FREMONT SANITATION DISTRICT

FINANCIAL STATEMENTS
December 31, 2012

Logan and Associates, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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Logan and Associates, LLC
CERTIFIED PUBLIC ACCOUNTANTS
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Board of Directors
Fremont Sanitation District
Fremont County, Colorado

INDEPENDENT AUDITORS' REPORT

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fremont Sanitation District as of December 31, 2012, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, for the year ended December 31, 2012, the Fremont Sanitation District adopted new accounting guidance from the standards of the Governmental Accounting Standards Board (GASB) No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* and No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i – ix be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information
Our audit was performed for the purpose of forming opinions on the financial statements and related notes to financial statements that collectively comprise the Fremont Sanitation District's basic financial statements. The budgetary comparison schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Logan and Associates, LLC

Aurora, Colorado
March 29, 2013

Fremont Sanitation District

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ANNUAL REPORT

YEAR ENDING DECEMBER 31, 2012

Overview of the Financial Statements

This annual report consists of the following parts: Management's Discussion and Analysis, Basic Financial Statements, and 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 2012

- Total Net Position, after accumulated depreciation expense increased by $429,028.
- Depreciation expense was in the amount of $1,322,439.
- Total Liabilities decreased by $322,180.
- There was a reduction in Long Term Debt of $458,013
- Operating Revenues increased by $42,300.
- Operating Expenses decreased by $411,167

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. Therefore, they have a vested interest in the proper maintenance and operation of the system.

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, 2012, we reported an increase of 13 new accounts which translates to 13 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 Position (page 1) includes information on the District's assets and liabilities and provides 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 Fund Net Position (page 2) identifies the District's revenues and expenses for the fiscal year ended December 31, 2012. The third financial statement is the Statement of Cash Flows (page 3). This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments, capital and related financing activities. From the Statement of Cash Flows, the reader can obtain information on the source and use of cash and cash equivalent balances 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 Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position. For 2012 the District's current assets (cash and equivalent) shows an increase, while investments also show an increase. 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 $921,031. Total Assets, which is defined as the total resources owned by the District, decreased by $106,848. 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 2012, the District had $1,322,439 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

Revenue Source	2011	2012	Change Gain/(Loss)
Residential Customers	$2,701,289	$2,752,398	$ 51,109
Commercial Customers	$ 589,860	$ 621,801	$ 31,941
Institutional (Prisons)	$1,066,731	$1,105,119	$ 38,388
Capital Recovery	$ 342,297	$ 853,652	$ 511,355
Interest Income	$ 38,307	$ 32,033	($ 6,274)
Other Revenues	$ 271,331	$ 207,668	($ 63,663)
Total Revenues	$5,009,815	$5,572,671	$ 562,856

Revenue for services increased by $121,438. Revenues from residential and commercial customers exceed 2012 budget projections by 6%, while revenues from the Federal Correctional

Facility were slightly down from budget projections. Revenues from Colorado Department of Corrections finished the budget year at 5% higher than projected revenues.

EXPENSES

Condensed Statement of Expenses

	2011	2012	Change Gain/(Loss)
Waste Transmission	$ 775,564	$ 816,434	$ 40,870
Treatment Plant	$1,305,524	$1,442,305	$ 136,781
District Administration	$3,547,308	$2,884,903	($ 662,405)
Total Expenses	$5,628,396	$5,143,642	($ 484,754)

CAPITAL ASSETS

As of December 31, 2012, the District had capital assets of $18,316,050. The District received $852,762 in System Development Fees during Budget Year 2012. In addition to the assets listed, the District has many miles of sanitary sewer mains, which while being fully depreciated are still operating and providing an economic benefit to the District.

Condensed Statement of Net Position

	2011	2012	Change Gain/(Loss)
Cash and Other Assets	$ 6,251,332	$ 7,298,150	$1,046,818
Capital Assets	$19,256,020	$18,316,050	($ 939,970)
Total Assets	$25,507,352	$25,614,200	$ 106,848
Outstanding Long Term Debt	$4,555,420	$4,132,101	($ 423,319)
Current Liabilities	$1,068,626	$1,169,765	$ 101,139
Total Liabilities	$5,624,046	$5,301,866	($ 322,180)
Net Position			
Net Investment in Capital Assets	$14,190,281	$13,755,541	($ 434,740)
Restricted	$ 160,000	$ 167,000	$ 7,000
Unrestricted	$ 5,533,025	$ 6,389,793	$ 856,768
Total Net Position	$19,883,306	$20,312,334	$ 429,028

LONG-TERM DEBT

As of December 31, 2012, the District had $4,607,726 in outstanding debt principal. This amount represents a reduction in the amount of $458,013 as the result of payments during 2012. Of this outstanding debt principal amount, $1,060,082 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 August 2019. The District has made certain covenants related to these bonds which are discussed in Note 6 on pages 11-12 of these financial statements.

