December 31, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

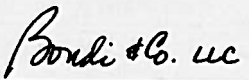
In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2010 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

**Board of Directors
Fremont Sanitation District
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The management's discussion and analysis, on pages i through x, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards, required by OMB Circular A-133, on page 38, and the budgetary comparison schedules, on pages 26 through 31, are presented for purposes of additional analysis, and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and the budgetary comparison schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

April 19, 2010


BONDI & Co. LLC



Fremont Sanitation District

107 Berry Parkway Cañon City, CO 81212-3900
(719) 269-9050 Fax - (719) 276-7000
E-Mail: info@fremontsanitation.com
Website: www.fremontsanitation.com

ANNUAL REPORT YEAR ENDING DECEMBER 31, 2009

Overview of the Financial Statements

This annual report consists of the following parts: Management's Discussion and Analysis, Basic Financial Statements, and Other Required Supplementary Information. The Financial Statements include notes that explain in detail some of the information included in the basic financial statements.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2009

- Total Change in Net Assets increased by \$159,181, after inclusion of depreciation expense.
- Operating Fund balance increased by \$819,738, due to utilization of the Construction Crew on projects funded by System Development Fee transfers in the amount of \$1,115,291. Conversely, System Development Fee balances decreased by the same amount. The focus on development of system upgrades, rather than strictly maintenance and repairs, resulted in an increase to the District's Capital Assets. This was in the form

of pipeline expansion and upgrades of \$922,410, specifically relating to the South Cañon Trunk and North Cañon Project.

- Depreciation expense was in the amount of \$1,369,851
- Total Liabilities decreased by \$477,792.
- There was a reduction in Long Term Debt of \$412,364
- Operating Revenues increased \$187,865.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The purpose of this section is to provide non-technical information, so that the average District “shareholder” can understand the financial condition of the District. This understanding can then be utilized when evaluating rate increases and the effectiveness and efficiency of the District’s operations.

Who We Are

Fremont Sanitation District is a “Quasi-Private Public Entity” formed under Colorado Special District’s Laws. This means that we are a public body which is overseen by an elected Board of Directors, similar to a City and City Council. Unlike a City however, we operate as a non-profit business commonly referred to as an “enterprise fund”. All of the people living or who own property within our boundaries are the “shareholders”. All of our “shareholders” are eligible to vote on who is to sit on the Board of Directors. Only “shareholders” who live within the District’s boundaries are eligible to be elected to sit on the Board of Directors. The Board’s primary responsibilities are to protect the public’s health and its capital investment in treatment and collection systems, while meeting environmental protection laws.

We use the term shareholder here rather than citizen or customer, because “shareholder” more accurately depicts the working relationship between the Board of Directors and District employees on one hand with the citizen customer (shareholder) on the other. Each of our customers is part owner in the system, as well as a user. Therefore, they have a vested interest in the proper maintenance and operation of the system. This relationship is different than what exist with most other utilities like telephone, gas, or electrical because their customers are not part “owners” of the system, they are merely, or more simply, just that - customers.

The District has approximately 150 miles of pipes and 1,800 manholes that make up the collection system. This system transports 1.5 billion gallons of wastewater to the treatment plant annually for treatment. Pipes range in size from 6-inch to 36-inch in diameter and are buried up to 40 feet in the ground.

As of December 31, 2009, we reported an increase of 25 new accounts which translates to 25 Equivalent Residential Units (ERU's). Of those ERU's, 24 were strictly residential and 1 was a commercial unit. System Development Fees from these new accounts totaled \$65,000.00. The District boundaries contain an estimated population (including inmates) of 36,000 people.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Statement of Net Assets (page 3) include information on the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The Statement of Revenues, Expenses and Changes in Net Assets (page 4) identifies the District's revenues and expenses for the fiscal year ended December 31, 2009. The third financial statement is the Statement of Cash Flows (page 5). This statement provides information on the District's cash receipts, cash

payments and changes in cash resulting from operations, investments and financing activities.

From the Statement of Cash Flows, the reader can obtain comparative information on the source and use of cash and the change in the cash and cash equivalents balance for the past fiscal year.

FINANCIAL ANALYSIS OF THE DISTRICT

When evaluating the financial condition of an entity the first thing to look at is the Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Total Assets. For 2009 the District's current assets (cash and equivalent) shows a decrease, while short term investments also shows a decrease. Current Assets, which is considered to be an asset that consists of cash and other resources and is reasonably expected to be realized in cash or consumed within one year, decreased by \$203,676. Total Assets, which is defined as the total resources owned by the District, decreased by \$318,611. A large majority of total assets of the District resides within our system of pipelines, the Service Center and the Rainbow Park Regional Wastewater Treatment Plant. In order to maintain an acceptable accounting standard of reporting, the District annually makes an adjustment of "Accumulated Depreciation" for these types of assets. In 2009, the District had \$1,369,851 in accumulated depreciation adjustments. As a rule of thumb if Current Assets and Total Assets are increasing, everything is probably fine. If Current or Total Liabilities begin to increase more than the Current or Total Assets accounts are, then further assessment is warranted. Management has determined that the District will not be able to continue to expend System Development Fees for related growth projects, because the reserves are not being replenished due to the decrease in new construction. Management is aware that current operating revenues are not sufficient to cover operating costs.

REVENUES

District operations are funded from revenues received from the various fees charged for services, interest income, and capital recovery through connection fees.

Condensed Statement of Revenues

| <u>Revenue Source</u> | <u>2008</u> | <u>2009</u> | <u>Change Gain/(Loss)</u> |
|-------------------------|--------------------|--------------------|-------------------------------|
| Residential Customers | \$2,375,405 | \$2,490,408 | \$ 115,003 |
| Commercial Customers | \$ 594,534 | \$ 581,398 | (\$ 13,136) |
| Institutional (Prisons) | \$1,087,014 | \$1,121,140 | \$ 34,126 |
| Capital Recovery | \$ 282,411 | \$ 687,800 | \$ 405,389 |
| Interest Income | \$ 38,304 | \$ 3,310 | (\$ 34,994) |
| Other Revenues | <u>\$ 159,574</u> | <u>\$ 211,330</u> | <u>\$ 51,756</u> |
| Total Revenues | <u>\$4,537,242</u> | <u>\$5,095,386</u> | <u>\$ 558,144</u> |

Revenue for services increased by \$135,993 although both Commercial and Institutional revenues fell short of budget projections. The current economic slow-down has negatively affected revenue received from Commercial accounts. As detailed in the proceeding chart, revenue from Commercial accounts fell 2% from 2008 to 2009, even with a 4% rate increase during this period. Likewise, revenue from Institutional (Prison) accounts did not keep pace with the imposed rate increase. Capital Recovery increased by \$405,389, which is attributed to receiving Community Development Block Grant Funds (CDBG) and American Reinvestment and Recovery Act Funds (ARRA) for the North Canon Project.

EXPENSES

Condensed Statement of Expenses

| | <u>2008</u> | <u>2009</u> | <u>Change Gain/(Loss)</u> |
|-------------------------|--------------------|--------------------|-------------------------------|
| Waste Transmission | \$ 869,840 | \$ 667,174 | (\$202,666) |
| Treatment Plant | \$1,207,039 | \$1,250,340 | \$ 43,301 |
| District Administration | <u>\$2,853,496</u> | <u>\$3,018,685</u> | <u>\$ 165,189</u> |
| Total Expenses | <u>\$4,930,375</u> | <u>\$4,936,199</u> | <u>\$ 5,824</u> |

CAPITAL ASSETS

As of December 31, 2009, the District had capital assets of \$19,734,463. The District received \$69,966 in System Development Fees during Budget Year 2009. In addition to the assets listed, the District has many miles of sanitary sewer mains, which while being fully depreciated and no longer carried on the books, are still operating and providing an economic benefit to the District. During 2009 construction was completed on the Steinmeier (\$77,556) and South Cañon Trunk Phase 1 (\$154,063) projects, and construction commenced on the South Cañon Trunk Phase 2 (\$145,976) project in August. It is anticipated that Phase 2 will be completed in 2010. In addition, work was completed on the McCumber Lane interceptor CIPP project (\$99,197) during 2009 and work completed on the North Cañon Project totaled \$535,478 through December 31, 2009. It is anticipated that the North Cañon Project will be substantially completed in 2010.

