

***FREMONT SANITATION DISTRICT***

**FINANCIAL STATEMENTS**

**December 31, 2011 and 2010**

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**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 year ended December 31, 2011, 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 audit. The financial statements as of December 31, 2010, were audited by Bondi & Co. LLC, who merged with RubinBrown LLP as of June 1, 2011, and whose report dated March 14, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of December 31, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages i through ix, be presented to supplement the basic financial statements. Such information, although not 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 historic 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The budget comparison schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such 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. The 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

*RubinBrown LLP*

March 14, 2012



# Fremont Sanitation District

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## ANNUAL REPORT

YEAR ENDING DECEMBER 31, 2011

### *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 2011

- Total Net Assets, after accumulated depreciation expense decreased by \$618,582.
- Operating Fund balance decreased by \$126,439.
- Depreciation expense was in the amount of \$1,436,817.
- Total Liabilities decreased by \$666,353.
- There was a reduction in Long Term Debt of \$447,138
- Operating Revenues increased \$42,210.

## ***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 or own property 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 154 miles of pipes and 2,800 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, 2011, we reported an increase of 67 new accounts which translates to 67 Equivalent Residential Units (ERU's). 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, 2011. 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 2011



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 \$1,623,850. Total Assets, which is defined as the total resources owned by the District, decreased by \$1,284,935. 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 2011, the District had \$1,436,817 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.

**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>2010</u>	<u>2011</u>	<u>Change Gain/(Loss)</u>
Residential Customers	\$2,616,048	\$2,701,289	\$ 85,231
Commercial Customers	\$ 598,477	\$ 589,860	(\$ 8,617)
Institutional (Prisons)	\$1,118,990	\$1,066,731	(\$ 52,259)
Capital Recovery	\$1,987,597	\$ 380,055	(\$1,607,542)
Interest Income	\$ 188	\$ 549	\$ 361
Other Revenues	<u>\$ 253,653</u>	<u>\$ 271,331</u>	<u>\$ 17,678</u>
Total Revenues	<u>\$6,574,953</u>	<u>\$5,009,815</u>	<u>(\$1,565,148)</u>

Revenue for services increased by \$24,355. Revenues from residential and commercial customers met 2011 budget projections, while revenues from the Federal Correctional Facility



were slightly higher than budget projections. Revenues from Colorado Department of Corrections finished the budget year at 94% of projected revenues. This shortfall is attributed to extensive water conservation projects being implemented at the Territorial Prison Facility.

## EXPENSES

### Condensed Statement of Expenses

	<u>2010</u>	<u>2011</u>	<u>Change Gain/(Loss)</u>
Waste Transmission	\$ 883,128	\$ 775,564	(\$ 107,564)
Treatment Plant	\$1,136,933	\$1,305,524	\$ 168,591
District Administration	<u>\$4,576,075</u>	<u>\$3,547,308</u>	<u>(\$1,028,767)</u>
Total Expenses	<u>\$6,596,136</u>	<u>\$5,628,396</u>	<u>(\$ 967,740)</u>

## CAPITAL ASSETS

As of December 31, 2011, the District had capital assets of \$19,256,020. The District received \$45,000 in System Development Fees during Budget Year 2011. 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.

### Condensed Statement of Net Assets

	<u>2010</u>	<u>2011</u>	<u>Change Gain/(Loss)</u>
Cash and Other Assets	\$ 6,542,454	\$ 6,251,332	(\$ 291,122)
Capital Assets	<u>\$20,249,833</u>	<u>\$19,256,020</u>	<u>(\$ 993,813)</u>
Total Assets	\$26,792,287	\$25,507,352	(\$1,284,935)
Outstanding Long Term Debt	\$5,009,012	\$4,555,420	(\$ 453,592)
Current Liabilities	<u>\$1,281,387</u>	<u>\$1,068,626</u>	<u>(\$ 212,761)</u>
Total Liabilities	\$6,290,399	\$5,624,046	(\$ 666,353)
<u>Net Assets</u>			
Invested in Capital Assets			
Net of Related Debt	\$14,737,621	\$14,190,281	(\$ 547,340)

Restricted	\$ 142,000	\$ 160,000	\$ 18,000
Unrestricted	\$ 5,622,267	\$ 5,533,025	(\$ 89,242)
Total Net Assets	<u>\$20,501,888</u>	<u>\$19,883,306</u>	<u>(\$ 618,582)</u>

## LONG-TERM DEBT

As of December 31, 2011, the District had \$5,072,211 in outstanding debt principal. This amount represents a reduction in the amount of \$447,136 as the result of payments during 2011. Of this outstanding debt principal amount, \$1,078,605 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.