Condensed Schedule of Revenues-Expenses Budget and Actual – Budgetary Bases

	Budget Originial 2012	Actual 2012
Revenues	$5,833,566	$5,564,296
Expenses	$4,980,781	$4,670,289

ECONOMIC FACTORS AND NEXT YEARS BUDGET AND RATES

The District's Board of Directors adopted the 2013 Budget on December 18, 2012. The adopted budget contained a 2% rate increase for 2013.

The slow economy has significantly reduced housing and business starts during the previous two years and this trend is expected to continue throughout 2013. In such, Residential and Commercial System Development Fees have been modestly estimated at $15,000 and $20,000 respectively for the 2013 Budget.

Five Year Projection

The presence of Hydrogen Sulfide gas in the District's collection system is an issue that must 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.

During 2012, the Colorado Department of Public Health and Environment (CDPH&E) enacted new regulatory limits on Nitrogen & Phosphorus discharge from wastewater treatment plants. The proposed limits could potentially require the District to modify treatment processes at the Rainbow Park Regional Wastewater Treatment Plant. It is estimated that plant renovations could exceed $10 million. The District's current Wastewater Discharge Permit will expire on March 31, 2014, and it is anticipated that the new limits and a compliance schedule will be included in the subsequent permit.

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.

BASIC FINANCIAL STATEMENTS

FREMONT SANITATION DISTRICT

STATEMENT OF NET POSITION
December 31, 2012

ASSETS	
Current Assets	
Cash and Cash Equivalents	$ 2,049,374
Investments	108,923
Restricted Cash and Cash Equivalents	1,805,159
Restricted Investments	2,621,764
Accounts Receivable	610,612
Notes Receivable, Current Portion	624
Inventory	44,944
Total Current Assets	7,241,400
Noncurrent Assets	
Notes Receivable, Long-term	3,107
Loan Savings Receivable	6,426
Debt Issuance Costs, Net of Accumulated Amortization	47,217
Total Noncurrent Assets	56,750
Capital Assets	
Capital Assets, Not Being Depreciated	1,053,410
Capital Assets, Net of Accumulated Depreciation	17,262,640
Total Capital Assets	18,316,050
TOTAL ASSETS	25,614,200
LIABILITIES	
Current Liabilities	
Accounts Payable	151,852
Accrued Salaries, Wages and Related Liabilities	40,610
Deferred Revenue - Service Charges	315,120
Accrued Interest Payable	77,877
Loans and Bonds Payable, Current Portion	475,625
Compensated Absences Payable - Current Portion	108,681
Total Current Liabilities	1,169,765
Noncurrent Liabilities	
Loans and Bonds Payable, Net of Bond Discount	4,132,101
TOTAL LIABILITIES	5,301,866
NET POSITION	
Net Investment in Capital Assets	13,755,541
Restricted for Emergency Reserve	167,000
Unrestricted	6,389,793
TOTAL NET POSITION	$ 20,312,334

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

FREMONT SANITATION DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Year Ended December 31, 2012

OPERATING REVENUES	
Charges for Services	$ 4,653,770
Miscellaneous	17,403
TOTAL OPERATING REVENUES	4,671,173
OPERATING EXPENSES	
Waste Collection	543,205
Waste Transmission	397,506
Wastewater Treatment, Pretreatment and Laboratory	1,140,040
Solids Processing	188,332
Engineering	429,448
Administration	
Buildings and Grounds	
Plant	21,803
Service Center	92,131
Finance	390,278
Information Technology	201,740
Management and General	193,398
Depreciation	1,322,439
TOTAL OPERATING EXPENSES	4,920,320
OPERATING INCOME (LOSS)	(249,147)
NON-OPERATING REVENUES (EXPENSES)	
Investment Income	32,033
Interest Expense	(218,900)
Gain on Disposal	15,584
Amortization Expense	(4,423)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(175,706)
INCOME BEFORE CAPITAL CONTRIBUTIONS	(424,853)
CAPITAL CONTRIBUTIONS	
Capital Grants	1,119
System Development Fees	852,762
TOTAL CAPITAL CONTRIBUTIONS	853,881
CHANGE IN NET POSITION	429,028
NET POSITION, Beginning	19,883,306
NET POSITION, Ending	$ 20,312,334

