

**UPPER BLUE SANITATION DISTRICT  
BRECKENRIDGE, COLORADO**

**BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(Required Supplementary Information)**

## UPPER BLUE SANITATON DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) Required Supplementary Information (RSI) December 31, 2010

The discussion and analysis of the Upper Blue Sanitation District's financial performance provides an overall review of the District's financial activities for the year ended December 31, 2010. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the financial statements and the notes to the financial statements to broaden their understanding of the District's financial performance.

The Management Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in the Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

#### **Financial Highlights**

The District offers sanitary sewer services to the Town of Breckenridge and surrounding areas. The District's assets exceeded its liabilities at the close of 2010 by \$69,775,659 (*net assets*), which is an increase of \$1,364,340 from the prior year. Of this amount \$21,532,642 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.

The District had total revenues of \$6,031,387 in 2010 versus 2009 revenues of \$6,202,857. The total decrease in revenues was \$171,470. The total operating revenues increased by \$336,964 and Investment Earnings decreased by \$360,189. The main increase was: Receipts from sewer user fees of \$304,410.

#### **Using the Basic Financial Statements**

The Basic Financial Statements consists of Management's Discussion and Analysis (this section) and a series of financial statements and notes to those statements. These statements are organized so that the reader can understand the District as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The first two statements, The Statement of Net Assets and The Statement of Activities are government-wide financial statements. Both provide long and short-term information about the District's overall financial status.

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

The Statement of Activities presents information showing how the District's net assets changed during 2010. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows.

The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail. The governmental fund statements tell how general District services were financed in the short term as well as what remains for future spending.

The District has the following governmental funds:

The District operates as a proprietary fund. Proprietary Fund statements offer short and long-term financial information about the activities that the District operates as a business.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

### **Government-Wide Financial Statements**

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private businesses. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. The change in net assets is important because it shows the reader whether, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of various factors, some financial, some not. Non-financial factors include facility conditions and state or federal required programs.

In the Statement of Net Assets and the Statement of Activities, the District's proprietary fund is shown as a business-type activity.

#### **Business-Type Activities:**

The District business-type activities consist of its sewer operations. The District provides sanitary sewer services using owned facilities throughout its service area. The District's sewer operations are supported primarily by charges for sewer services and by system expansion and tap fees.

## Financial Analysis of the District as a Whole

Net Assets increased in 2010 by \$1,364,340 to \$69,775,659 and in 2009 by \$1,483,721 to \$68,411,319. This was caused by the net effect of a \$600,568 operating income and profit of \$763,772 for 2010. In 2009, there was an operating income of \$209,590 and income profit of \$1,274,131. Included in the operating income/loss are Plant Investment Fees of \$890,894 for 2010 and \$1,063,564 for 2009.

Cash, Cash equivalents and investments of the District at December 31, 2010 totaled \$21,706,702, which represents 25.56% of the District's total assets, and at December 31, 2009 totaled \$24,013,420, which represents 29.70% of the District's total assets.

Capital assets, net of accumulated depreciation, of the District at December 31, 2010 totaled \$60,380,999, which represents 71.12% of the District's total assets as of December 31, 2010; and at December 31, 2009 totaled \$46,861,099, which represents 57.97% of the District's total assets as of December 31, 2009.

### Net Assets

A summary of District's net assets at December 31, 2009 is as follows:

#### Condensed Statement of Net Assets

Condensed Statement of Net Assets		
	<u>2010</u>	<u>2009</u>
Current Assets	22,014,462	32,320,104
Non Current Assets		
Cash and Investments	2,168,945	1,350,989
Capital Assets - Net	60,380,999	46,861,099
Other	343,936	306,549
Total Assets	<u>84,908,342</u>	<u>80,838,741</u>
Current Liabilities	4,038,249	2,458,311
Non Current Liabilities - Loan Payable	11,094,434	9,969,111
Total Liabilities	<u>15,132,683</u>	<u>12,427,422</u>
Net Assets		
Invested in Capital Assets - Net	48,243,017	35,967,976
Restricted	-	8,000,000
Unrestricted	21,532,642	24,443,343
Total Net Assets	<u><u>69,775,659</u></u>	<u><u>68,411,319</u></u>

The following summarizes the District's change in net assets during the year:

**Condensed Statement of Activities**

	<u>2010</u>	<u>2009</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 4,855,226	\$ 4,518,262
Capital Grants and Contributions	<u>955,383</u>	<u>1,103,628</u>
Total Program Revenues	<u>5,810,609</u>	<u>5,621,890</u>
General Revenues		
Investment Earnings	<u>220,778</u>	<u>580,967</u>
Total Revenues	<u>6,031,387</u>	<u>6,202,857</u>
Expenses		
Wastewater Operations	<u>4,667,047</u>	<u>4,719,136</u>
Change in Net Assets, Beginning	1,364,340	1,483,721
Net Assets, Beginning	<u>68,411,319</u>	<u>66,927,598</u>
Net Assets, Ending	<u>\$ 69,775,659</u>	<u>\$ 68,411,319</u>

**Reporting the District's Most Significant Funds**

The analysis of the District's major fund immediately follows the government-wide statements. Fund financial reports provide detailed information about the District's major fund. The District's major fund is its Proprietary Fund.