Condensed Statement of Net Assets

| | <u>2008</u> | <u>2009</u> | <u>Change Gain/(Loss)</u> |
|----------------------------|---------------------|---------------------|-------------------------------|
| Cash and Other Assets | \$ 6,079,689 | \$ 5,887,573 | (\$192,116) |
| Capital Assets | <u>\$19,860,958</u> | <u>\$19,734,463</u> | <u>(\$ 126,495)</u> |
| Total Assets | \$25,940,647 | \$25,622,036 | (\$318,608) |
| Outstanding Long Term Debt | \$5,869,809 | \$5,451,059 | (\$418,750) |
| Current Liabilities | <u>\$1,330,672</u> | <u>\$1,271,628</u> | <u>(\$59,044)</u> |
| Total Liabilities | \$7,200,481 | \$6,722,687 | (\$477,794) |
| <u>Net Assets</u> | | | |
| Invested in Capital Assets | | | |
| Net of Related Debt | \$13,507,450 | \$13,792,655 | \$285,205 |
| Restricted | \$ 139,433 | \$ 146,500 | \$ 7,067 |
| Unrestricted | <u>\$ 5,093,285</u> | <u>\$ 4,960,194</u> | <u>(\$133,091)</u> |
| Total Net Assets | <u>\$18,740,168</u> | <u>\$18,899,349</u> | <u>\$159,181)</u> |

LONG-TERM DEBT

As of December 31, 2009, the District had \$5,949,609 in outstanding debt principal. This amount represents a reduction in the amount of \$412,364 as the result of payments during 2009. Of this outstanding debt principal amount, \$1,113,267 is for debt incurred to provide sanitary sewer service, to (2) Local Improvement Districts (LID). Those “LIDS” are responsible for funding the semi-annual debt retirement payments. Monthly fees are collected from accounts within these areas in addition to the standard monthly fee the Fremont Sanitation District charges all of its customers. These are 40 year notes with varying ending dates. The remaining amount of debt is for work performed at the Treatment Plant and construction of the District’s Service Center. This debt was a 20 year bond with an end date of 2019. The District has made certain covenants related to these bonds which are discussed in Note 6 on pages 19-20 of these financial statements.

ECONOMIC FACTORS AND NEXT YEARS BUDGET AND RATES

The District’s Board of Directors adopted the 2009 Budget on December 15, 2009. The adopted budget contained a 4% rate increase for 2010.

At this time the Colorado Department of Corrections has announced that 300 inmates will be transferred to the recently constructed CSP2 facility beginning September 1, 2010. State budget shortfalls had previously delayed the opening of this 1000 bed facility.

The slow economy significantly reduced housing and business starts in 2009 and this trend is expected to continue throughout 2010. In such, anticipated System Development Fees associated with housing and business starts has been reduced from the 2009 to 2010 budget. However, the continuing construction of the North Cañon Project, an American Recovery & Reinvestment Act and Community Development Block Grant funded project, will add 178 existing homes to the District and generate \$445,000 in System Development Fees.

Five Year Projection

It is projected that the South Cañon Trunk project will be completed during the Calendar Year 2010. This project has utilized District personnel and has been funded from System Development Fees. Due to the reduced amount of System Development Fees that the District is receiving, it is anticipated this will be the final System Development Fee funded project until SDF Reserves are adequately replenished.

The District is currently exploring the option of contracting with an Energy Services Company to perform an energy audit of the District's facilities, particularly the Wastewater Treatment Plant. Late in 2009, Black Hills Energy (the District's electric supplier) announced proposed rate hikes in 2010 that would total nearly 27%. As the District's wastewater treatment process is electric dependent, the Board and District Management are focusing on ways to reduce electric usage and thus decrease operational costs. The majority of electrical equipment associated with the plant is approximately 25 years old and while still in fair to good operating condition it is believed that updating to higher efficiency equipment will financially benefit the District. The Board of Directors signed a "Memorandum of Understanding" (MOU) with the Governor's Energy Office in March 2010. This MOU will allow the District to receive "no-cost" technical assistance in identifying and implementing energy efficiency projects.

The presence of Hydrogen Sulfide gas in the District's collection system is an issue that must also be addressed in the near future. Low levels of hydrogen sulfide gas in the collection system can result in the production of odors that may be detected by residents living near major sewer mains. At higher levels hydrogen sulfide gas within the collection system can lead to the generation of sulfuric acid which is highly corrosive to concrete mains and manhole. In 2009, the District rehabilitated a section of concrete interceptor sewer main that was damaged by the presence of sulfuric acid and an additional section of concrete interceptor sewer main damaged by sulfuric acid has been identified and will require repairs in early 2011. Currently the District's Engineering Department is analyzing the situation and identifying potential solutions that would neutralize the hydrogen sulfide gas within the system. It is anticipated that funds will be requested in the 2011 budget to correct this issue.

It is also anticipated that the District will need to undertake a comprehensive rate study and System Development Fee study within the next five years. The last rate study was performed in 2000 with the most recent System Development Fee study being completed in 2002.

While not specifically within the next five years, the District nonetheless will need to begin financial planning for potential wastewater treatment plant expansions, that would be required if flow or organic loading reach 80% of design capacity. Currently the treatment plant operates at approximately 56% of flow design capacity (based on average daily flows) and approximately 45% of organic load design capacity (based on average daily loading of BOD). It was originally projected that 80% of design capacity for flow would be reached in 2018, but given the current economic slow-down and its affect on new construction, it is reasonable to expect this anticipated date to be later than originally anticipated.

Anyone having questions or comments regarding anything in this Audit Report should address them to the District's Board of Directors, at 107 Berry Parkway, Canon City, CO 81212.

Comments can be made by phone at (719)269-9050, or by email at info@fremontsanitation.com.

“PRESERVING AND PROTECTING THE AREA HEALTH AND ENVIRONMENT WHILE
MEETING THE DEMANDS OF A GROWING COMMUNITY”

FREMONT SANITATION DISTRICT

STATEMENT OF NET ASSETS

December 31, 2009 and 2008

| ASSETS | 2009 | 2008 |
|--|---------------|---------------|
| Current Assets: | | |
| Cash and Cash Equivalents (Note 3) | \$ 2,273,292 | \$ 810,298 |
| Investments, Short-Term (Note 3) | 1,977,886 | 3,840,000 |
| Grants Receivable | 169,652 | |
| Customer and Other Accounts Receivable (Note 2) | 601,663 | 520,701 |
| Notes Receivable, Current (Note 4) | 950 | 4,084 |
| Inventory - Consumable Supplies | 66,979 | 119,015 |
| Prepaid Expenses | 2,254 | 2,254 |
| Total Current Assets | 5,092,676 | 5,296,352 |
| Noncurrent Assets: | | |
| Loan Savings Receivable | 6,426 | |
| Restricted Cash and Cash Investments (Note 3) | 778,385 | 775,169 |
| Notes Receivable, Long-Term (Note 4) | 10,086 | 8,168 |
| Total Noncurrent Assets | 794,897 | 783,337 |
| Capital Assets (Note 5): | | |
| Non-Depreciable | 1,092,802 | 1,129,156 |
| Depreciable, Net of Accumulated Depreciation | 18,641,661 | 18,731,802 |
| Total Capital Assets | 19,734,463 | 19,860,958 |
| Total Assets | 25,622,036 | 25,940,647 |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts Payable | 262,956 | 115,696 |
| Accrued Interest Payable | 83,026 | 121,836 |
| Long-Term Debt, Current (Note 6) | 430,264 | 418,790 |
| Accrued Salaries and Wages and Related Liabilities | 93,989 | 94,762 |
| Compensated Absences (Note 6) | 109,392 | 298,741 |
| Deferred Revenues - Customer User Charges | 292,001 | 280,845 |
| Total Current Liabilities | 1,271,628 | 1,330,670 |
| Non-Current Liabilities: | | |
| Long-Term Debt, Net of Unamortized Discount and Issuance Costs (Note 6) | 5,451,059 | 5,869,809 |
| Total Liabilities | 6,722,687 | 7,200,479 |
| Net Assets | | |
| Invested in Capital Assets, Net of Related Debt Restricted (Note 9) | 13,792,655 | 13,507,450 |
| Unrestricted | 146,500 | 139,433 |
| | 4,960,194 | 5,093,285 |
| Total Net Assets | \$ 18,899,349 | \$ 18,740,168 |