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

FREMONT SANITATION DISTRICT

STATEMENT OF CASH FLOWS
Increase (Decrease) in Cash and Cash Equivalents
Year Ended December 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	$ 4,615,897
Miscellaneous Receipts	17,403
Cash Payments to Employees	(2,244,166)
Cash Payments to Suppliers	(1,247,818)
Net Cash Provided by Operating Activities	1,141,316
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Cash Received from Notes Receivable	2,449
Acquisition of Capital Assets	(394,829)
Cash Received from Disposal of Capital Assets	27,944
Principal Paid	(458,679)
Interest and Fiscal Charges Paid	(216,491)
Cash Received from Capital Grants	1,119
System Development Fees Received	852,762
Net Cash Used by Capital and Related Financing Activities	(185,725)
CASH FLOWS FROM INVESTING ACTIVITIES	
Net Investment Activity	(1,441,511)
Interest Received	32,033
Net Cash Used by Investing Activities	(1,409,478)
Increase (Decrease) in Cash and Cash Equivalents	(453,887)
CASH AND CASH EQUIVALENTS, Beginning	4,308,420
CASH AND CASH EQUIVALENTS, Ending	$ 3,854,533
SUMMARY OF CASH AND CASH EQUIVALENTS	
Cash and Cash Equivalents	$ 2,049,374
Restricted Cash and Cash Equivalents	1,805,159
Total Cash and Cash Equivalents	$ 3,854,533
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income (Loss)	$ (249,147)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities	
Depreciation	1,322,439
Changes in Assets and Liabilities	
Accounts Receivable	(45,082)
Inventory	30,656
Accounts Payable	68,825
Accrued Salaries and Benefits	6,893
Deferred Revenues - Customer Service Charges	7,209
Compensated Absences Payable	(477)
Net Cash Provided by Operating Activities	$ 1,141,316

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Fremont Sanitation District (the "District"), a quasi-municipal corporation, is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Fremont County, Colorado. The District was established to provide sewer services to the District residents. The District is governed by an elected seven member Board of Directors.

The accounting policies of the District conform to generally accepted accounting principles as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. For the year ended December 31, 2012, the District adopted GASB statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which provides accounting and reporting guidance for proprietary fund-types that have not had guidance from GASB in the past. Adoption of the pronouncement did not have any affect on the beginning balances or current reporting of the District's financial statements.

In addition, the District adopted GASB statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* for the year ended December 31, 2012. Adoption of this pronouncement did not change any financial statement reporting by the District other than changing the titles for the "Statement of Net Assets" to "Statement of Net Position" and changing "Net Assets" to "Net Position." Following is a summary of the more significant policies.

Reporting Entity

The definition of the reporting entity is based primarily on financial accountability. The District is financially accountable for organizations that make up its legal entity. It is also financially accountable for legally separate organizations if District officials appoint a voting majority of the organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. The District may also be financially accountable for organizations that are fiscally dependent upon it. Based on the application of the criteria, the District does not include additional organizations in its reporting entity.

Fund Accounting

The District uses a fund to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions and activities.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District uses a proprietary fund-type, an enterprise fund, to account for its activities of providing sewer collection, transmission and treatment services to District residents. The enterprise fund uses the economic resources measurement focus and the accrual basis of accounting for reporting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

The activities of the fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. The fund distinguishes operating revenues and expenses from non-operating revenues and expenses, and capital contributions. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses or capital contributions.

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

Assets, Liabilities and Net Position

Cash Equivalents and Investments - Cash equivalents include cash deposits and highly liquid investments with original maturities of three months or less when purchased. Certificate of deposits with original maturities greater than three months when purchased are reported as investments. Investments are reported at fair value.

Receivables - All receivables are reported at their gross value. An allowance for uncollectible accounts in not reported because the uncollectible amounts were determined to be immaterial by management.

Inventory – Inventory is valued at cost using the first-in, first-out method. The cost of inventory is record as expense when consumed rather than when purchased.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (Continued)

Capital Assets - Capital assets, which include land, rights of way, water rights, sewer transmission system, treatment plant, buildings and equipment are reported in the financial statements net of accumulated depreciation. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. All infrastructure assets owned by the District, which include sewer collection and transmission systems, have been capitalized.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives.