Net operating income for 2010, before depreciation and amortization expense, was approximately \$627,379 more than 2009 operating income because increases in user fees exceeded operating expense increases. The operating income for 2009, before depreciation and amortization expense, was approximately \$245,629 more than 2008 operating income.

Net non-operating revenues for 2010 were approximately \$510,359 less than 2009, and were approximately \$4,448,792 less than 2008. The decrease in 2010 was mostly due to a decrease in Plant Investment Fees of \$172,670 and decrease in Investment Earnings of \$360,189.

## **Budget and Actual Comparisons**

Actual revenues exceeded budgeted revenues by \$210,594 in 2010. Actual revenues were below budgeted revenues by \$278,243 in 2009. Plant Investment Fees exceeded the budgeted amount by \$141,194 in 2010 and were below the budgeted amount by \$257,036 in 2009.

Actual expenditures were approximately \$5,399,885 less than budgeted in 2010 and \$11,487,222 less than budgeted in 2009. Significant variations to budget are as follows:

- Administrative expenses were approximately \$229,745 less than budgeted in 2010 and \$298,442 less than budgeted in 2009.
- Plant expenses were approximately \$335,534 less than budgeted in 2010 mainly due to utilities, chemicals and sludge hauling expenses being less than budgeted. For 2009 plant expenses were approximately \$321,786 less than budgeted for the same reasons.
- Replacement capital expenditures were approximately \$746,465 less than budgeted in 2010 and \$844,465 less than budgeted in 2009.
- Capital outlay for 2010 was approximately \$3,864,671 less than budgeted and for 2009 was approximately \$9,992,972 less than budgeted. See discussion below.

## **Capital Assets**

### Replacement Capital

Repairs and line replacement projects were undertaken to help address infiltration and inflow problems.

In administration the District replaced outdated computers and phone systems \$15,672 and \$10,624.

### New Capital

The District continued the construction of the expanded Farmers Korner Treatment Plant and spent \$13,380,023.

In Collections the District began the extension of central sewer into the Town of Blue River. In 2010 the District spent \$1,176,144. Future extensions are planned for 2011.

The District depreciates its capital assets. See Note 1 of Notes to Financial Statements-summary of Significant Account Policies-Capital Assets on page 9 and Note 3 of Notes to Financial Statements-Capital Assets on page 13.



The following is a summary of capital asset activity:

	<u>Balance</u> <u>12/31/09</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/10</u>
Capital Assets Not Being Depreciated:				
Land and Easements	\$ 782,790	\$ 7,863	\$ -	\$ 790,653
Capital Assets Being Depreciated:				
Treatment Plants	52,217,966	13,382,775	-	65,600,741
Upper Blue River System	1,868,671	1,212,266	-	3,080,937
Sewer Lines and Mains	<u>12,953,474</u>	<u>152,429</u>	-	<u>13,105,903</u>
Equipment and Vehicles	1,376,437	48,528	-	1,424,965
Employee Housing	<u>1,038,191</u>	-	-	<u>1,038,191</u>
Total Capital Assets Being Depreciated	<u>69,454,739</u>	<u>14,795,998</u>	-	<u>84,250,737</u>
Accumulated Depreciation:				
Treatment Plants	(15,842,084)	(793,457)	-	(16,635,541)
Upper Blue River System	(1,175,285)	(97,337)	-	(1,272,622)
Sewer Lines and Mains	(4,895,502)	(309,630)	-	(5,205,132)
Equipment and Vehicles	(1,235,155)	(62,775)	-	(1,297,930)
Employee Housing	<u>(228,402)</u>	<u>(20,764)</u>	-	<u>(249,166)</u>
Total Accumulated Depreciation	<u>(23,376,428)</u>	<u>(1,283,963)</u>	-	<u>(24,660,391)</u>
Capital Assets Being Depreciated, net	<u>46,078,311</u>	<u>13,512,035</u>	-	<u>59,590,346</u>
<b>Total Capital Assets</b>	<b><u>\$ 46,861,101</u></b>	<b><u>\$ 13,519,898</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 60,380,999</u></b>

## Long-Term Debt

A principal payment of \$764,141 was made during 2010 and \$741,630 during 2009 on the CWRPDA notes along with \$412,389 and \$410,464 respectively in interest. In 2005, the District entered into a second loan agreement to finance the construction of the pump-back system. In 2007, the Board of Directors decided not to continue to pursue the pump-back and the CWRPDA agreed to allow the funds to be used to expand the facilities at Farmers Korner. See Notes to Financial Statements, Note 5-Long Term Debt on pages 14 & 15 and the Schedule of Debt Service Requirements to Maturity on page 15.