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

FREMONT SANITATION DISTRICT

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS

For the Years Ended December 31, 2009 and 2008

| | 2009 | 2008 |
|---|----------------------|----------------------|
| OPERATING REVENUES | | |
| Customer Service Charges | \$ 4,342,097 | \$ 4,182,868 |
| Miscellaneous | 61,605 | 32,969 |
| Total Operating Revenues | <u>4,403,702</u> | <u>4,215,837</u> |
| OPERATING EXPENSES | | |
| Waste Collection and Transmission | 1,168,081 | 1,346,400 |
| Wastewater Treatment | 1,079,800 | 1,055,916 |
| Solids Processing | 186,795 | 158,270 |
| Buildings and Grounds - Plant | 62,202 | 72,047 |
| Buildings and Grounds - Service Center | 103,152 | 93,414 |
| Administration - Finance | 482,091 | 451,618 |
| Administration - Management and General | 247,283 | 148,440 |
| Depreciation Expense (Note 5) | <u>1,369,851</u> | <u>1,321,651</u> |
| Total Operating Expenses | <u>4,699,255</u> | <u>4,647,756</u> |
| OPERATING INCOME (LOSS) | <u>(295,553)</u> | <u>(431,919)</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest Income | 86,238 | 218,275 |
| Bond Interest Expense (Note 6) | (231,860) | (277,531) |
| Amortization Expense (Note 6) | <u>(5,088)</u> | <u>(5,088)</u> |
| Net Nonoperating Revenues (Expenses) | <u>(150,710)</u> | <u>(64,344)</u> |
| Loss Before Contributions | <u>(446,263)</u> | <u>(496,263)</u> |
| CAPITAL CONTRIBUTIONS | | |
| Capital Grants | 535,478 | |
| System Development Fees | <u>69,966</u> | <u>103,129</u> |
| Total Capital Contributions | <u>605,444</u> | <u>103,129</u> |
| CHANGE IN NET ASSETS | 159,181 | (393,134) |
| NET ASSETS, Beginning of Year | <u>18,740,168</u> | <u>19,133,302</u> |
| NET ASSETS, End of Year | <u>\$ 18,899,349</u> | <u>\$ 18,740,168</u> |

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

FREMONT SANITATION DISTRICT

STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2009 and 2008

| | 2009 | 2008 |
|--|---------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from Customers | \$ 4,265,865 | \$ 4,194,089 |
| Payments to Suppliers | (863,838) | (1,023,036) |
| Payments to Employees | (2,456,392) | (2,245,954) |
| Miscellaneous Receipts | 61,605 | 32,969 |
| Net Cash Provided by Operating Activities | <u>1,007,240</u> | <u>958,068</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Collections on Notes Receivable | 1,216 | 4,487 |
| Capital Grants Received | 365,826 | |
| Acquisition of Capital Assets | (1,243,356) | (1,298,840) |
| Principal Payments | (407,276) | (407,348) |
| Interest Paid | (275,758) | (282,015) |
| Contributions - System Development Fees | 69,966 | 103,129 |
| Net Cash Used by Capital and Related Financing Activities | <u>(1,489,382)</u> | <u>(1,880,587)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net Investment Activity | 1,862,114 | (140,000) |
| Interest Received | 86,238 | 235,635 |
| Net Cash Provided by Investing Activities | <u>1,948,352</u> | <u>95,635</u> |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | <u>1,466,210</u> | <u>(826,884)</u> |
| CASH AND CASH EQUIVALENTS, Beginning of Year | <u>1,585,467</u> | <u>2,412,351</u> |
| CASH AND CASH EQUIVALENTS, End of Year | <u>3,051,677</u> | <u>1,585,467</u> |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS | | |
| Cash and Cash Equivalents | 2,273,292 | 810,298 |
| Restricted Cash and Cash Equivalents | 778,385 | 775,169 |
| Total Cash and Cash Equivalents | <u>3,051,677</u> | <u>1,585,467</u> |
| RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| OPERATING LOSS | (295,553) | (431,919) |
| ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Depreciation | 1,369,851 | 1,321,651 |
| Changes in Assets and Liabilities: | | |
| Increase in Accounts Receivable | (80,962) | (5,032) |
| Increase in Loan Savings Receivable | (6,426) | |
| (Increase) Decrease in Prepaid Expenses | | (805) |
| Decrease in Inventory | 52,036 | 53,747 |
| Increase (Decrease) in Accounts Payable | 147,260 | (16,143) |
| Increase (Decrease) in Accrued Compensated Absences | (189,349) | (563) |
| Increase in Wages and Related Liabilities | (773) | 20,880 |
| Increase in Deferred Revenues | 11,156 | 16,252 |
| Net Cash Provided by Operating Activities | <u>\$ 1,007,240</u> | <u>\$ 958,068</u> |

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

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 1: ORGANIZATION AND REPORTING ENTITY

Organization

The Fremont Sanitation District (District) was organized under the provisions of the Colorado Revised Statutes for the sole purpose of providing sewer utility service to the citizens of the District.

The District is governed by an elected, seven-member Board of Directors. Each member serves a four-year term; however, the members are not elected in the same year.

Reporting Entity

The District's financial statements include accounts only for District operations. The criteria for including organizations as component units within the District's reporting entity, as stated by the Governmental Accounting Standards Board (GASB) Statement Nos. 14 and 39, include whether:

The organization is legally separate (can sue or be sued in its own name). The District holds corporate powers of the organization. The District appoints a voting majority to the organization's board. The District is able to impose its will on the organization. The organization has the potential to impose a financial benefit/burden on the District. There is a fiscal dependency by the organization on the District.

Based on the above criteria, the District has no component units and is not considered a component unit of another entity.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basic Financial Statements

The basic financial statements of the District include fund financial statements for a proprietary fund. The District is a special purpose government engaged in only business-type activities. For these governments, only enterprise fund statements are presented.

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation and Accounting

The District's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), the Accounting Principles Board, or any Accounting Research Bulletins issued on or after November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise funds account for activities that (i) are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs, (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Net assets (i.e. total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted; and unrestricted components.

Management of the District has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Equivalents and Investments

The District considers all highly liquid investments (including restricted cash equivalents) with maturities of three months or less when purchased to be cash equivalents.

Investments are presented at fair value. Long-term investments consist of monies that are not liquid, lasting for longer than a year. Short-term investments generally mature, or are otherwise available for withdrawal, in less than one year. This includes bank certificates of deposit.

Inventory

Inventory consists of consumable supplies stated at cost determined by the first-in, first-out method.

Property, Plant and Equipment

The cost of additions to buildings, treatment plant and transmission system, in addition to equipment, is capitalized. The District defines capital assets as assets with an initial, individual cost of \$5,000 or more and an estimated life greater than one year. The cost and accumulated depreciation of sold or retired assets is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statement of revenues, expenses and changes in net assets. The cost of current repairs, maintenance, and minor replacements is charged to expense.

Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

| | |
|---|---------------|
| Buildings, Treatment Plant, and Transmission System | 20 – 50 Years |
| Improvements | 10 – 25 Years |
| Equipment | 3 – 30 Years |

Long-Term Debt and Costs

Long-term debt is reported at face value, net of applicable discounts and unamortized bond issuance costs. Costs related to the issuance of debt are deferred and amortized over the lives of the various debt issues.

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing-type activities, and the results from nonexchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the District's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

Net Assets

Net assets comprise the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net assets are classified in the following three components:

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowing that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted - This component of net assets consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets - This component of net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." The District's Board of Directors designated \$174,227 and \$200,000 of its unrestricted net assets to be used for the purchase of equipment for 2009 and 2008 respectively.

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

The Board of Directors has established the following policies regarding vacation and sick leave for the District's employees:

Vacation - Vacation time is accrued monthly, depending on an employee's term of service, and is payable upon termination, subject to restrictions set forth in the District's policy manual.

Sick Leave - Sick leave is accrued monthly and accumulations in excess of 240 hours are payable annually at the rate of 50% of such excess hours by December 1 of the current year. Employees separating from the District in good standing after 10 years or more of service shall be paid for any unused sick leave up to a maximum of 360 hours, at 50% of their current annual salary.