### Condensed Schedule of Revenues-Expenses Budget and Actual

	<u>Budget</u> Original 2011	<u>Budget</u> Amended 2011	<u>Actual</u> 2011
Revenues	\$4,683,129	\$4,980,764	\$5,014,782
Expenses	\$5,004,994	\$5,794,781	\$5,076,634

## ECONOMIC FACTORS AND NEXT YEARS BUDGET AND RATES

The District’s Board of Directors adopted the 2012 Budget on December 20, 2011. The adopted budget contained a 1.75% rate increase for 2012.

The slow economy has significantly reduced housing and business starts during the previous two years and this trend is expected to continue throughout 2012. In such, Residential and Commercial System Development Fees have been modestly estimated at \$10,000 and \$15,000 respectively for the 2012 Budget. The District anticipates receiving \$618,000 in System Development Fees from the Federal Bureau of Prisons for currently housed inmates in excess of their allowable population at the Florence Complex. Additionally, \$178,500 is budgeted for System Development Fees anticipated to be collected from the Colorado Department of Corrections for additional inmates at the East Canon City Correction Complex.

### **Five Year Projection**

The District entered into an Energy Performance Contract with Johnson Controls, Inc. in January 2011 in the sum of \$508,560. The goal of this contract is to significantly reduce the amount of electric, natural gas and water consumed by District facilities and thus return substantial long-term operational savings over the next 20 years. This contract was completed November 2011, at a total cost of \$502,358.

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 manholes. 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 was repaired in January 2012. 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 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.

Potential new permit limits on nitrogen and phosphorus discharges are currently being discussed at the State level. The Colorado Department of Public Health and Environment (CDPH&E) has proposed limits that could potentially require the District to modify the treatment processes utilized at the Rainbow Park Regional Wastewater Treatment Plant. If the proposed limits are implemented, it is estimated that plant renovations could exceed \$10 million. It is anticipated that CDPH&E will issue new permit limits during 2012.

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@fsd.co](mailto:info@fsd.co).

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“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, 2011 and 2010

ASSETS	2011	2010
Current Assets:		
Cash and Cash Equivalents (Note 3)	\$ 1,804,530	\$ 1,649,566
Investments, Short-Term (Note 3)	1,289,176	2,812,693
Grants Receivable		252,390
Customer and Other Accounts Receivable (Note 2)	565,530	548,026
Notes Receivable, Current (Note 4)	672	861
Inventory - Consumable Supplies	75,600	95,822
Total Current Assets	3,735,508	5,359,358
Noncurrent Assets:		
Loan Savings Receivable	6,426	6,426
Restricted Cash and Investments (Note 3)	2,503,890	1,168,619
Notes Receivable, Long-Term (Note 4)	5,508	8,051
Total Noncurrent Assets	2,515,824	1,183,096
Capital Assets (Note 5):		
Non-Depreciable	1,088,153	1,053,508
Depreciable, Net of Accumulated Depreciation	18,167,867	19,196,325
Total Capital Assets	19,256,020	20,249,833
Total Assets	25,507,352	26,792,287
LIABILITIES		
Current Liabilities:		
Accounts Payable	83,027	299,245
Accrued Interest Payable	76,134	81,196
Long-Term Debt, Current (Note 6)	458,679	447,137
Accrued Salaries and Wages and Related Liabilities	33,717	33,156
Compensated Absences (Note 6)	109,158	117,709
Deferred Revenues - Customer User Charges	307,911	302,944
Total Current Liabilities	1,068,626	1,281,387
Non-Current Liabilities:		
Long-Term Debt, Net of Unamortized Discount and Issuance Costs (Note 6)	4,555,420	5,009,012
Total Liabilities	5,624,046	6,290,399
Net Assets		
Invested in Capital Assets, Net of Related Debt Restricted (Note 9)	14,190,281	14,737,621
Unrestricted	5,533,025	5,622,267
Total Net Assets	\$ 19,883,306	\$ 20,501,888

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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>OPERATING REVENUES</b>		
Customer Service Charges	\$ 4,534,500	\$ 4,500,608
Miscellaneous	94,373	86,055
Total Operating Revenues	<u>4,628,873</u>	<u>4,586,663</u>
<b>OPERATING EXPENSES</b>		
Waste Collection and Transmission	1,628,578	1,179,258
Wastewater Treatment	1,137,119	1,053,585
Solids Processing	193,326	197,939
Buildings and Grounds - Plant	59,412	19,304
Buildings and Grounds - Service Center	87,029	92,122
Administration - Finance	404,635	429,427
Administration - Information Technology	190,574	194,555
Administration - Management and General	193,997	175,850
Depreciation (Note 5)	1,436,817	1,385,459
Total Operating Expenses	<u>5,331,487</u>	<u>4,727,499</u>
OPERATING LOSS	<u>(702,614)</u>	<u>(140,836)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest Income	38,307	50,340
Bond Interest Expense	(224,146)	(239,827)
Loss on Disposal	(67,677)	
Amortization Expense (Note 6)	(5,087)	(5,086)
Net Nonoperating Revenues (Expenses)	<u>(258,603)</u>	<u>(194,573)</u>
Loss Before Contributions	<u>(961,217)</u>	<u>(335,409)</u>
<b>CAPITAL CONTRIBUTIONS</b>		
Capital Grants	297,635	1,866,467
System Development Fees	45,000	71,481
Total Capital Contributions	<u>342,635</u>	<u>1,937,948</u>
CHANGE IN NET ASSETS	(618,582)	1,602,539
NET ASSETS, Beginning of Year	<u>20,501,888</u>	<u>18,899,349</u>
NET ASSETS, End of Year	<u>\$ 19,883,306</u>	<u>\$ 20,501,888</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, 2011 and 2010