## **The Future of the District**

The District is in the construction phase of the Farmers Korner expansion project. This 2.0 million gallon per day expansion is anticipated to be completed in the late fall of 2011.

## **Request for Information**

The financial report is designed to provide information for regulatory reporting to federal and state agencies and those with an interest in the District's finances. Questions concerning this or any additional information should be addressed to Andrew Carlberg, District Manager, Upper Blue Sanitation District, PO Box 1216, 1605 Airport Road, Breckenridge, CO 80424-1216.

## FINANCIAL SECTION

Board of Directors  
Upper Blue Sanitation District  
Breckenridge, Colorado

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the business-type activities and the major fund, of the Upper Blue Sanitation District, as of December 31, 2010, and for the year ended December 31, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Upper Blue Sanitation District's management. Our responsibility is to express opinions 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Upper Blue Sanitation District, as of December 31, 2010, and the respective change in financial position and cash flows, as applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis shown as required supplementary information in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Upper Blue Sanitation District's basic financial statements. The statements included in the other supplementary information section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Johnson, Holscher & Company, P.C.*

Centennial, Colorado  
March 5, 2011

## **BASIC FINANCIAL STATEMENTS**

**UPPER BLUE SANITATION DISTRICT**  
**Breckenridge, Colorado**

**STATEMENT OF NET ASSETS**  
**December 31, 2010**  
**(With Comparative Totals for December 31, 2009)**

	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Equivalents	\$ 9,221,738	\$ 1,865,700
Investments	12,484,964	22,147,720
Accounts Receivable	37,927	12,328
Accrued Interest Receivable	5,363	34,219
Prepaid Expenses	142,226	137,893
Restricted Cash & Investments	122,244	8,122,244
Total Current Assets	22,014,462	32,320,104
<b>Noncurrent Assets</b>		
Capital Assets, not being depreciated	790,653	782,790
Capital Assets, being depreciated (net)	59,590,346	46,078,309
Loan Issuance Costs (net)	151,549	163,849
Notes and Other Receivables	192,387	142,700
Restricted Cash & Investments	2,168,945	1,350,989
Total Noncurrent Assets	62,893,880	48,518,637
<b>Total Assets</b>	<b>84,908,342</b>	<b>80,838,741</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts Payable	2,747,632	1,301,577
Unearned Revenue	5,355	-
Accrued Compensated Absences	117,720	110,478
Accrued Interest Payable	175,689	166,690
Deposits and Escrow Balances	123,994	122,244
Current Portion - Notes Payable	867,859	757,322
Total Current Liabilities	4,038,249	2,458,311
Noncurrent Notes Payable	11,094,434	9,969,111
<b>Total Liabilities</b>	<b>15,132,683</b>	<b>12,427,422</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, net of Debt	48,243,017	35,967,976
Restricted:		
For Capital Improvements	-	8,000,000
Unrestricted	21,532,642	24,443,343
<b>Total Net Assets</b>	<b>\$ 69,775,659</b>	<b>\$ 68,411,319</b>

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

**UPPER BLUE SANITATION DISTRICT  
Breckenridge, Colorado**

**STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2010**

<u>Function/Program:</u>	Program Revenues			<u>Net</u>	
<u>Expenditures</u>	<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue (Expense)</u>	
Business-type Activities: Wastewater Operations	<u>\$ 4,667,047</u>	<u>\$ 4,855,226</u>	<u>\$ -</u>	<u>\$ 955,383</u>	<u>\$ 1,143,562</u>
		General Revenues:			
		Investment Earnings		220,778	<u>220,778</u>
		Change in Net Assets		1,364,340	
		NET ASSETS, Beginning		68,411,319	<u>68,411,319</u>
		NET ASSETS, Ending			<u>\$ 69,775,659</u>

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

UPPER BLUE SANITATION DISTRICT  
Breckenridge, Colorado

PROPRIETARY FUND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Year Ended December 31, 2010  
(With Comparative Totals for the Year Ended December 31, 2009)

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
User Charges	\$ 4,708,597	\$ 4,404,187
Inspection Fees	3,950	2,150
Line Extension Fees	65,868	57,828
Rental Income	25,375	17,350
Other Charges	<u>51,436</u>	<u>36,747</u>
Total Operating Revenues	<u>4,855,226</u>	<u>4,518,262</u>
OPERATING EXPENSES		
Administrative	1,778,429	1,711,467
Operating - Iowa Hill	389,756	424,955
Operating - Farmers Korner	657,146	674,182
Operating - Collection System	133,064	192,577
Amortization Expense	12,300	12,300
Depreciation Expense	<u>1,283,963</u>	<u>1,293,191</u>
Total Operating Expenses	<u>4,254,658</u>	<u>4,308,672</u>
Income (Loss) from Operations	<u>600,568</u>	<u>209,590</u>
OTHER INCOME (EXPENSE)		
Investment Earnings	220,778	580,967
Plant Investment Fees	890,894	1,063,564
Inclusion Fees	64,489	40,064
Interest Expense	<u>(412,389)</u>	<u>(410,464)</u>
Total Other Income (Expense)	<u>763,772</u>	<u>1,274,131</u>
Change in Net Assets	1,364,340	1,483,721
NET ASSETS, Beginning	<u>68,411,319</u>	<u>66,927,598</u>
NET ASSETS, Ending	<u>\$ 69,775,659</u>	<u>\$ 68,411,319</u>