Budgetary Data

The District follows these procedures in establishing budgetary data reflected in the financial statements:

Prior to the December Board meeting, the District Manager submits the budget to the Board of Directors at a planning session. In December, at a public hearing, the budget is legally enacted through passage of a resolution by the Board of Directors. Unused appropriations lapse at the end of the year.

The Board of Directors may amend the budget at any time during the year. For 2009 the District amended the budget by \$3,300,000. For 2008, there were no amendments to the budget.

The level of control (level at which expenses may not exceed appropriations) is at the total fund level.

The District employs a purchase order system; however, the District does not use an encumbrance system. Therefore, encumbrances are not reflected in the District's financial statements.

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Basis

The District's budget is adopted on a basis consistent with generally accepted accounting principals (GAAP) with the following exceptions: Principal retired is budgeted as an expense, depreciation and amortization of debt issuance costs are not budgeted, capital outlays are treated as expenses for budget purposes, and deferred revenues are treated as collected revenues for budgetary purposes. Also, unrealized gain on investments is revenue for reporting purposes, but is not considered a source of budgetary resources, and interest expense is accrued for reporting purposes but, for budgetary purposes, is recorded as an expense when paid.

Receivables

Accounts receivable are for customer user charges and reimbursement of expenses. The 2009 balance of \$601,663 is comprised of customer user charges and expense reimbursements in the amount of \$601,486 and \$177, respectively. The 2008 balance of \$520,701 is comprised of customer user charges and expense reimbursements in the amount of \$520,672 and \$29, respectively. An allowance for doubtful accounts is not provided because the uncollectible amounts were determined to be immaterial by management.

Concentration of Customer Risk

The District receives substantial revenues from two main customers that account for approximately 25% of service revenue. The Department of Corrections and the Federal Correction Center account for approximately 18% and 6% of accounts receivable individually, respectively, and 14% and 12% of total service charge revenue, respectively.

NOTE 3: CASH DEPOSITS AND INVESTMENTS

Cash Deposits

The Colorado Public Depository Protection Act (PDPA) requires all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators, and amounts on deposit in excess of federal insurance levels

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE 3: CASH DEPOSITS AND INVESTMENTS (Continued)

Cash Deposits (Continued)

must be collateralized. The eligible collateral is specified by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102 % of the uninsured deposits.

The State Regulatory Commissions for banks and savings and loan associations are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2009 and 2008, the District's deposits were not exposed to custodial credit risk, as all deposits were insured within various banking institutions by the Federal Deposit Insurance Commission (FDIC) or collateralized in accordance with PDPA.

At December 31, 2009 and 2008, the District had the following book and bank balances:

| | 2009 | | 2008 | |
|---------------------|---------------------|---------------------|---------------------|---------------------|
| | Book | Bank | Book | Bank |
| Cash on Hand | \$ 800 | \$ | \$ 800 | \$ |
| Insured | 1,058,092 | 1,058,092 | 1,171,215 | 1,171,215 |
| Collateralized | 3,970,671 | 4,107,909 | 4,253,452 | 4,307,214 |
| Total Cash Deposits | <u>\$ 5,029,563</u> | <u>\$ 5,166,001</u> | <u>\$ 5,425,467</u> | <u>\$ 5,478,429</u> |

Investments

The District does not have a Board-adopted investment policy but, rather, uses the Colorado revised statutes as the District's investment policy.

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE 3: CASH DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

These statutes specify investment instruments meeting defined rating and risk criteria in which the District may invest:

- United States Treasury Obligations
- Federal Instrumentality Securities
- Time Certificates of Deposit
- Commercial Paper
- Money Market Mutual Funds
- Local Government Investment Pools

Interest Rate Risk

Although the District has no formal policy regarding interest rate risk, District management limits the weighted average of maturity of its portfolios to no more than three years. Annually, the Board passes a resolution specifying which institutions may be used for investing.

Credit Risk

Despite not having a written investment policy, the District's practice is to apply the prudent person rule where investments are made as a prudent person would be expected to act. Through application of this rule, the District limits investments in fixed income securities to U.S. Treasury bills, notes, and bonds; certificates of deposit; commercial paper; and local government investment pools. In practice, the District also limits investments in commercial paper to that rated A-1 by Standard & Poor's.

As of December 31, 2009 and 2008, the District's investments in local government investment pools Colorado Liquid Asset Trust Fund (COLOTRUST) were rated AAAM by Standard & Poor's.

Investments in local government investment pools are not included in the schedule below as they are not evidenced by securities that exist in physical or book form. At December 31, 2009 and 2008, the District had \$0 and \$634,134, respectively,

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE 3: CASH DEPOSITS AND INVESTMENTS (Continued)

Credit Risk (Continued)

invested in the COLOTRUST and classified as restricted cash on the balance sheet, as they are considered highly liquid and available for cash on demand. COLOTRUST is an investment trust established for local government entities in Colorado to pool surplus funds. The trusts operate similarly to a money market fund with each share maintaining a value of \$1.00. Investments consist of U.S. Treasury bills, notes and repurchase agreements collateralized by U.S. Treasury securities. Designated custodian banks provide safekeeping and depository services to the trusts. Substantially all securities owned by the trusts are held by the Federal Reserve Bank in the account maintained for the custodian banks. The custodians' internal records identify the investments owned by COLOTRUST. Financial statements for COLOTRUST may be obtained at www.colotrust.com.

As of December 31, 2009, the District had the following investments:

| | <u>Market Value</u> | <u>Maturities Up To One Year</u> |
|-------------------------|---------------------|--|
| Certificates of Deposit | \$ 1,977,886 | \$ 1,977,886 |
| Total Investments | <u>\$ 1,977,886</u> | <u>\$ 1,977,886</u> |

As of December 31, 2008, the District had the following investments:

| | <u>Market Value</u> | <u>Maturities Up To One Year</u> |
|-------------------------|---------------------|--|
| Certificates of Deposit | \$ 3,840,000 | \$ 3,840,000 |
| Total Investments | <u>\$ 3,840,000</u> | <u>\$ 3,840,000</u> |

As of December 31, 2009 and 2008, all investments have a maturity of less than one year and are, therefore, classified as short-term.

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE 3: CASH DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk (Continued)

It is the intent of the District to diversify the investments within the portfolio to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities.

Cash deposits and investments, as reported on the accompanying statement of net assets, are as follows:

| | 2009 | 2008 |
|--------------------------------------|---------------------|---------------------|
| Cash and Cash Equivalents | \$ 2,273,292 | \$ 810,298 |
| Restricted Cash and Cash Equivalents | 778,385 | 775,169 |
| Short-term Investments | 1,977,886 | 3,840,000 |
| Total | <u>\$ 5,029,563</u> | <u>\$ 5,425,467</u> |

The District's revenue bond indentures require the District to maintain special reserve accounts related to debt service. These restricted cash accounts are used to pay current and future interest and principal payments, as well as fund operational and maintenance expenses in the event there are insufficient funds available from current revenues.

NOTE 4: NOTES RECEIVABLE

Prior to 2008, the District expanded its service lines in Florence, Colorado. In order for homeowners to connect onto the service line, a charge of \$2,098 per connection for each residence was made.

The charges are in the nature of notes receivable which are collateralized and attached to the respective properties. The notes bear 5.0% simple interest, and monthly payments are \$11.26 for 30 years beginning in April 1994. Notes receivable at December 31, 2009 and 2008, amounted to \$11,036 and \$12,252, respectively. The current portion of notes receivable is approximately \$950 as of 2009.