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

Deferred Revenue – Service Charges – Deferred revenues arise when resources are received by the District before it has a legal claim to them. Certain District billing cycles include billings for services to be provided in January, February and March of the following year are reported as deferred revenue in the financial statements.

Compensated Absences - Employees of the District are allowed to accumulate unused vacation time and sick leave. Employees will be paid for all accrued vacation time upon separation of employment subject to restrictions set forth in the District’s policy manual. Employees in good standing after 10 years of service will be paid for unused sick leave up to a maximum of 360 hours at 50% of the current pay rate. These compensated absences are recognized as current salary costs when earned. Management has determined that the accrued compensated absences balances are due within one year. A current liability is reported in the financial statements for the accrued compensated absences.

Long-Term Obligations – Long-term debt and other long-term obligations are reported at face value, net of unamortized debt premiums and discounts, as liabilities in the financial statements. Unamortized debt issuance costs are reported as noncurrent assets in the financial statements. Debt premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt using the straight-line method.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (Continued)

Net Position – Net position results from the accumulation of net earnings from operating income, non-operating revenues and expenses, and capital contributions and are classified in the financial statements as follows:

- Net Investment in Capital Assets – The net investment in capital assets consists of capital assets, net of accumulated depreciation reduced by the long-term debt issued to acquire, construct, or improve the related capital assets. The long-term debt attributable to the unspent long-term debt proceeds at the end of the year is excluded from the calculation. Instead it is included in the same net position component as the unspent proceeds.

- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

- Unrestricted – This classification includes the residual net position that does not meet the classification of "net investment in capital assets" or "restricted."

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

The District has evaluated events subsequent to the year end December 31, 2012 through March 29, 2013, the date these financial statements were issued, and has incorporated any required recognition into these financial statements.

Concentration of Customer Risk

The District receives approximately 24% of its sewer service revenues from two customers, Colorado Department of Corrections and Federal Correction Center. The loss of this revenue, if it were to occur could significantly affect the District's operations. District management does not expect the relationship with the two customers to change in the near future.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

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

- In October, management submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.

- Prior to December 31, the budget is legally enacted through passage of a resolution.

- Management is authorized to transfer budgeted amounts between departments within the fund. However, any revisions that alter the total expenditures of the fund must be approved by the Board of Directors.

- The budget is legally adopted by the District. The budget is adopted on a non-GAAP budgetary basis. Capital outlay and long-term debt principal payments are budgeted as expenditures, and depreciation, and amortization of debt issue costs are not budgeted. Deferred revenues are reported as revenue for budgetary presentation.

- All appropriations lapse at year end. Colorado governments may not exceed budgeted appropriations at the fund level.

NOTE 3: CASH AND INVESTMENTS

A summary of cash and investments at December 31, 2012, follows:

Petty Cash	$ 800
Cash Deposits	6,584,420
Total	$ 6,585,220

Cash and Investments are reported in the financial statements as follows:

Cash and Cash Equivalents	$ 2,049,374
Investments	108,923
Restricted Cash and Cash Equivalents	1,805,159
Restricted Investments	2,621,764
Total	$ 6,585,220

NOTE 3: CASH AND INVESTMENTS (Continued)

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of Federal Deposit Insurance Corporation (FDIC) levels must be collateralized by eligible collateral as determined by the PDPA. The FDIC insures depositors up to $250,000 for interest bearing accounts and provides unlimited coverage for non-interest bearing accounts. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At December 31, 2012, the District had deposits totaling $6,595,789 of which $4,268,416 were collateralized with securities held by the financial institutions' agents but not in their name.

Investments

The District is required to comply with State statutes which specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest which include the following. State statute does not address custodial risk.

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

Interest Rate Risk - State statutes generally limit investments to an original maturity of five years unless the governing board authorizes the investment for a period in excess of five years. District management limits the weighted average of maturity of its portfolios to no more than three years.

The District reports certificates of deposit with maturities greater than 3 months as investments in the financial statements.

NOTE 3: CASH AND INVESTMENTS (Continued)

Restricted Cash and Investments

Restricted cash and investments consist of amounts for operating and maintenance reserves, and debt service reserves as required by the District's loans and revenue bonds.