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



**UPPER BLUE SANITATION DISTRICT**  
**Breckenridge, Colorado**

**PROPRIETARY FUND**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2010**  
**(With Comparative Totals for the Year Ended December 31, 2009)**

	<b>2010</b>	<b>2009</b>
Cash Flows from Operating Activities:		
Cash Receipts from Customers	\$ 4,836,731	\$ 4,476,953
Cash Payments to Suppliers	(110,417)	(741,338)
Cash Payments to Employees	(1,399,011)	(1,323,090)
Net Cash Flows from Operating Activities	3,327,303	2,412,525
Cash Flows from Capital and Related Financing Activities:		
Plant Investment Fees	890,894	1,063,564
Inclusion Fees	64,489	40,064
Acquisition and Construction of Capital Assets	(14,803,865)	(7,655,863)
Principal Paid on Loans	1,235,859	(741,631)
Interest Paid on Loans	(403,390)	(417,898)
Net Cash Flows from Capital and Related Financing Activities	(13,016,013)	(7,711,764)
Cash Flows from Investing Activities:		
Proceeds from Sale (Purchases) of Investments	16,844,801	4,697,515
Payments (Advances) on Notes Receivable	(49,687)	(51,025)
Investment Earnings	249,634	566,268
Net Cash Flows from Investing Activities	17,044,748	5,212,758
Net Increase (Decrease) in Cash and Equivalents	7,356,038	(86,481)
CASH AND EQUIVALENTS, Beginning	1,865,700	1,952,178
CASH AND EQUIVALENTS, Ending	\$ 9,221,738	\$ 1,865,697
Reconciliation of Income (Loss) from Operations to Net		
Cash Flows from Operations:		
Income (Loss) from Operations	\$ 600,568	\$ 209,589
Adjustments required to reconcile operating income (loss) to net cash flows from operations		
Depreciation	1,283,963	1,293,191
Amortization	12,300	12,300
Changes in Assets and Liabilities:		
Accounts Receivable	(25,600)	(11,047)
Prepaid Expenses	(4,333)	(19,672)
Accounts Payable	1,446,058	956,363
Unearned Revenue	5,355	-
Accrued Compensated Absences	7,242	2,064
Deposits and Escrow Balances	1,750	(30,263)
Total Adjustments	2,726,735	2,202,936
Net Cash Flows from Operating Activities	\$ 3,327,303	\$ 2,412,525

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

**UPPER BLUE SANITATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Upper Blue Sanitation District (the District) is a Colorado governmental unit operating in accordance with Colorado statute. The District was established to provide sewer treatment services to properties located within its boundaries. The significant accounting policies utilized are detailed below. The District officially changed its name to Upper Blue Sanitation District effective January 1, 2009.

**Financial Reporting Entity**

The District applies the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, to determine which governmental organizations should be included in the reporting entity. The inclusion or exclusion of component units is based on the elected officials' accountability to their constituents, and the financial reporting entity follows the same accountability. Further, the financial statements of the reporting entity should enable the reader to distinguish between the primary government (including its blended component units, which are, in substance, part of the primary government) and discretely presented component units.

The criteria used for determining whether an entity should be included, either blended or discretely presented, includes but is not limited to: fiscal dependency, imposition of will, legal standing, and the primary recipient of services. Based on these criteria, the District has no includable component units. The District is also not included in the financial statements of any other entity.

**Basis of Accounting**

Enterprise fund accounting is utilized in accordance with accounting principles generally accepted in the United States of America. Enterprise funds recognize revenues and expenses on the accrual basis of accounting where revenues are recorded when earned and expenses are recorded when incurred.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and service. 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.

**UPPER BLUE SANITATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Accounting (Continued)**

The District applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the committee on accounting procedure issued on or before November 30, 1989, that do not conflict with, or contradict, GASB pronouncements.

The District follows the provisions of Governmental Accounting Standards Board (*GASB*) *Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments. Statement No. 34* establishes standards for external financial reporting for all state and local governmental entities which includes a management's discussion and analysis section; a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows. It requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted.

**Cash and Equivalents**

For purposes of the statement of cash flows, the District treats all demand and money market bank accounts as cash and equivalents.

**Investments**

The District records investments at fair value. Gains or losses on the sale of investments are recognized when the investment is sold.

**Capital Assets**

Assets are stated at cost; developers cost, or estimated fair market value at the time of dedication. The capitalization threshold for capital assets is \$5,000. Depreciation is computed using the straight-line method over the asset's estimated useful life ranging from one to forty years. Depreciation begins in the year following completion for assets under construction.