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ending December 31, 2009, is summarized as follows:

| | January 1, 2009 Balance | Additions | Retirements | December 31, 2009 Balance |
|---------------------------------------|----------------------------|--------------------|------------------|------------------------------|
| Non-Depreciable Assets: | | | | |
| Land, Right of Ways, and Water Rights | \$ 1,050,944 | \$ | \$ | \$ 1,050,944 |
| Construction in Process | 78,212 | | 36,354 | 41,858 |
| Total Non-Depreciable | <u>1,129,156</u> | | <u>36,354</u> | <u>1,092,802</u> |
| Depreciable Assets: | | | | |
| Transmission System | 19,676,134 | 1,201,285 | | 20,877,419 |
| Treatment Plant | 13,956,728 | 39,834 | | 13,996,562 |
| Buildings and Improvements | 5,374,868 | | | 5,374,868 |
| Transportation Equipment | 345,197 | 25,775 | | 370,972 |
| Equipment | 1,513,737 | 12,816 | | 1,526,553 |
| Total Cost | <u>40,866,664</u> | <u>1,279,710</u> | | <u>42,146,374</u> |
| Accumulated Depreciation: | | | | |
| Transmission System | (8,839,750) | (549,902) | | (9,389,652) |
| Treatment Plant | (9,787,551) | (14,607) | | (9,802,158) |
| Buildings and Improvements | (2,437,565) | (694,258) | | (3,131,823) |
| Transportation Equipment | (217,522) | (37,364) | | (254,886) |
| Equipment | (852,474) | (73,720) | | (926,194) |
| Total Accumulated Depreciation | <u>(22,134,862)</u> | <u>(1,369,851)</u> | | <u>(23,504,713)</u> |
| Total Depreciable, Net | <u>18,731,802</u> | <u>(90,141)</u> | | <u>18,641,661</u> |
| Total Capital Assets, Net | <u>\$ 19,860,958</u> | <u>\$ (90,141)</u> | <u>\$ 36,354</u> | <u>\$ 19,734,463</u> |

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE 5: CAPITAL ASSETS (Continued)

Capital asset activity for the year ending December 31, 2008, is summarized as follows:

| | January 1, 2008 Balance | Additions | Retirements | December 31, 2008 Balance |
|---------------------------------------|----------------------------|--------------------|-----------------|------------------------------|
| Non-Depreciable Assets: | | | | |
| Land, Right of Ways, and Water Rights | \$ 1,050,944 | \$ | \$ | \$ 1,050,944 |
| Construction in Process | 15,362 | 71,710 | 8,860 | 78,212 |
| Total Non-Depreciable | <u>1,066,306</u> | <u>71,710</u> | <u>8,860</u> | <u>1,129,156</u> |
| Depreciable Assets: | | | | |
| Transmission System | 18,910,872 | 765,262 | | 19,676,134 |
| Treatment Plant | 13,878,016 | 78,712 | | 13,956,728 |
| Buildings and Improvements | 5,368,269 | 6,599 | | 5,374,868 |
| Transportation Equipment | 272,596 | 72,601 | | 345,197 |
| Equipment | 1,200,921 | 312,816 | | 1,513,737 |
| Total Cost | <u>39,630,674</u> | <u>1,235,990</u> | | <u>40,866,664</u> |
| Accumulated Depreciation: | | | | |
| Transmission System | (8,317,988) | (521,762) | | (8,839,750) |
| Treatment Plant | (9,779,734) | (7,817) | | (9,787,551) |
| Buildings and Improvements | (1,744,591) | (692,974) | | (2,437,565) |
| Transportation Equipment | (184,905) | (32,617) | | (217,522) |
| Equipment | (785,993) | (66,481) | | (852,474) |
| Total Accumulated Depreciation | <u>(20,813,211)</u> | <u>(1,321,651)</u> | | <u>(22,134,862)</u> |
| Total Depreciable, Net | <u>18,817,463</u> | <u>(85,661)</u> | | <u>18,731,802</u> |
| Total Capital Assets, Net | <u>\$ 19,883,769</u> | <u>\$ (13,951)</u> | <u>\$ 8,860</u> | <u>\$ 19,860,958</u> |

Depreciation expense, for the years ended December 31, 2009 and 2008, was \$1,369,851 and \$1,321,651, respectively.

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE 6: LONG-TERM DEBT

Outstanding debt, at December 31, 2009 and 2008, consisted of the following:

| | <u>2009 Balance</u> | <u>2008 Balance</u> |
|---|-------------------------|---------------------|
| Colorado Water Resource and Power Development Authority (CWRPDA) dated July 1, 1999 due in semi-annual installments through August 1, 2019 having an annual interest rate not to exceed 5.25% | \$ 4,836,342 | \$ 5,232,498 |
| Wastewater Enterprise Revenue Bond dated May 19, 1999, payable in semi-annual installments through May 19, 2039, having an annual interest rate of 4.5% | 636,881 | 647,074 |
| Wastewater Enterprise Revenue Bond dated May 19, 2003 due in semi-annual installments through May 19, 2043, having an annual interest rate of 4.5% | <u>476,386</u> | <u>482,401</u> |
| Total Bonds Payable | <u>\$ 5,949,609</u> | <u>\$ 6,361,973</u> |

The Wastewater Revenue Bond covenants require the District to maintain cash reserves for the related current and future debt service.

The CWRPDA note terms require the District to maintain an estimated cash reserve equivalent to three months of operating and maintenance expenses and to maintain "revenues" and appropriated balances, sufficient to pay operating expenses, plus 110% of the current year's debt service requirements.

Pledged Revenue

The District has pledged "net revenues" as collateral for the CWRPDA loan. This amount is defined under the agreement as all revenues, income, rents, and receipts earned by the District from, or attributable to, the ownership and operation of the wastewater treatment system related to the loan, net of operating expenses which are related to the actual maintenance and cost of operating the system, not including depreciation. These funds are pledged through August 1, 2019.

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE 6: LONG-TERM DEBT (Continued)

Pledged Revenue (Continued)

Total pledged revenue for 2009 and 2008 was \$1,765,980 and \$1,211,136, respectively. Total principal and interest payments for 2009 and 2008 were \$616,178 and \$622,508, respectively.

Changes to the District's long-term debt for 2009, are as follows:

| Long-term Debt | December 31, 2008 Balance | Additions | Payments & Reductions | December 31, 2009 Balance | Due Within One Year |
|---------------------------------|------------------------------|-----------|--------------------------|------------------------------|------------------------|
| CWRPDA | \$ 5,232,498 | \$ | \$ (396,156) | \$ 4,836,342 | \$ 413,318 |
| Series 1999A | 647,074 | | (10,193) | 636,881 | 10,657 |
| Series 2003A | 482,401 | | (6,015) | 476,386 | 6,289 |
| Total Outstanding Debt | 6,361,973 | | (412,364) | 5,949,609 | 430,264 |
| Unamortized Bond Discount | (8,465) | | 664 | (7,801) | |
| Unamortized Bond Costs | (64,909) | | 4,424 | (60,485) | |
| Principal Adjustments | (73,374) | | 5,088 | (68,286) | |
| Compensated Absences Payable | 298,741 | 39,082 | (228,431) | 109,392 | 109,392 |
| Net Outstanding Debt | \$ 6,587,340 | \$ 39,082 | \$ (635,707) | \$ 5,990,715 | \$ 539,656 |

Interest expense for the year ended December 31, 2009 and 2008, was \$231,860 and \$277,531, respectively. This amount includes administration fees of \$64,757 for both 2009 and 2008. Amortization expense for bond issuance costs was \$5,088 for both years ended December 31, 2009 and 2008.

The District's classification of compensated absences is dependent on employee usage of compensated absence balances. The District maintains the conservative approach of classifying the entire amount as current.

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE 6: LONG-TERM DEBT (Continued)

Future debt service payments, at December 31, 2009, are as follows:

| Year Ending December 31, | Principal | Interest | Total |
|-----------------------------|---------------------|---------------------|---------------------|
| 2010 | \$ 430,264 | \$ 241,657 | \$ 671,921 |
| 2011 | 447,137 | 229,208 | 676,345 |
| 2012 | 458,679 | 216,492 | 675,171 |
| 2013 | 475,625 | 203,422 | 679,047 |
| 2014 | 487,241 | 120,034 | 607,275 |
| 2015 - 2019 | 2,135,744 | 638,840 | 2,774,584 |
| 2020 - 2024 | 723,595 | 220,044 | 943,639 |
| 2025 - 2029 | 173,026 | 161,244 | 334,270 |
| 2030 - 2034 | 216,145 | 118,125 | 334,270 |
| 2035 - 2039 | 270,009 | 64,261 | 334,270 |
| 2040 - 2043 | 132,146 | 13,534 | 145,680 |
| Total | <u>\$ 5,949,611</u> | <u>\$ 2,226,861</u> | <u>\$ 8,176,472</u> |

The District entered into an agreement with the CWRPDA on September 4, 2009 for a principal forgiveness loan of \$2,000,000. The funds will be used for installation of a transmission line and a centralized sanitary sewer collection system to serve the Fremont Sanitary Sewer Line Extension Local Improvement District. The loan is issued as a 100% Principal Forgiveness Loan pursuant to the American Recovery and Reinvestment Act, and the principal amount of the loan shall be forgiven at closing date. Estimated project completion date is December 31, 2010. The loan term shall be from the date of loan execution until the date when the Water Quality Control Division of the Colorado Department of Health and Environment issues certification that the project is complete and the District has met all project and loan requirements.