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Customers	\$ 4,521,963	\$ 4,565,188
Payments to Suppliers	(2,433,081)	(1,668,820)
Payments to Employees	(1,665,575)	(1,716,036)
Miscellaneous Receipts	94,373	86,055
Net Cash Provided by Operating Activities	<u>517,680</u>	<u>1,266,387</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Collections on Notes Receivable	2,732	2,124
Capital Grants Received	550,025	1,783,729
Acquisition of Capital Assets	(510,680)	(1,896,601)
Reclassification of Capital Assets		(4,228)
Principal Payments	(447,137)	(430,260)
Interest Paid	(229,209)	(241,657)
Contributions - System Development Fees	45,000	71,481
Net Cash Used in Capital and Related Financing Activities	<u>(589,269)</u>	<u>(715,412)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net Investment Activity	1,523,517	(834,807)
Interest Received	38,307	50,340
Net Cash Provided by (Used in) Investing Activities	<u>1,561,824</u>	<u>(784,467)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,490,235</b>	<b>(233,492)</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	<b>2,818,185</b>	<b>3,051,677</b>
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	<b><u>4,308,420</u></b>	<b><u>2,818,185</u></b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>		
Cash and Cash Equivalents	1,804,530	1,649,566
Restricted Cash	2,503,890	1,168,619
Total Cash and Cash Equivalents	<u>4,308,420</u>	<u>2,818,185</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>OPERATING LOSS</b>	<b>(702,614)</b>	<b>(140,836)</b>
<b>ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Depreciation	1,436,817	1,385,459
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(17,504)	53,637
Decrease in Prepaid Expenses		2,254
(Increase) Decrease in Inventory	20,222	(28,843)
Increase (Decrease) in Accounts Payable	(216,218)	36,289
Increase (Decrease) in Accrued Compensated Absences	(8,551)	8,317
Increase (Decrease) in Wages and Related Liabilities	561	(60,833)
Increase in Deferred Revenues	4,967	10,943
Net Cash Provided by Operating Activities	<u>\$ 517,680</u>	<u>\$ 1,266,387</u>

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

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011 and 2010

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, 2011 and 2010

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 before, but not 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.

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, 2011 and 2010

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 collection 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, 2011 and 2010

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 did not designate any unrestricted net assets to be used for the purchase of equipment in 2011, but designated \$180,040 in 2010.

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

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 of Directors' meeting, the District Manager submits the budget to the Board of Directors at a planning session. In December 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 level of control (level at which expenses may not exceed appropriations) is at the total fund level.

The Board of Directors may amend the budget at any time during the year. For 2011 the District amended the budget by \$789,787. For 2010, the District amended the budget by \$1,903,266.

**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 and debt issuance costs are treated as expenses for budget purposes, and deferred revenues are treated as collected revenues for budgetary purposes.

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Budgetary Basis (Continued)**

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. 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 about 24% of revenues in 2011 and 25% in 2010. The Department of Corrections and the Federal Correction Center account for approximately 15% and 9%, respectively, of total service charge revenues in 2011 and 16% and 9%, respectively, in 2010. These entities account for approximately 5% and 3%, respectively, of accounts receivable in 2011 and 11% and 5%, respectively, in 2010.

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



FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE 3: CASH DEPOSITS AND INVESTMENTS (Continued)

**Cash Deposits (Continued)**

The market value of the collateral must be at least equal to 102% of the uninsured deposits.

Federal Deposit Insurance Corporation (FDIC) coverage for government accounts is \$250,000 per official custodian. As part of the Dodd-Frank Wall Street Reform and Customer Protection Act passed by Congress on July 21, 2010, a separate and unlimited deposit insurance coverage is provided for accounts that meet the definition of non-interest bearing transaction account' which is separate from the \$250,000 coverage provided for other types of accounts. This additional coverage is effective through December 31, 2012.