**Amortization of Loan Issuance Costs**

Loan issuance costs are amortized over the term of the loan using the straight-line method. The amortization of the loan issue costs for the year ended December 31, 2010 is \$12,300. Accumulated amortization is \$104,078 at December 31, 2010.

**UPPER BLUE SANITATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Budgets**

Each fall the Board of Directors adopts a budget and appropriates funds for the following calendar year. Unused appropriations lapse at year-end.

An amendment to budget through supplemental appropriation is subject to approval of the Board of Directors at a public hearing and the filing of the approved supplemental appropriation with the State of Colorado. There were no budget amendments in 2010.

The basis of these budgets is non-GAAP, in that revenues and expenditures are budgeted on the modified accrual basis of accounting. This budgetary basis includes plant investment fees as revenues (contributed capital for GAAP), and expenditures include loan principal paid and capital outlay, but exclude depreciation and amortization.

Through the adoption of the 2010 budget, the District has designated \$11,475,255 of net asset carry forward for subsequent year's expenditures.

**Compensated Absences**

The District allows employees to accumulate unused vacation, sick leave and compensatory time up to specified maximum limits. The District accrues such benefits in the period in which they are earned.

**Use of Estimates in the Preparation of Financial Statements**

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

**Cash Equivalents**

For purposes of the statements of cash flows, the District considers all highly liquid cash and investments with maturity of three months or less when purchased to be cash equivalents.

**UPPER BLUE SANITATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Equity**

Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets - consists of net assets with constraints placed on the use either by (1) external groups, such as creditors, grantors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets - all other *net* assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." These net assets are available for future operations or distributions.

**Note 2: CASH AND INVESTMENTS**

Cash deposits and investments are comprised of and are allocated on the December 31, 2010 balance sheet as follows:

Cash Deposits and On Hand	\$ 14,465,526
Investments	<u>9,532,364</u>
<b>Total Cash and Investments</b>	<b><u>\$ 23,997,890</u></b>
Unrestricted	\$ 21,706,701
Restricted	<u>2,291,189</u>
<b>Total Cash and Investments</b>	<b><u>\$ 23,997,890</u></b>

**UPPER BLUE SANITATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

**Note 2: CASH AND INVESTMENTS (Continued)**

**CASH DEPOSITS**

At December 31, 2010, the District's cash deposits had bank and carrying balances as follows:

	<u>Bank Balance</u>	<u>Carrying Balance</u>
FDIC Insured	\$ 250,000	\$ 250,000
PDPA Collateralized	14,341,550	14,215,326
Petty Cash	-	200
<b>Total Cash Balances</b>	<b><u>\$ 14,591,550</u></b>	<b><u>\$ 14,465,526</u></b>

**Custodial Credit Risk – Deposits**

Deposits are exposed to custodial credit risk (the risk that, in the event of the failure of a depository financial institution, the government would not be able to recover deposits or would not be able to recover collateral securities that are in the possession of an outside party), If they are not covered by depository insurance and are collateralized with securities held by the pledging financial institution, except for deposits collateralized by certain types of collateral pools including a single financial institution collateral pool where the fair value of the pool is equal to or exceeds all uninsured public deposits held by the financial institution (e.g. deposits insured by The Public Deposit Protection Act, (PDPA)). Accordingly, none of the District's deposits at December 31, 2010, are deemed to be exposed to custodial credit risk.

**INVESTMENTS**

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

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

**UPPER BLUE SANITATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

**Note 2: CASH AND INVESTMENTS (Continued)**

**INVESTMENTS (Continued)**

The District had the following investments as of December 31, 2010:

	Fair Value	Weighted Avg. Maturity in Years	% Of Portfolio	Rating
Local Government Pools	9,532,364	-	100.0%	AAAm
<b>Total Investments</b>	<b><u>\$ 9,532,364</u></b>	-	<b><u>100.0%</u></b>	

At December 31, 2010, the District had invested in the Colorado Local Government Liquid, Asset Trust (COLOTRUST), a local government investment pool. As an Investment pool, COLOTRUST operates under the Colorado Revised Statutes (2476-701) and is overseen by the Colorado Securities Commissioner. COLOTRUST invests in securities that are specified by the Colorado Revised Statutes (2475-601). Authorized securities included US Treasuries, US Agencies, commercial paper (rated A1 or better) and bank deposits (collateralized through PDPA). COLOTRUST operates similar to a 2a-7-like money market fund with a share value equal to \$1.00 and a maximum weighted average maturity of 60 days. COLOTRUST is rated AAA by the Standard & Poor's Corporation. A designated custodial bank provides banking services and trust custody for securities held on behalf of the participating governments in COLOTRUST. The custodian's internal records identify the investments owned by the participating governments.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to decline in fair value due to rising interest rates, the District's investment policy requires that the majority of its investments have a maturity date of 1 year or less.

**Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State law permits investments in guaranteed federal agency securities without restrictions since such securities are considered to have minimal credit risk. In order to minimize credit risk, the District's investments have been limited to guaranteed federal agency securities.

**UPPER BLUE SANITATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

**Note 2: CASH AND INVESTMENTS (Continued)**

**INVESTMENTS (Continued)**

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of an entities investment in a single issuer. Given the small amount allocated to investments in securities, and the relative low risk of U.S. treasury securities, the District has not established a policy limiting the amount of investment in this type of security at this time.

**RESTRICTED CASH AND INVESTMENTS**

Restricted cash and investments for the operations and maintenance reserve for 2010 represent an amount equal to three months of 2007 budgeted operating expenses as required by the 1997 and 2005 loan agreements with Colorado Water Resources and Power Development Authority (CWRPDA) (see Note 5). These monies, per agreement with CWRPDA, can be used for emergency operating purposes, if necessary. The District has also restricted funds it has on deposit per developer agreements.

Developer Escrow Balances	\$ 122,244
Construction Retainage Escrow	1,302,945
CWRPDA O& M Reserves	<u>866,000</u>
<b>Total Restricted Cash and Investments</b>	<b><u>\$ 2,291,189</u></b>



**UPPER BLUE SANITATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

**Note 3: CAPITAL ASSETS**

Summaries of changes to capital assets for 2010 are as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>12/31/09</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/10</u>
Capital Assets Not Being Depreciated:				
Land and Easements	\$ 782,790	\$ 7,863	\$ -	\$ 790,653
Capital Assets Being Depreciated:				
Treatment Plants	52,217,966	13,382,775	-	65,600,741
Upper Blue River System	1,868,671	1,212,266	-	3,080,937
Sewer Lines and Mains	<u>12,953,474</u>	<u>152,429</u>	-	<u>13,105,903</u>
Equipment and Vehicles	1,376,437	48,528	-	1,424,965
Employee Housing	<u>1,038,191</u>	<u>-</u>	<u>-</u>	<u>1,038,191</u>
Total Capital Assets Being Depreciated	<u>69,454,739</u>	<u>14,795,998</u>	<u>-</u>	<u>84,250,737</u>
Accumulated Depreciation:				
Treatment Plants	(15,842,084)	(793,457)	-	(16,635,541)
Upper Blue River System	(1,175,285)	(97,337)	-	(1,272,622)
Sewer Lines and Mains	(4,895,502)	(309,630)	-	(5,205,132)
Equipment and Vehicles	(1,235,155)	(62,775)	-	(1,297,930)
Employee Housing	<u>(228,402)</u>	<u>(20,764)</u>	<u>-</u>	<u>(249,166)</u>
Total Accumulated Depreciation	<u>(23,376,428)</u>	<u>(1,283,963)</u>	<u>-</u>	<u>(24,660,391)</u>
Capital Assets Being Depreciated, net	<u>46,078,311</u>	<u>13,512,035</u>	<u>-</u>	<u>59,590,346</u>
<b>Total Capital Assets</b>	<b><u>\$ 46,861,101</u></b>	<b><u>\$ 13,519,898</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 60,380,999</u></b>

Depreciation expense for the year ended December 31, 2010 was \$1,283,963.

**UPPER BLUE SANITATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

**Note 4: COMMITMENTS AND CONTIGENCIES**

**Prepaid Plant Investment Fees**

The District has received prepaid plant investment fees for approximately 65 single-family equivalent plant investment connections. The District is not required to repay the fees but is required to provide service without additional cash payment from the property owners.

**Tax, Spending, and Debt Limitations**

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

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10 percent of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. The District's management believes, after consultation with legal counsel, it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including interpretation of qualification as an Enterprise will require judicial interpretation.

**Construction Commitment**

The District has entered into construction contracts for upgrading the plant. Remaining balances to finish on each contract as of December 31, 2010 are \$10,953,357 with Glacier Construction and \$454,849 with M.A. Mortenson Company.

**Note 5: LONG TERM DEBT**

The District has three outstanding loans with the Colorado Water Resources and Power Development Authority. In 1997, the District entered into a loan agreement to partially finance a wastewater treatment expansion project, and in 2005, the District entered into a second loan agreement that will finance the construction of a pump-back system. However due to the Board canceling the pump-back project these funds have been diverted to facility expansion at the Farmers Korner treatment plant. In 2010, the District entered into a third loan agreement that will further the completion of the Farmers Korner facility expansion.

The 1997 loan requires semiannual payments through September 2017 with interest at an effective rate of approximately 4.53 percent. The District has the option to repay the loan in whole or in part (In minimum increments of \$100,000) upon prior written notice. Additionally, prepayments shall be subject to prepayment of certain administrative fees and a redemption premium as determined by the Authority.