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE 7: PENSION PLAN

Defined Benefit Pension Plan

Plan Description

The District contributes to the Local Government Division Trust Fund (LGDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). The LGDTF provides retirement and disability, post-retirement annual increases, and death benefits for members or their beneficiaries. All employees of the District are members of the LGDTF. Title 24, Article 51, of the Colorado Revised Statutes (CRS), as amended, assigns the authority to establish benefit provisions to the state legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the LGDTF. That report may be obtained online at www.copera.org or by writing to Colorado PERA, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

Plan members vest after five years of service, and most are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service, or at age 65 with five years of service. Members are also eligible for retirement benefits without a reduction for early retirement, if they are at least 55 and have a minimum of five years of service credit, and their age plus years of service equals 80 or more.

Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

Members disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled. If a member dies before retirement, his/her spouse or his/her eligible children under the age of 18 (23 if a full-time student) are entitled to monthly benefit payments. If there is no eligible spouse, financially dependent parents will receive a survivor's benefit.

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE 7: PENSION PLAN (Continued)

Defined Benefit Pension Plan (Continued)

Basis of Accounting

The financial statements of the LGDTF are prepared using the accrual basis of accounting. Member and employer contributions are recognized as revenues in the period in which the employer pays compensation to the member and the employer is statutorily committed to pay these contributions to the LGDTF. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The LGDTF plan investments are presented at fair value except for short-term investments, which are recorded at cost, which approximates fair value.

Funding Policy

The District is required to contribute member and employer contributions to PERA at a rate set by statute. The contribution requirements of plan members and the District are established under Title 24, Article 51, Part 4, of the CRS, as amended. The contribution rate for members is 8.0%, and for the District, it is 11.9% of covered salary. A portion of the District contribution (1.02% of covered salary) is allocated to the Health Care Trust Fund. If the District rehires a PERA retiree as an employee or under any other work arrangement, it is required to report and pay employer contributions on the amounts paid for the retiree; however, no member contributions are required. The District is also required to pay an amortization equalization disbursement equal to 1.8%, 1.4% and 1.0% of the total payroll for the calendar years 2009, 2008 and 2007, respectively. Additionally, the District is required to pay a supplemental amortization equalization disbursement equal to 1.0% and .05% of the total payroll for 2009 and 2008, respectively. For the years ending December 31, 2009, 2008, and 2007, the District's employer contributions to LGDTF were \$220,914, \$192,667, and \$149,892, respectively, equal to its required contributions for each year.

Salary subject to PERA contribution is gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code. The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly.

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE 7: PENSION PLAN (Continued)

Voluntary Tax-Deferred Retirement Plans

Plan Description

Employees of the District who are members of the LGDTF may voluntarily contribute to the Voluntary Investment Program (401(k) Plan), an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Plan participation is voluntary, and contributions are separate from others made to PERA. Title 24, Article 51, Part 14, of the CRS, as amended, assigns the authority to establish the 401(k) Plan provisions to the state legislature.

Funding Policy

The 401(k) Plan is funded by voluntary member contributions of up to a maximum limit set by the IRS (\$16,900 in 2009 and \$15,500 in 2008). The contribution requirements for the District are established under Title 24, Article 51, Section 1402, of the CRS, as amended. For the years ended December 31, 2009 and 2008, the 401(k) Plan member contributions from the District were \$74,095 and \$91,662, respectively.

NOTE 8: 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; natural disasters; or environmental liabilities due to the nature of its operations. The District maintains commercial insurance for all risks of loss through the Special Districts Insurance Pool (Pool). Settled claims have not exceeded the District's insurance coverage in any of the past three years.

The Pool agreement also gives the Board of Directors of the Pool the power to establish that additional contributions, at such times and in such amounts as the Board determines, are needed for the purposes of the Pool. The Board may decide to distribute surplus funds among members.

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE 8: RISK MANAGEMENT (Continued)

In addition, the District has completed a vulnerability assessment and updated the emergency response plan, as required by the Environmental Protection Agency of the United States government.

NOTE 9: TAX, SPENDING AND DEBT LIMITATIONS

In 1992, Colorado voters approved Amendment 1, commonly known as the Taxpayer's Bill of Rights (TABOR), which adds a new Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

Enterprises, defined as government-owned businesses 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.

TABOR establishes 1992 as the initial base for spending and revenue limits. Future spending and revenue limits can be adjusted for inflation and local growth without voter approval. TABOR requires the establishment of Emergency Reserves that must be at least 3% of spending (excluding bonded debt service). Excess funds within the spending and revenue limits can be reserved for general use, and when spent in subsequent years, are not subject to the spending limits mentioned above.

The District presents restricted net assets of \$146,500 and \$139,433 at December 31, 2009 and 2008, respectively, to be reserved in accordance with the provisions of TABOR.

TABOR requires, with certain exceptions, voter approval prior to imposing new taxes, increasing taxes or spending above the limits prescribed above, increasing a mill levy, or implementing a tax policy change directly causing a net tax revenue gain to any local government. Multiple-fiscal year debt requires voter approval except for bond refinancing at lower interest rates or adding employees to existing pension plans.

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE 9: TAX, SPENDING AND DEBT LIMITATIONS (Continued)

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and many of the provisions, including the calculation of fiscal year spending limits, growth factors and qualifications as an Enterprise, as defined by TABOR, will require judicial interpretation.

NOTE 10: RELATED ORGANIZATION

The District's Board of Directors is responsible for appointing two of seven board members to the Fremont County Regional Geographical Information System (GIS) Authority Board (Authority). However, the District's accountability for the Authority does not extend beyond making these board appointments.

Although the District's management did consider the Authority for inclusion in the District's financial statements as a component unit, the Authority did not meet the criteria prescribed by GASB for component units and is not included in the District's basic financial statements.

NOTE 11: COMMITMENTS

At December 31, 2009, the District had outstanding commitments totaling \$1,457,422 for construction services related to the North Canon Project.

SUPPLEMENTAL INFORMATION

***B
& C***

FREMONT SANITATION DISTRICT

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

For the Year Ended December 31, 2009

| | Original Budget | Amended Budget | Actual (Non-GAAP Basis) | Variance Positive (Negative) |
|--------------------------------|--------------------|-------------------|-------------------------------|------------------------------------|
| REVENUES | | | | |
| Operating | | | | |
| Sewer Service Charges | \$ 4,259,032 | \$ 4,259,032 | \$ 4,353,253 | \$ 94,221 |
| Miscellaneous Income | 185,040 | 185,040 | 61,605 | (123,435) |
| Non-Operating | | | | |
| Capital Grants | | 3,300,000 | 535,478 | (2,764,522) |
| Interest Income | 38,700 | 38,700 | 86,238 | 47,538 |
| System Development Fees | 260,000 | 260,000 | 69,966 | (190,034) |
| TOTAL REVENUES | 4,742,772 | 8,042,772 | 5,106,540 | (2,936,232) |
| EXPENSES | | | | |
| Plant Operations | | | | |
| Construction | | | | |
| Personnel Services | 337,594 | 337,594 | 166,202 | 171,392 |
| Operating Expenses | 142,716 | 142,716 | 91,278 | 51,438 |
| Capital Outlay | 98,000 | 3,398,000 | | 3,398,000 |
| Total Construction | 578,310 | 3,878,310 | 257,480 | 3,620,830 |
| Transmission | | | | |
| Personnel Services | 378,532 | 378,532 | 349,964 | 28,568 |
| Operating Expenses | 84,538 | 84,538 | 59,730 | 24,808 |
| Capital Outlay | 30,000 | 30,000 | | 30,000 |
| Total Transmission | 493,070 | 493,070 | 409,694 | 83,376 |
| Treatment Plant | | | | |
| Personnel Services | 676,167 | 676,167 | 527,025 | 149,142 |
| Operating Expenses | 390,849 | 390,849 | 355,841 | 35,008 |
| Capital Outlay | 158,500 | 158,500 | | 158,500 |
| Total Treatment Plant | 1,225,516 | 1,225,516 | 882,866 | 342,650 |
| Solids Processing | | | | |
| Personnel Services | 33,000 | 33,000 | 31,357 | 1,643 |
| Operating Expenses | 187,890 | 187,890 | 155,438 | 32,452 |
| Capital Outlay | 54,500 | 54,500 | | 54,500 |
| Total Solids Processing | 275,390 | 275,390 | 186,795 | 88,595 |
| Laboratory | | | | |
| Personnel Services | 76,270 | 76,270 | 79,213 | (2,943) |
| Operating Expenses | 47,562 | 47,562 | 39,261 | 8,301 |
| Total Laboratory | 123,832 | 123,832 | 118,474 | 5,358 |
| Pretreatment | | | | |
| Personnel Services | 67,736 | 67,736 | 52,091 | 15,645 |
| Operating Expenses | 35,431 | 35,431 | 26,369 | 9,062 |
| Total Pretreatment | \$ 103,167 | \$ 103,167 | \$ 78,460 | \$ 24,707 |

(Continued)

See accompanying independent auditors' report.