At December 31, 2011 and 2010, the District had the following book and bank balances:

	2011		2010	
	Book	Bank	Book	Bank
Cash on Hand	\$ 800	\$	\$ 800	\$
Insured	3,395,493	3,395,493	1,766,088	1,766,088
Collateralized	2,201,303	2,215,248	3,863,990	4,297,448
Total Cash Deposits	<u>\$ 5,597,596</u>	<u>\$ 5,610,741</u>	<u>\$ 5,630,878</u>	<u>\$ 6,063,536</u>

**Investments**

The District does not have a Board-adopted investment policy but, rather, follows the requirements of Colorado Revised Statutes. 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

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE 3: CASH DEPOSITS AND INVESTMENTS (Continued)

**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.

**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, 2011, the District had the following investments:

	<u>Market Value</u>	<u>Maturities Up To One Year</u>
Certificates of Deposit	\$ 2,959,248	\$ 2,959,248
Total Investments	<u>\$ 2,959,248</u>	<u>\$ 2,959,248</u>

As of December 31, 2010, the District had the following investments:

	<u>Market Value</u>	<u>Maturities Up To One Year</u>
Certificates of Deposit	\$ 2,812,693	\$ 2,812,693
Total Investments	<u>\$ 2,812,693</u>	<u>\$ 2,812,693</u>

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE 3: CASH DEPOSITS AND INVESTMENTS (Continued)

**Credit Risk (Continued)**

As of December 31, 2011 and 2010, all investments have a maturity of less than one year and are, therefore, classified as short-term.

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:

	<u>2011</u>	<u>2010</u>
Cash and Cash Equivalents	\$ 1,804,530	\$ 1,649,566
Restricted Cash and Cash Equivalents	2,503,890	1,168,619
Short-term Investments	<u>1,289,176</u>	<u>2,812,693</u>
Total	<u>\$ 5,597,596</u>	<u>\$ 5,630,878</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, 2011 and 2010, amounted to \$6,180 and \$8,912, respectively. The current portion of notes receivable is approximately \$672 and \$861 as of December 31, 2011 and 2010, respectively.

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ending December 31, 2011, is summarized as follows:

	January 1, 2011 Balance	Additions/ Reclasses	Retirements/ Reclasses	December 31, 2011 Balance
<b>Non-Depreciable Assets:</b>				
Land, Right of Ways, and Water Rights	\$ 1,050,944	\$	\$	\$ 1,050,944
Construction in Process	2,564	34,645		37,209
<b>Total Non-Depreciable</b>	<b>1,053,508</b>	<b>34,645</b>		<b>1,088,153</b>
<b>Depreciable Assets:</b>				
Transmission System	22,918,231	405,936	(22,268)	23,301,899
Treatment Plant	13,706,775	57,739	(195,119)	13,569,395
Buildings and Improvements	5,444,884		(41,275)	5,403,609
Transportation Equipment	370,972			370,972
Equipment	1,591,088	12,360	(6,329)	1,597,119
<b>Total Cost</b>	<b>44,031,950</b>	<b>476,035</b>	<b>(264,991)</b>	<b>44,242,994</b>
<b>Accumulated Depreciation:</b>				
Transmission System	(9,941,401)	(564,578)	26,023	(10,479,956)
Treatment Plant	(11,329,690)	(10,270)	11,219	(11,328,741)
Buildings and Improvements	(2,283,476)	(703,022)	153,744	(2,832,754)
Transportation Equipment	(292,495)	(35,896)		(328,391)
Equipment	(988,563)	(123,051)	6,329	(1,105,285)
<b>Total Accumulated Depreciation</b>	<b>(24,835,625)</b>	<b>(1,436,817)</b>	<b>197,315</b>	<b>(26,075,127)</b>
<b>Total Depreciable, Net</b>	<b>19,196,325</b>	<b>(960,782)</b>	<b>(67,676)</b>	<b>18,167,867</b>
<b>Total Capital Assets, Net</b>	<b>\$ 20,249,833</b>	<b>\$ (926,137)</b>	<b>\$ (67,676)</b>	<b>\$ 19,256,020</b>

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE 5: CAPITAL ASSETS (Continued)

Capital asset activity for the year ending December 31, 2010, is summarized as follows:

	January 1, 2010 Balance	Additions/ Reclasses	Retirements/ Reclasses	December 31, 2010 Balance
<b>Non-Depreciable Assets:</b>				
Land, Right of Ways, and Water Rights	\$ 1,050,944	\$	\$	\$ 1,050,944
Construction in Process	41,858	2,564	(41,858)	2,564
<b>Total Non-Depreciable</b>	<b>1,092,802</b>	<b>2,564</b>	<b>(41,858)</b>	<b>1,053,508</b>
<b>Depreciable Assets:</b>				
Transmission System	20,877,419	2,040,812		22,918,231
Treatment Plant	13,996,563		(289,788)	13,706,775
Buildings and Improvements	5,374,867	70,017		5,444,884
Transportation Equipment	370,972			370,972
Equipment	1,526,553	110,305	(45,770)	1,591,088
<b>Total Cost</b>	<b>42,146,374</b>	<b>2,221,134</b>	<b>(335,558)</b>	<b>44,031,950</b>
<b>Accumulated Depreciation:</b>				
Transmission System	(9,389,653)	(551,748)		(9,941,401)
Treatment Plant	(9,802,158)	(1,527,532)		(11,329,690)
Buildings and Improvements	(3,131,822)		848,346	(2,283,476)
Transportation Equipment	(254,886)	(37,609)		(292,495)
Equipment	(926,194)	(108,138)	45,769	(988,563)
<b>Total Accumulated Depreciation</b>	<b>(23,504,713)</b>	<b>(2,225,027)</b>	<b>894,115</b>	<b>(24,835,625)</b>
<b>Total Depreciable, Net</b>	<b>18,641,661</b>	<b>(3,893)</b>	<b>558,557</b>	<b>19,196,325</b>
<b>Total Capital Assets, Net</b>	<b>\$ 19,734,463</b>	<b>\$ (1,329)</b>	<b>\$ 516,699</b>	<b>\$ 20,249,833</b>

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

NOTE 6: LONG-TERM DEBT

Outstanding debt, at December 31, 2011 and 2010, consisted of the following:

	<u>2011</u>	<u>2010</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%	\$ 3,993,606	\$ 4,423,027
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%	615,082	626,224
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>463,523</u>	<u>470,098</u>
Total Bonds Payable	<u>\$ 5,072,211</u>	<u>\$ 5,519,349</u>

**Restrictive Covenants**

The CWRPDA note terms require the District to maintain an estimated cash reserve equivalent to three months of operating maintenance expenses, excluding depreciation of the system, as set forth in the annual budget, but in no event greater than \$1,250,000.

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

**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, 2011 and 2010

NOTE 6: LONG-TERM DEBT (Continued)

**Pledged Revenue (Continued)**

Total pledged revenue for 2011 and 2010 was \$1,119,138 and \$3,232,311, respectively.

Changes to the District's long-term debt for 2011 are as follows:

<u>Long-term Debt</u>	<u>December 31, 2010 Balance</u>	<u>Additions</u>	<u>Payments &amp; Reductions</u>	<u>December 31, 2011 Balance</u>	<u>Due Within One Year</u>
CWRPDA	\$ 4,423,027	\$	\$ (429,420)	\$ 3,993,607	\$ 440,156
Series 1999A	626,224		(11,142)	615,082	11,649
Series 2003A	470,098		(6,575)	463,523	6,874
Total Outstanding Debt	<u>5,519,349</u>		<u>(447,137)</u>	<u>5,072,212</u>	<u>458,679</u>
Unamortized Bond Discount	(7,137)		664	(6,473)	
Unamortized Bond Costs	(56,063)		4,423	(51,640)	
Principal Adjustments	(63,200)		5,087	(58,113)	
Compensated Absences Payable	<u>117,709</u>	<u>190,124</u>	<u>(198,675)</u>	<u>109,158</u>	<u>109,158</u>
Net Outstanding Debt	<u>\$ 5,573,858</u>	<u>\$ 190,124</u>	<u>\$ (640,725)</u>	<u>\$ 5,123,257</u>	<u>\$ 567,837</u>

Interest expense includes administration fees of \$64,757 for both 2011 and 2010.

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, 2011 and 2010

NOTE 6: LONG-TERM DEBT (Continued)

Future debt service payments, at December 31, 2011, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 458,679	\$ 216,492	\$ 675,171
2013	475,625	203,422	679,047
2014	487,241	184,790	672,031
2015	504,266	171,045	675,311
2016	521,333	155,765	677,098
2017-2021	1,774,613	392,735	2,167,348
2022-2026	158,292	175,978	334,270
2027-2031	197,739	136,531	334,270
2032-2036	247,016	87,254	334,270
2037-2041	206,860	30,124	236,984
2042-2043	40,547	1,859	42,406
Total	<u>\$ 5,072,211</u>	<u>\$ 1,755,995</u>	<u>\$ 6,828,206</u>

The District entered into an agreement with the CWRPDA on September 4, 2010 for a principal forgiveness loan of \$2,000,000. The funds will be used for installation of a collection 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. 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 has occurred and the District has met all project and loan requirements.