**UPPER BLUE SANITATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

**Note 5: LONG TERM DEBT (Continued)**

The 2005 loan requires semiannual payments through August 2026 with interest at an effective rate of approximately 3.47 percent. The District has the option to repay the loan in whole or in part (in minimum increments of \$100,000) upon prior written notice. Additionally, prepayments shall be subject to prepayment of certain administrative fees and a redemption premium as determined by the Authority.

The 2010 loan requires semiannual payments through February 2030 with interest at an effective rate of approximately 2 percent. The District has the option to repay the loan in whole or in part upon prior written notice.

The District has pledged the revenue from the operation and use of the wastewater treatment facilities and other legally available revenue, after the payment of operation and maintenance expenses of the system, for the repayment of the above loans. The loan agreements contain restrictive covenants and requirements, including a rate covenant and maintenance of a three month operating reserve for the 1997 loan (See Note 2). The District was in compliance with the covenants and requirements of the loan agreements at December 31, 2010.

The following is an analysis of changes in long-term debt:

	<u>Balance</u> <u>12/31/09</u>	<u>Advances</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/10</u>	<u>Current</u> <u>Portion</u>
Notes Payable:					
1997 CWRPDA	\$ 3,886,433	\$ -	\$ 422,322	\$ 3,464,111	\$ 438,360
2005 CWRPDA	6,840,000	-	335,000	6,505,000	345,000
2010 CWRPDA	-	2,000,000	6,819	1,993,181	84,499
<b>Total Long-Term Debt</b>	<b><u>\$ 10,726,433</u></b>	<b><u>\$ 2,000,000</u></b>	<b><u>\$ 764,141</u></b>	<b><u>\$ 11,962,292</u></b>	<b><u>\$ 867,859</u></b>

A schedule of future loan payments is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	867,859	542,826	1,410,685
2012	890,595	509,925	1,400,520
2013	913,365	481,550	1,394,915
2014	941,170	446,637	1,387,806
2015	964,010	411,110	1,375,121
2016-2020	3,567,777	1,424,528	4,992,305
2021-2025	2,761,670	799,422	3,561,092
2026-2030	1,055,846	66,839	1,122,685
<b>Totals</b>	<b><u>\$ 11,962,292</u></b>	<b><u>\$ 4,682,837</u></b>	<b><u>\$ 16,645,129</u></b>

**UPPER BLUE SANITATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

**Note 6: BENEFIT PLANS**

**Money Purchase Pension Plan**

The District maintains an Internal Revenue Code Section 401(a) money purchase plan for all full-time employees. The assets of this plan are not reflected in the financial statements because they are not subject to any creditors of the District.

This plan is a single employer, defined contribution pension plan. The District contributes 5 percent of each participating employee's salary. Total contributions (including application of forfeitures) were \$49,003, \$47,130, and 45,243 for 2010, 2009 and 2008, respectively.

Covered and total payroll for 2010, 2009 and 2008 was \$980,060, \$942,600, and \$904,869, respectively. Employer contributions vest at a rate of 20% per year of service with employees fully vested after five years.

District contributions for plan members who leave employment before they are fully vested are used to reduce the District's current period contribution requirement. There is no liability for benefits under the plan beyond the District's matching payments. Plan provisions and contribution requirements are established and may be amended by the District's Board of Directors.

**Note 7: RECONCILIATION OF PROPRIETARY (GAAP) REVENUES AND EXPENSES TO BUDGETARY REVENUES AND EXPENDITURES**

The District prepares its budget annually. The following reconciliation is presented to reconcile the annual budgeted revenues and expenditures to the GAAP basis financial statements.

	<u>Revenues</u>	<u>Expenditures</u>
Budgetary Basis	\$ 6,031,387	\$ 18,938,789
GAAP Basis Adjustments		
Capital Replacement	-	(168,535)
Capital Outlay	-	(14,635,329)
Debt Service Principal	-	(764,141)
Amortization Expense	-	12,300
Depreciation Expense	-	1,283,963
GAAP Basis	<u>\$ 6,031,387</u>	<u>\$ 4,667,047</u>

**UPPER BLUE SANITATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

**Note 8: RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2010. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years. The District pays annual premiums to the Pool for liability, property, public officials' liability and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

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## OTHER SUPPLEMENTARY INFORMATION

UPPER BLUE SANITATION DISTRICT  
Breckenridge, Colorado

PROPRIETARY FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN NET ASSETS - BUDGET AND ACTUAL

For the Year Ended December 31, 2010

(With Comparative Totals for the Year Ended December 31, 2009)