NOTE 4: NOTES RECEIVALBE

Prior to 2008, the District expanded its service lines in Florence, Colorado. In order for homeowners to connect onto the service line an assessment of $2,098 per connection was made. The assessment charges are in the nature of notes receivable, which are collateralized and attached to the respective properties. The notes are for a period of 30 years, at 5% simple interest, and payable monthly, maturing in April 2024. Notes receivable balances at December 31, 2012 total $3,731, with a current portion due of $624.

NOTE 5: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2012, is summarized below:

	Balances 12/31/2011	Additions	Deletions	Balances 12/31/2012
Capital Assets, not being depreciated				
Land, Rights of Way and Water Rights	$ 1,050,944	$ -	$ -	$ 1,050,944
Construction in Progress	37,209	2,466	37,209	2,466
Total Capital Assets, not being depreciated	1,088,153	2,466	37,209	1,053,410
Capital Assets, being depreciated				
Transmission System	23,301,899	246,092	385	23,547,606
Treatment Plant	13,569,395	-	-	13,569,395
Buildings and Improvements	5,403,609	11,760	824	5,414,545
Transportation Equipment	370,972	-	-	370,972
Equipment	1,597,119	172,104	153,673	1,615,550
Total Capital Assets, being depreciated	44,242,994	429,956	154,882	44,518,068
Less accumulated depreciation				
Transmission System	(10,347,931)	(559,425)	-	(10,907,356)
Treatment Plant	(11,328,741)	(26,893)	-	(11,355,634)
Buildings and Improvements	(2,964,779)	(629,081)	(824)	(3,593,036)
Transportation Equipment	(328,391)	(25,871)	-	(354,262)
Equipment	(1,105,285)	(81,169)	(141,314)	(1,045,140)
Total accumulated depreciation	(26,075,127)	(1,322,439)	(142,138)	(27,255,428)
Total Capital Assets, being depreciated, net	18,167,867	(892,483)	12,744	17,262,640
Total Capital Assets, net	$19,256,020	$ (890,017)	$ 49,953	$18,316,050

NOTE 6: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended December 31, 2012:

	Balance 12/31/2011	Additions	Deletions	Balance 12/31/2012	Due Within One Year
1999 CWRPDA Loan	$ 3,993,607	$ -	$ 440,156	$ 3,553,451	$ 456,259
Revenue Bonds, Series 1999A	615,082	-	11,649	603,433	12,179
Revenue Bonds, Series 2003A	463,523	-	6,874	456,649	7,187
Bond Discount	(6,473)	-	(666)	(5,807)	-
	5,065,739	-	458,013	4,607,726	475,625
Compensated Absences Payable	109,158	113,630	114,107	108,681	108,681
Total	$ 5,174,897	$ 113,630	$ 572,120	$4,716,407	$ 584,306

1999 Loan from the Colorado Water Resources and Power Development Authority obtained to finance a portion of the cost of the wastewater treatment facility. Principal and interest payments are due semi-annually on February 1 and August 1, through August 1, 2019. Interest accrues at 4.2% per annum.

1999A Wastewater Enterprise Revenue Bonds were issued to finance the construction of sanitary sewer improvements in the Fremont County Sanitary Sewer Line Extension LID No. 1997-1. Principal and interest payments are due semi-annually on May 19 and November 19, through May 19, 2039. Interest accrues at 4.5% per annum.

2003A Wastewater Enterprise Revenue Bonds were issued to finance the construction of sanitary sewer improvements in the Fremont County Four Mile Area Sewer Line Extension LID No. 2001-1. Principal and interest payments are due semi-annually on May 19 and November 19, through May 19, 2043. Interest accrues at 4.5% per annum.

Pledged Revenues - These loans and revenue bonds are payable solely from revenues of the District's sewer system after deducting operating and maintenance costs, excluding depreciation. During the year ended December 31, 2012, net revenues of $1,974,790 were available to pay annual debt service of $675,170.

Restricted Covenants – The CWRPDA loan covenants require the District to maintain a cash reserve equal to three months of operating and maintenance expenses, excluding depreciation of the system, not to exceed $1,250,000.