FREMONT SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

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](http://www.copera.org) or by writing to Colorado PERA, 1301 Pennsylvania 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, 2011 and 2010

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 10.0% of covered salary. 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 2.2%, 2.2%, and 1.8% of the total payroll for the calendar years 2011, 2010 and 2009, respectively. Additionally, the District is required to pay a supplemental amortization equalization disbursement equal to 1.5%, 1.5% and 1.0% of the total payroll for 2011, 2010, and 2009, respectively. For the years ending December 31, 2011, 2010, and 2009, the District's employer contributions to LGDTF were \$215,102, \$228,514, and \$220,914, 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, 2011 and 2010

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 (\$16,500 in 2011 and 2010). 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, 2011 and 2010, the 401(k) Plan member contributions from the District were \$62,423 and \$60,373, 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, 2011 and 2010

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 added 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 \$160,000 and \$142,000 at December 31, 2011 and 2010, respectively, to be reserved in accordance with the emergency reserve 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, 2011 and 2010

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, 2011, the District did not have any outstanding commitments. At December 31, 2010, the District had outstanding commitments totaling \$961,065, for construction services related to the North Canon Project.

***SUPPLEMENTAL INFORMATION***



FREMONT SANITATION DISTRICT

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

For the Year Ended December 31, 2011

	Original Budget	Amended Budget	Actual (Non-GAAP Basis)	Variance Positive (Negative)
<b>REVENUES</b>				
Operating				
Sewer Service Charges	\$ 4,373,968	\$ 4,373,968	\$ 4,539,467	\$ 165,499
Miscellaneous Income	147,058	147,058	94,373	(52,685)
Non-Operating				
Capital Grants	65,000	362,635	297,635	(65,000)
Interest Income	30,983	30,983	38,307	7,324
System Development Fees	66,120	66,120	45,000	(21,120)
<b>TOTAL REVENUES</b>	<b>4,683,129</b>	<b>4,980,764</b>	<b>5,014,782</b>	<b>34,018</b>
<b>EXPENSES</b>				
Plant Operations				
Construction				
Personnel Services	305,705	305,705	297,667	8,038
Operating Expenses	68,922	68,922	103,538	(34,616)
Capital Outlay	175,000	175,000	34,645	140,355
<b>Total Construction</b>	<b>549,627</b>	<b>549,627</b>	<b>435,850</b>	<b>113,777</b>
Transmission				
Personnel Services	321,869	321,869	313,623	8,246
Operating Expenses	393,572	393,572	60,730	332,842
Capital Outlay and Construction	92,000	92,000	405,936	(313,936)
<b>Total Transmission</b>	<b>807,441</b>	<b>807,441</b>	<b>780,289</b>	<b>27,152</b>
Treatment Plant				
Personnel Services	524,054	524,054	519,332	4,722
Operating Expenses	402,353	894,505	884,615	9,890
Capital Outlay	175,000	175,000	57,739	117,261
<b>Total Treatment Plant</b>	<b>1,101,407</b>	<b>1,593,559</b>	<b>1,461,686</b>	<b>131,873</b>
Solids Processing				
Operating Expenses	196,162	196,162	193,326	2,836
Capital Outlay	12,000	12,000		12,000
<b>Total Solids Processing</b>	<b>208,162</b>	<b>208,162</b>	<b>193,326</b>	<b>14,836</b>
Laboratory				
Personnel Services	74,843	74,843	55,550	19,293
Operating Expenses	36,534	36,534	32,895	3,639
<b>Total Laboratory</b>	<b>111,377</b>	<b>111,377</b>	<b>88,445</b>	<b>22,932</b>
Pretreatment				
Personnel Services	64,701	64,701	67,841	(3,140)
Operating Expenses	24,202	24,202	16,378	7,824
<b>Total Pretreatment</b>	<b>\$ 88,903</b>	<b>\$ 88,903</b>	<b>\$ 84,219</b>	<b>\$ 4,684</b>

(Continued)

See accompanying independent auditors' report.