FREMONT SANITATION DISTRICT

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (Continued)

For the Year Ended December 31, 2009

| | Original Budget | Amended Budget | Actual (Non-GAAP Basis) | Variance Positive (Negative) |
|--|--------------------|-------------------|-------------------------------|------------------------------------|
| EXPENSES (Cont'd) | | | | |
| Engineering | | | | |
| Personnel Services | \$ 483,008 | \$ 483,008 | \$ 420,611 | \$ 62,397 |
| Operating Expenses | 95,136 | 95,136 | 80,296 | 14,840 |
| Total Engineering | 578,144 | 578,144 | 500,907 | 77,237 |
| Total Plant Operations | 3,377,429 | 6,677,429 | 2,434,676 | 4,242,753 |
| Administration | | | | |
| Buildings and Grounds - Plant | | | | |
| Personnel Services | 14,526 | 14,526 | 42,059 | (27,533) |
| Operating Expenses | 40,123 | 40,123 | 20,143 | 19,980 |
| Total Buildings and Grounds | 54,649 | 54,649 | 62,202 | (7,553) |
| Buildings and Grounds - Service Center | | | | |
| Personnel Services | 47,877 | 47,877 | 53,090 | (5,213) |
| Operating Expenses | 73,950 | 73,950 | 50,062 | 23,888 |
| Capital Outlay | 17,500 | 17,500 | | 17,500 |
| Total Buildings and Grounds | 139,327 | 139,327 | 103,152 | 36,175 |
| Board Services | | | | |
| Personnel Services | 12,171 | 12,171 | 11,965 | 206 |
| Operating Expenses | 14,959 | 14,959 | 6,959 | 8,000 |
| Total Board Services | 27,130 | 27,130 | 18,924 | 8,206 |
| Finance | | | | |
| Personnel Services | 324,987 | 324,987 | 311,239 | 13,748 |
| Operating Expenses | 188,495 | 188,495 | 170,852 | 17,643 |
| Total Finance | 513,482 | 513,482 | 482,091 | 31,391 |
| District Management | | | | |
| Personnel Services | 134,265 | 134,265 | 166,088 | (31,823) |
| Operating Expenses | 65,735 | 65,735 | 62,271 | 3,464 |
| Total District Management | 200,000 | 200,000 | 228,359 | (28,359) |
| Total Administration | 934,588 | 934,588 | 894,728 | 39,860 |
| Capital Projects | | | | |
| System and Plant Expansion | 1,374,000 | 1,374,000 | | 1,374,000 |
| Debt Service | | | | |
| Principal Debt Payments | 418,789 | 418,789 | 407,276 | 11,513 |
| Interest Payments and Fees | 277,356 | 277,356 | 231,860 | 45,496 |
| Total Debt Service | 696,145 | 696,145 | 639,136 | 57,009 |
| TOTAL EXPENSES | 6,382,162 | 9,682,162 | 3,968,540 | 5,713,622 |
| INCREASE IN NET ASSETS | \$ (1,639,390) | \$ (1,639,390) | \$ 1,138,000 | \$ 2,777,390 |

See accompanying independent auditors' report.

FREMONT SANITATION DISTRICT

RECONCILIATION OF THE SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

For the Year Ended December 31, 2009

RECONCILIATION OF BUDGETARY BASIS
ACCOUNTING TO GAAP BASIS ACCOUNTING

BUDGETARY BASIS

Explanation of differences between budgetary basis and GAAP basis:

REVENUES

| | |
|--------------------------------|--------------|
| Actual (Non-GAAP basis) Amount | \$ 5,106,540 |
|--------------------------------|--------------|

Differences - budget to GAAP:

Deferred revenues are reported as a liability for reporting purposes but are considered a budgetary resource

| | | |
|--------------------------|------------------|----------|
| Deferred Revenues - 2008 | \$ 280,845 | |
| Deferred Revenues - 2009 | <u>(292,001)</u> | (11,156) |

| | |
|---------------------|------------------|
| GAAP Basis Revenues | <u>5,095,384</u> |
|---------------------|------------------|

EXPENSES

| | |
|--------------------------------|-----------|
| Actual (Non-GAAP basis) amount | 3,968,540 |
|--------------------------------|-----------|

Differences - budget to GAAP

| | |
|---|-----------|
| Principal payments on bonds payable are expenses of budgetary resources, but are not considered expenses for reporting purposes | (407,276) |
|---|-----------|

| | |
|---|-----------|
| Depreciation is an expense for reporting purposes but is not a use of budgetary resources | 1,369,851 |
|---|-----------|

| | |
|--|--------------|
| Amortization of bond issuance cost is an expense for reporting purposes but is not considered a use of budgetary resources | <u>5,088</u> |
|--|--------------|

| | |
|---------------------|------------------|
| GAAP Basis Expenses | <u>4,936,203</u> |
|---------------------|------------------|

| | |
|-----------------------------------|--------------------------|
| GAAP Basis Increase in Net Assets | <u><u>\$ 159,181</u></u> |
|-----------------------------------|--------------------------|

See accompanying independent auditors' report.

FREMONT SANITATION DISTRICT

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

For the Year Ended December 31, 2008

| | Budget (Original & Final) | Actual (Non-GAAP Basis) | Variance Positive (Negative) |
|-------------------------|---------------------------------|----------------------------|---------------------------------|
| REVENUES | | | |
| Operating | | | |
| Sewer Service Charges | \$ 4,114,809 | \$ 4,199,119 | \$ 84,310 |
| Miscellaneous Income | 1,654,162 | 32,969 | (1,621,193) |
| Non-Operating | | | |
| Interest Income | 120,000 | 218,275 | 98,275 |
| System Development Fees | 200,000 | 103,129 | (96,871) |
| TOTAL REVENUES | 6,088,971 | 4,553,492 | (1,535,479) |
| EXPENSES | | | |
| Plant Operations | | | |
| Construction | | | |
| Personnel Services | 379,728 | 335,580 | 44,148 |
| Operating Expenses | 142,100 | 110,897 | 31,203 |
| Capital Outlay | 102,500 | | 102,500 |
| Total Construction | 624,328 | 446,477 | 177,851 |
| Transmission | | | |
| Personnel Services | 340,988 | 342,560 | (1,572) |
| Operating Expenses | 96,239 | 73,730 | 22,509 |
| Capital Outlay | 264,000 | | 264,000 |
| Total Transmission | 701,227 | 416,290 | 284,937 |
| Treatment Plant | | | |
| Personnel Services | 582,282 | 521,631 | 60,651 |
| Operating Expenses | 341,714 | 344,668 | (2,954) |
| Capital Outlay | 138,000 | | 138,000 |
| Total Treatment Plant | 1,061,996 | 866,299 | 195,697 |
| Solids Processing | | | |
| Personnel Services | 33,631 | 30,102 | 3,529 |
| Operating Expenses | 171,497 | 128,167 | 43,330 |
| Capital Outlay | 45,000 | | 45,000 |
| Total Solids Processing | 250,128 | 158,269 | 91,859 |
| Laboratory | | | |
| Personnel Services | 71,168 | 81,399 | (10,231) |
| Operating Expenses | 44,224 | 29,024 | 15,200 |
| Total Laboratory | 115,392 | 110,423 | 4,969 |
| Pretreatment | | | |
| Personnel Services | 62,095 | 64,910 | (2,815) |
| Operating Expenses | 26,709 | 14,285 | 12,424 |
| Capital Outlay | 24,000 | | 24,000 |
| Total Pretreatment | \$ 112,804 | \$ 79,195 | \$ 33,609 |

(Continued)

See accompanying independent auditors' report.