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

NOTE 6: LONG-TERM DEBT (Continued)

Annual debt service requirements for the outstanding loans and revenue bonds at December 21, 2012 are as follows:

Year Ended December 31	Principal	Interest	Total
2013	$ 475,625	$ 203,423	$ 679,048
2014	487,241	184,790	672,031
2015	504,414	171,045	675,459
2016	521,333	155,765	677,098
2017	538,443	139,928	678,371
2018-2022	1,265,076	290,756	1,555,832
2023-2027	165,495	168,775	334,270
2028-2032	206,737	127,533	334,270
2033-2037	258,256	137,572	395,828
2038-2042	176,487	21,151	197,638
2043	14,426	325	14,751
	$4,613,533	$1,601,063	$6,214,596

NOTE 7: RETIREMENT COMMITMENTS

Multiple-Employer 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.

NOTE 7: RETIREMENT COMMITMENTS (Continued)

Multiple-Employer Defined Benefit Pension Plan (Continued)

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 of the CRS, as amended. The contribution rate for members is 8.0% and for the District is 10% of covered salary plus an amortization equalization disbursement and supplemental amortization equalization disbursement equal to 3.7% for the years 2012, 2011 and 2010. A portion of the District's contribution (1.02% of covered salary) is allocated to the Health Care Trust Fund (See Note 8). For the years ending December 31, 2012, 2011 and 2010, the District's employer contributions for the LGDTF were $215,093, $215,102 and $228,514, respectively, equal to their required contributions for each year.

Voluntary Tax-Deferred Retirement Plan

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 contributions of up to a maximum limit set by the IRS. 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, 2012, 2011 and 2010, the 401(k) Plan member contributions from the District were $55,070, $62,423 and 60,373, respectively.

NOTE 8: POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description The District contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan administered by PERA. The HCTF provides a health care premium subsidy to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly annual financial report that includes financial statements and required supplementary information for the HCTF. 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.

NOTE 8: POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

Funding Policy The District is required to contribute at a rate of 1.02% of covered salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the District are established under Title 24, Article 51, Part 4 of the CRS, as amended. the apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208 of the Colorado Revised Statutes, as amended. For the years ending December 31, 2012, 2011 and 2010 the District's contributions to the HCTF were $15,848, $16,015 and $17,013, respectively, equal to their required contributions for each year.

NOTE 9: RISK MANAGEMENT

Public Entity Risk Pool

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets. The District plans to provide for or restore the economic damages of those losses through risk transfer. The District participates in the Special District Association Insurance Pool (the "Pool").

The purposes of the Pool are to provide members defined liability, property, and workers compensation coverages and to assist members in preventing and reducing losses and injuries to property and to persons or property which might result in claims being made against members of the Pool, their employees and officers.

It is the intent of the members of the Pool to create an entity in perpetuity which will administer and use funds contributed by the members to defend and indemnify, in accordance with the bylaws, any member of the Pool against stated liability of loss, to the limit of the financial resources of the Pool. It is also the intent of the members to have the Pool provide continuing stability and availability of needed coverages at reasonable costs.

All income and assets of the Pool shall be at all times dedicated to the exclusive benefit of its members. The Pool is a separate legal entity and the District does not approve budgets nor does it have the ability to significantly affect the operations of the Pool.

NOTE 9: COMMITMENTS AND CONTINGENCIES

Tabor Amendment

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, commonly known as the Taxpayer's Bill of Rights (TABOR), which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The Amendment is complex and subject to judicial interpretation.

Enterprises, defined as government-owned business authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. The District has made certain interpretations of the Amendment's language in order to determine compliance. The District's management believes a significant portion of its operations qualifies for the "enterprise" exclusion allowed by the Amendment. The District believes it is in compliance with the requirements of the Amendment.

The District has established an emergency reserve, representing 3% of fiscal year spending, as required by the Amendment. At December 31, 2012, the emergency reserve of $167,000 was reported as a restriction of net position in the statement of net position.