	2010			2009 Actual
	Final Budget	Actual	Variance Pos (Neg)	
<b>REVENUES</b>				
User Charges	\$ 4,661,856	\$ 4,708,597	\$ 46,741	\$ 4,404,187
Inspection Fees	1,000	3,950	2,950	2,150
Inclusion Fees	20,000	64,489	44,489	40,064
Line Extension Fees	10,000	65,868	55,868	57,828
Other Charges	29,000	51,436	22,436	36,747
Investment Earnings	334,237	220,778	(113,459)	580,967
Plant Investment Fees	749,700	890,894	141,194	1,063,564
Rental Income	15,000	25,375	10,375	17,350
<b>Total Revenues</b>	<b>5,820,793</b>	<b>6,031,387</b>	<b>210,594</b>	<b>6,202,857</b>
<b>EXPENDITURES</b>				
<b>Administrative</b>				
Personnel Services	1,608,124	1,406,253	201,871	1,325,154
Office Administration	113,800	98,829	14,971	94,970
Legal and Other Professional	109,000	91,228	17,772	127,581
Board Expenses	11,000	13,354	(2,354)	7,389
Insurance	100,000	98,507	1,493	90,491
Building Maintenance	25,000	34,328	(9,328)	21,938
Employee Housing	24,000	22,053	1,947	28,247
Other Administrative Expenses	17,250	13,877	3,373	15,697
<b>Total Administrative</b>	<b>2,008,174</b>	<b>1,778,429</b>	<b>229,745</b>	<b>1,711,467</b>
<b>Operating - Iowa Hill</b>				
Utilities	228,000	203,307	24,693	183,391
Repairs	65,000	54,473	10,527	65,874
Chemicals and Other Supplies	163,000	108,894	54,106	149,580
Biomonitoring	12,000	8,859	3,141	10,970
Permits & Fees	14,000	6,090	7,910	6,535
Other Operating Expenses	10,000	8,133	1,867	8,605
<b>Total Operating - Iowa Hill</b>	<b>492,000</b>	<b>389,756</b>	<b>102,244</b>	<b>424,955</b>
<b>Operating - Farmers Korner</b>				
Utilities	362,000	332,136	29,864	304,651
Repairs	73,000	53,505	19,495	70,878
Chemicals and Other Supplies	148,000	109,867	38,133	116,785
Biomonitoring	14,000	5,200	8,800	6,460
Permits & Fees	21,000	3,070	17,930	15,662
Sludge Hauling & Land Application	180,000	110,255	69,745	115,357
Site Monitoring	25,000	25,623	(623)	27,848
Other Operating Expenses	23,500	17,490	6,010	16,541
<b>Total Operating - Farmers Korner</b>	<b>846,500</b>	<b>657,146</b>	<b>189,354</b>	<b>674,182</b>
<b>Operating - Collection System</b>				
Utilities	18,000	12,573	5,427	12,117
Repairs	131,000	94,599	36,401	160,374
Inspection Expenses	3,000	316	2,684	1,007
Other Operating Expenses	25,000	25,576	(576)	19,079
<b>Total Operating - Collection System</b>	<b>177,000</b>	<b>133,064</b>	<b>43,936</b>	<b>192,577</b>

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



**UPPER BLUE SANITATION DISTRICT**  
**Breckenridge, Colorado**

**PROPRIETARY FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN NET ASSETS - BUDGET AND ACTUAL**

**For the Year Ended December 31, 2010**

**(With Comparative Totals for the Year Ended December 31, 2009)**

**(Continued)**

**EXPENDITURES (continued)**

Capital Replacement	<u>915,000</u>	<u>168,535</u>	<u>746,465</u>	<u>338,835</u>
Capital Outlay	<u>18,500,000</u>	<u>14,635,329</u>	<u>3,864,671</u>	<u>7,317,028</u>
Debt Service				
Debt Service Principal	850,000	764,141	85,859	741,630
Interest Expense	<u>550,000</u>	<u>412,389</u>	<u>137,611</u>	<u>410,464</u>
Total Debt Service	<u>1,400,000</u>	<u>1,176,530</u>	<u>223,470</u>	<u>1,152,094</u>
Total Expenses	<u>24,338,674</u>	<u>18,938,789</u>	<u>5,399,885</u>	<u>11,811,138</u>
Change in Net Assets - Budget Basis	<u>(18,517,881)</u>	<u>(12,907,402)</u>	<u>5,610,479</u>	<u>(5,608,281)</u>
GAAP Basis Adjustments				
Capital Replacement	-	168,535	168,535	338,835
Capital Outlay	-	14,635,329	14,635,329	7,317,028
Debt Service Principal	-	764,141	764,141	741,630
Amortization Expense	-	(12,300)	(12,300)	(12,300)
Depreciation Expense	<u>-</u>	<u>(1,283,963)</u>	<u>(1,283,963)</u>	<u>(1,293,191)</u>
Net GAAP Basis Adjustments	<u>-</u>	<u>14,271,742</u>	<u>14,271,742</u>	<u>7,092,002</u>
Change in Net Assets - GAAP Basis	<u>(18,517,881)</u>	<u>1,364,340</u>	<u>19,882,221</u>	<u>1,483,721</u>
NET ASSETS, Beginning	<u>-</u>	<u>68,411,319</u>	<u>68,411,319</u>	<u>66,927,598</u>
NET ASSETS, Ending	<u>\$ (18,517,881)</u>	<u>\$ 69,775,659</u>	<u>\$ 88,293,540</u>	<u>\$ 68,411,319</u>

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