FREMONT SANITATION DISTRICT

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

For the Year Ended December 31, 2011

	Original Budget	Amended Budget	Actual (Non-GAAP Basis)	Variance Positive (Negative)
<b>EXPENSES (Cont'd)</b>				
Engineering				
Personnel Services	\$ 396,772	\$ 396,772	\$ 394,807	\$ 1,965
Operating Expenses	22,805	22,805	18,721	4,084
<b>Total Engineering</b>	<b>419,577</b>	<b>419,577</b>	<b>413,528</b>	<b>6,049</b>
<b>Total Plant Operations</b>	<b>3,286,494</b>	<b>3,778,646</b>	<b>3,457,343</b>	<b>321,303</b>
Administration				
Buildings and Grounds - Plant				
Personnel Services	9,610	9,610	7,786	1,824
Operating Expenses	26,002	26,002	51,626	(25,624)
Capital Outlay	27,500	27,500		27,500
<b>Total Buildings and Grounds</b>	<b>63,112</b>	<b>63,112</b>	<b>59,412</b>	<b>3,700</b>
Buildings and Grounds - Service Center				
Personnel Services	45,944	45,944	47,187	(1,243)
Operating Expenses	43,975	43,975	39,842	4,133
<b>Total Buildings and Grounds</b>	<b>89,919</b>	<b>89,919</b>	<b>87,029</b>	<b>2,890</b>
Board Services				
Personnel Services	12,961	12,961	14,133	(1,172)
Operating Expenses	11,498	11,498	7,906	3,592
<b>Total Board Services</b>	<b>24,459</b>	<b>24,459</b>	<b>22,039</b>	<b>2,420</b>
Finance				
Personnel Services	278,380	278,380	278,451	(71)
Operating Expenses	130,737	130,737	126,184	4,553
Capital Outlay	13,352	13,352	12,360	992
<b>Total Finance</b>	<b>422,469</b>	<b>422,469</b>	<b>416,995</b>	<b>5,474</b>
District Management				
Personnel Services	132,221	132,221	134,631	(2,410)
Operating Expenses	37,382	37,382	37,327	55
<b>Total District Management</b>	<b>169,603</b>	<b>169,603</b>	<b>171,958</b>	<b>(2,355)</b>
Information Technology				
Personnel Services	82,805	82,805	81,456	1,349
Operating Expenses	116,982	116,982	109,118	7,864
<b>Total Information Technology</b>	<b>199,787</b>	<b>199,787</b>	<b>190,574</b>	<b>9,213</b>
<b>Total Administration</b>	<b>969,349</b>	<b>969,349</b>	<b>948,007</b>	<b>21,342</b>
Capital Projects	66,120	363,755		363,755
Debt Service				
Principal Debt Payments	447,137	447,137	447,137	
Interest Payments and Fees	235,894	235,894	224,146	11,748
<b>Total Debt Service</b>	<b>683,031</b>	<b>683,031</b>	<b>671,283</b>	<b>11,748</b>
<b>TOTAL EXPENSES</b>	<b>5,004,994</b>	<b>5,794,781</b>	<b>5,076,633</b>	<b>718,148</b>
<b>INCREASE IN NET ASSETS</b>	<b>\$ (321,865)</b>	<b>\$ (814,017)</b>	<b>\$ (61,851)</b>	<b>\$ 752,166</b>

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, 2011

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	\$ 5,014,782
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Differences - budget to GAAP:

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

Deferred Revenues - 2010	\$ 302,944	
Deferred Revenues - 2011	<u>(307,911)</u>	<u>(4,967)</u>

GAAP Basis Revenues	<u>5,009,815</u>
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EXPENSES

Actual (Non-GAAP basis) amount	5,076,633
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Differences - budget to GAAP

Principal payments on bonds payable are expenses of budgetary resources, but are not considered expenses for reporting purposes	(447,137)
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Depreciation is an expense for reporting purposes but is not a use of budgetary resources	1,436,817
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Capital Outlay is an expense of budgetary resources, but is not considered an expense for reporting purposes	(510,680)
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Loss on disposal is an expense for reporting purposes but is not a use of budgetary resources	67,677
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Amortization of bond issuance cost is an expense for reporting purposes but is not considered a use of budgetary resources	<u>5,087</u>
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GAAP Basis Expenses	<u>5,628,397</u>
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GAAP Basis Decrease in Net Assets	<u>\$ (618,582)</u>
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See accompanying independent auditors' report.

FREMONT SANITATION DISTRICT

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

For the Year Ended December 31, 2010

	Original Budget	Amended Budget	Actual (Non-GAAP Basis)	Variance Positive (Negative)
<b>REVENUES</b>				
Operating				
Sewer Service Charges	\$ 4,408,710	\$ 4,408,710	\$ 4,511,551	\$ 102,841
Miscellaneous Income			86,055	86,055
Non-Operating				
Miscellaneous Income	881,230	881,230		(881,230)
Capital Grants		1,903,266	1,866,467	(36,799)
Interest Income	44,562	44,562	50,340	5,778
System Development Fees	470,000	470,000	71,481	(398,519)
<b>TOTAL REVENUES</b>	<b>5,804,502</b>	<b>7,707,768</b>	<b>6,585,894</b>	<b>(1,121,874)</b>
<b>EXPENSES</b>				
Plant Operations				
Construction				
Personnel Services	344,971	344,971	329,679	15,292
Operating Expenses	98,880	98,880	78,944	19,936
Capital Outlay	182,400	182,400	183,566	(1,166)
<b>Total Construction</b>	<b>626,251</b>	<b>626,251</b>	<b>592,189</b>	<b>34,062</b>
Transmission				
Personnel Services	330,793	330,793	298,103	32,690
Operating Expenses	80,697	80,697	62,566	18,131
Capital Outlay and Construction	20,500	20,500	5,450	15,050
<b>Total Transmission</b>	<b>431,990</b>	<b>431,990</b>	<b>366,119</b>	<b>65,871</b>
Treatment Plant				
Personnel Services	582,183	582,183	520,240	61,943
Operating Expenses	355,876	355,876	345,272	10,604
Capital Outlay	145,000	145,000	15,082	129,918
<b>Total Treatment Plant</b>	<b>1,083,059</b>	<b>1,083,059</b>	<b>880,594</b>	<b>202,465</b>
Solids Processing				
Operating Expenses	171,339	171,339	197,939	(26,600)
Capital Outlay			7,257	(7,257)
<b>Total Solids Processing</b>	<b>171,339</b>	<b>171,339</b>	<b>205,196</b>	<b>(33,857)</b>
Laboratory				
Personnel Services	73,517	73,517	71,049	2,468
Operating Expenses	43,925	43,925	28,506	15,419
<b>Total Laboratory</b>	<b>117,442</b>	<b>117,442</b>	<b>99,555</b>	<b>17,887</b>
Pretreatment				
Personnel Services	64,562	64,562	66,185	(1,623)
Operating Expenses	24,051	24,051	22,333	1,718
<b>Total Pretreatment</b>	<b>\$ 88,613</b>	<b>\$ 88,613</b>	<b>\$ 88,518</b>	<b>\$ 95</b>