SUPPLEMENTARY INFORMATION

FREMONT SANITATION DISTRICT

BUDGETARY COMPARISON SCHEDULE - (Non-GAAP BASIS)
WITH RECONCILIATION TO GAAP BASIS
Year Ended December 31, 2012

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES			
Operating			
Sewer Service Charges	$ 4,581,075	$ 4,660,979	$ 79,904
Miscellaneous	11,920	17,403	5,483
Non-Operating			
Capital Grants	-	1,119	1,119
Investment Income	516	32,033	31,517
System Development Fees	852,785	852,762	(23)
Carryover and Transfers from Reserves	387,270	-	(387,270)
TOTAL REVENUES	5,833,566	5,564,296	(269,270)
EXPENDITURES			
Plant Operations			
Construction			
Personnel Services	318,794	298,868	19,926
Operating Expenses	86,000	89,249	(3,249)
Capital Outlay	326,200	190,890	135,310
Total Construction	730,994	579,007	151,987
Transmission			
Personnel Services	338,927	311,135	27,792
Operating Expenses	73,488	60,779	12,709
Capital Outlay	25,000	236,557	(211,557)
Total Transmission	437,415	608,471	(171,056)
Treatment Plant			
Personnel Services	542,829	539,683	3,146
Operating Expenses	391,182	410,864	(19,682)
Capital Outlay	186,972	26,799	160,173
Total Treatment Plant	1,120,983	977,346	143,637
Solids Processing			
Operating Expenses	214,241	172,413	41,828
Capital Outlay	32,942	15,919	17,023
Total Solids Processing	247,183	188,332	58,851
Laboratory			
Personnel Services	58,684	49,359	9,325
Operating Expenses	35,783	25,733	10,050
Total Laboratory	94,467	75,092	19,375
Pretreatment			
Personnel Services	71,723	71,108	615
Operating Expenses	20,781	16,494	4,287
Total Pretreatment	$ 92,504	$ 87,602	$ 4,902

(Continued)

See the accompanying Independent Auditors' Report.

FREMONT SANITATION DISTRICT

BUDGETARY COMPARISON SCHEDULE - (Non-GAAP BASIS)
WITH RECONCILIATION TO GAAP BASIS
Year Ended December 31, 2012

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
EXPENDITURES (Continued)			
Plant Operations (Continued)			
Engineering			
Personnel Services	$ 405,655	$ 414,591	$ (8,936)
Operating Expenses	17,710	14,857	2,853
Total Engineering	423,365	429,448	(6,083)
Total Plant Operations	3,146,911	2,945,298	201,613
Administration			
Buildings and Grounds - Plant			
Personnel Services	9,722	6,324	3,398
Operating Expenses	16,196	15,479	717
Capital Outlay	22,000	12,026	9,974
Total Building and Grounds - Plant	47,918	33,829	14,089
Buildings and Grounds - Service Center			
Personnel Services	46,251	48,157	(1,906)
Operating Expenses	48,365	43,974	4,391
Capital Outlay	6,500	11,760	(5,260)
Total Buildings and Grounds - Service Center	101,116	103,891	(2,775)
Board Services			
Personnel Services	12,962	12,271	691
Operating Expenses	11,781	13,070	(1,289)
Total Board Services	24,743	25,341	(598)
Finance			
Personnel Services	282,473	278,554	3,919
Operating Expenses	143,352	111,724	31,628
Total Finance	425,825	390,278	35,547
District Management			
Personnel Services	136,688	136,929	(241)
Operating Expenses	41,413	31,128	10,285
Total District Management	178,101	168,057	10,044
Information Technology			
Personnel Services	85,087	83,603	1,484
Operating Expenses	125,974	118,137	7,837
Total Information Technology	211,061	201,740	9,321
Total Administration	988,764	923,136	65,628
Capital Projects	$ 123,500	$ 124,276	$ (776)

(Continued)

See the accompanying Independent Auditors' Report.

FREMONT SANITATION DISTRICT

BUDGETARY COMPARISON SCHEDULE - (Non-GAAP BASIS)
WITH RECONCILIATION TO GAAP BASIS
Year Ended December 31, 2012

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
Debt Service			
Principal Payments	$ 486,125	$ 458,679	$ 27,446
Interest and Fiscal Charges	235,481	218,900	16,581
Total Debt Service	721,606	677,579	44,027
TOTAL EXPENDITURES	4,980,781	4,670,289	310,492
CHANGE IN NET POSITION, Budgetary Basis	$ 852,785	894,007	$ 41,222
ADJUSTMENTS TO GAAP BASIS			
Deferred Revenue - Sewer Service Charges - 2011		307,911	
Deferred Revenue - Sewer Service Charges - 2012		(315,120)	
Capital Outlay		394,829	
Depreciation		(1,322,439)	
Principal Payments on Long-term Debt		458,679	
Gain on Disposal of Capital Assets		15,584	
Amortization of Long-term Debt Issuance Cost		(4,423)	
CHANGE IN NET POSITION, GAAP Basis		429,028	
NET POSITION, Beginning		19,883,306	
NET POSITION, Ending		$ 20,312,334	

See the accompanying Independent Auditors' Report.