FREMONT SANITATION DISTRICT

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (Continued)

For the Year Ended December 31, 2008

| | Budget (Original & Final) | Actual (Non-GAAP Basis) | Variance Positive (Negative) |
|--|---------------------------------|----------------------------|---------------------------------|
| EXPENSES (Cont'd) | | | |
| Engineering | | | |
| Personnel Services | \$ 444,188 | \$ 405,909 | \$ 38,279 |
| Operating Expenses | 82,943 | 77,725 | 5,218 |
| Total Engineering | 527,131 | 483,634 | 43,497 |
| Total Plant Operations | 3,393,006 | 2,560,587 | 832,419 |
| Administration | | | |
| Buildings and Grounds - Plant | | | |
| Personnel Services | 10,381 | 45,011 | (34,630) |
| Operating Expenses | 44,511 | 27,036 | 17,475 |
| Capital Outlay | 60,000 | | 60,000 |
| Total Buildings and Grounds | 114,892 | 72,047 | 42,845 |
| Buildings and Grounds - Service Center | | | |
| Personnel Services | 38,345 | 51,896 | (13,551) |
| Operating Expenses | 57,288 | 41,517 | 15,771 |
| Capital Outlay | 40,800 | | 40,800 |
| Total Buildings and Grounds | 136,433 | 93,413 | 43,020 |
| Board Services | | | |
| Personnel Services | 11,430 | 11,475 | (45) |
| Operating Expenses | 29,022 | 8,802 | 20,220 |
| Total Board Services | 40,452 | 20,277 | 20,175 |
| Finance | | | |
| Personnel Services | 315,463 | 298,159 | 17,304 |
| Operating Expenses | 185,290 | 153,458 | 31,832 |
| Capital Outlay | 9,352 | | 9,352 |
| Total Finance | 510,105 | 451,617 | 58,488 |
| District Management | | | |
| Personnel Services | 49,424 | 77,638 | (28,214) |
| Operating Expenses | 142,514 | 50,526 | 91,988 |
| Total District Management | 191,938 | 128,164 | 63,774 |
| Total Administration | 993,820 | 765,518 | 228,302 |
| Capital Projects | | | |
| System and Plant Expansion | 686,000 | | 686,000 |
| Debt Service | | | |
| Principal Debt Payments | 418,083 | 407,346 | 10,737 |
| Interest Payments and Fees | 278,061 | 277,531 | 530 |
| Total Debt Service | 696,144 | 684,877 | 11,267 |
| TOTAL EXPENSES | 5,768,970 | 4,010,982 | 1,757,988 |
| INCREASE IN NET ASSETS | \$ 320,001 | \$ 542,510 | \$ 222,509 |

See accompanying independent auditors' report.

FREMONT SANITATION DISTRICT

RECONCILIATION OF THE SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

For the Year Ended December 31, 2008

**RECONCILIATION OF BUDGETARY BASIS
ACCOUNTING TO GAAP BASIS ACCOUNTING**

BUDGETARY BASIS

Explanation of differences between budgetary basis and GAAP basis:

REVENUES

| | | |
|--|--------------|--------------|
| Actual (Non-GAAP basis) Amount | | \$ 4,553,492 |
| Differences - budget to GAAP | | |
| Deferred revenues are reported as a liability for reporting purposes but are considered a budgetary resource | | |
| Deferred Revenues - 2008 | \$ (280,845) | |
| Deferred Revenues - 2007 | 264,594 | (16,251) |

| | |
|---------------------|------------------|
| GAAP Basis Revenues | <u>4,537,241</u> |
|---------------------|------------------|

EXPENSES

| | |
|--------------------------------|-----------|
| Actual (Non-GAAP basis) amount | 4,010,982 |
|--------------------------------|-----------|

Differences - budget to GAAP

| | |
|---|-----------|
| Principal payments on bonds payable are expenses of budgetary resources, but are not considered expenses for reporting purposes | (407,346) |
|---|-----------|

| | |
|---|-----------|
| Depreciation is an expense for reporting purposes but is not a use of budgetary resources | 1,321,651 |
|---|-----------|

| | |
|--|--------------|
| Amortization of bond issuance cost is an expense for reporting purposes but is not considered a use of budgetary resources | <u>5,088</u> |
|--|--------------|

| | |
|---------------------|------------------|
| GAAP Basis Expenses | <u>4,930,375</u> |
|---------------------|------------------|

| | |
|-----------------------------------|----------------------------|
| GAAP Basis Increase in Net Assets | <u><u>\$ (393,134)</u></u> |
|-----------------------------------|----------------------------|

See accompanying independent auditors' report.



BONDI & Co. LLC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

44 INVERNESS DRIVE EAST
ENGLEWOOD, COLORADO 80112

www.bondico.com

(303) 799-6826 PHONE
(800) 250-9083 TOLL-FREE

(303) 799-6926 FAX

**Board of Directors
Fremont Sanitation District
Canon City, Colorado**

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards**

We have audited the financial statements of the Fremont Sanitation District (District), as of and for the year ended December 31, 2009, and have issued our report thereon dated April 19, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Board of Directors
Fremont Sanitation District**

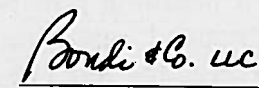
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated April 19, 2010.

This report is intended solely for the information and use of management, the Board of Directors, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

April 19, 2010


BONDI & Co. LLC



BONDI & Co. LLC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

44 INVERNESS DRIVE EAST
ENGLEWOOD, COLORADO 80112

www.bondico.com

(303) 799-6826 PHONE
(800) 250-9083 TOLL-FREE

(303) 799-6926 FAX

**Board of Directors
Fremont Sanitation District
Canon City, Colorado**

**Report on Compliance with Requirements Applicable to Each
Major Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133**

Compliance

We have audited the compliance of the Fremont Sanitation District (District) with the types of compliance requirements described in OMB *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2009. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2009.

Board of Directors
Fremont Sanitation District

Internal Control Over Compliance

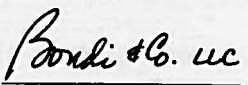
The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

April 19, 2010


BONDI & Co. LLC

FREMONT SANITATION DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2009

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes ☒ no

**Significant deficiency(ies) identified not
considered to be material weakness(es)?**

_____ yes ☒ none reported

**Noncompliance material to financial
statements noted?**

_____ yes ☒ no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ yes ☒ no

**Significant deficiency(ies) identified not
considered to be material weakness(es)?**

_____ yes ☒ none reported

**Type of auditors' report issued on compliance
for major programs:**

Unqualified

**Any audit findings disclosed that are required
to be reported in accordance with Circular A-133,
Section .510(a)?**

_____ yes ☒ no

Identification of major programs:

CFDA Number(s)

66.458

Name of Federal Program or Cluster

Capitalization Grants for Clean Water State Revolving Funds

**Dollar threshold used to distinguish between
Type A and Type B programs:**

\$300,000

Auditee qualified as low-risk auditee?

_____ yes ☒ no

FREMONT SANITATION DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended December 31, 2009

Section II - Financial Statement Findings

There were no findings relating to the audit of Fremont Sanitation District's basic financial statements that are required to be reported under *generally accepted government auditing standards*.

Section III - Federal Award Findings and Questioned Costs

There were no findings relating to Fremont Sanitation District's major federal awards program.

FREMONT SANITATION DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2009

| <u>Federal Agency/ Pass-Through Grantor Program Title</u> | <u>Federal CFDA Number</u> | <u>Expenditures</u> |
|--|------------------------------------|---------------------|
| <u>U.S. Department of Housing and Urban Development</u> | | |
| Community Development Block Grant 07-008 | 14.228 | \$ 106,642 |
| <u>Environmental Protection Agency</u> | | |
| <i>Passed through the Colorado Water Resources and Power Development Authority</i> | | |
| Capitalization Grant for Clean Water State Revolving Funds | 66.458 | <u>428,836</u> |
| Total | | <u>\$ 535,478</u> |

See the accompanying note to the schedule of expenditures of federal awards.

FREMONT SANITATION DISTRICT

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2009

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Fremont Sanitation District (District) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts reported in, or used in, the preparation of the basic financial statements.