(Continued)

See accompanying independent auditors' report.

FREMONT SANITATION DISTRICT

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

For the Year Ended December 31, 2010

	Original Budget	Amended Budget	Actual (Non-GAAP Basis)	Variance Positive (Negative)
<b>EXPENSES (Cont'd)</b>				
Engineering				
Personnel Services	\$ 451,259	\$ 451,259	\$ 388,359	\$ 62,900
Operating Expenses	38,453	38,453	21,607	16,846
Total Engineering	489,712	489,712	409,966	79,746
Total Plant Operations	3,008,406	3,008,406	2,642,137	366,269
Administration				
Buildings and Grounds - Plant				
Personnel Services	51,656	51,656	7,716	43,940
Operating Expenses	48,442	48,442	11,588	36,854
Total Buildings and Grounds	100,098	100,098	19,304	80,794
Buildings and Grounds - Service Center				
Personnel Services	14,248	14,248	54,492	(40,244)
Operating Expenses	24,387	24,387	37,630	(13,243)
Capital Outlay			7,844	(7,844)
Total Buildings and Grounds	38,635	38,635	99,966	(61,331)
Board Services				
Personnel Services	12,928	12,928	15,205	(2,277)
Operating Expenses	12,363	12,363	6,374	5,989
Total Board Services	25,291	25,291	21,579	3,712
Finance				
Personnel Services	325,272	325,272	286,359	38,913
Operating Expenses	156,886	156,886	143,068	13,818
Total Finance	482,158	482,158	429,427	52,731
District Management				
Personnel Services	128,774	128,774	124,067	4,707
Operating Expenses	38,761	38,761	30,204	8,557
Total District Management	167,535	167,535	154,271	13,264
Information Technology				
Personnel Services	76,568	76,568	82,434	(5,866)
Operating Expenses	113,173	113,173	112,121	1,052
Capital Outlay	12,000	12,000	12,455	(455)
Total Information Technology	201,741	201,741	207,010	(5,269)
Total Administration	1,015,458	1,015,458	931,557	83,901
Capital Projects				
System and Plant Expansion	592,040	1,903,266	1,664,947	238,319
Debt Service				
Principal Debt Payments	430,263	430,263	430,260	3
Interest Payments and Fees	248,343	248,343	239,827	8,516
Total Debt Service	678,606	678,606	670,087	8,519
<b>TOTAL EXPENSES</b>	<b>5,294,510</b>	<b>6,605,736</b>	<b>5,908,728</b>	<b>697,008</b>
<b>INCREASE IN NET ASSETS</b>	<b>\$ 509,992</b>	<b>\$ 1,102,032</b>	<b>\$ 677,166</b>	<b>\$ (424,866)</b>

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, 2010

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	\$ 6,585,894
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Differences - budget to GAAP:

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

Deferred Revenues - 2009	\$ 292,001	
Deferred Revenues - 2010	(302,944)	<u>(10,943)</u>

GAAP Basis Revenues	<u>6,574,951</u>
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EXPENSES

Actual (Non-GAAP basis) amount	5,908,728
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Differences - budget to GAAP

Principal payments on bonds payable are expenses of budgetary resources, but are not considered expenses for reporting purposes

(430,260)

Depreciation is an expense for reporting purposes but is not a use of budgetary resources

1,385,459

Capital Outlay is an expense of budgetary resources, but is not considered an expense for reporting purposes

(1,896,601)

Amortization of bond issuance cost is an expense for reporting purposes but is not considered a use of budgetary resources

5,087

GAAP Basis Expenses	<u>4,972,413</u>
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GAAP Basis Increase in Net Assets	<u>\$ 1,602,538</u>
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See accompanying independent auditors' report.