

**UPPER BLUE SANITATION DISTRICT
BRECKENRIDGE, COLORADO**

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2009

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FINANCIAL SECTION

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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, 2009

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, 2009. 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 2009 by \$68,411,319 (*net assets*), which is an increase of \$1,483,721 from the prior year. Of this amount \$24,443,343 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.

The District had total revenues of \$6,202,857 in 2009 versus 2008 revenues of \$9,850,685. The total decrease in revenues was \$3,647,828. The total operating revenues increased by \$309,676 and Investment Earnings decreased by \$407,420. The main increase was: Receipts from sewer user fees of \$293,409.

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 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 2009. 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 2009 by \$1,483,721 to \$68,411,319 and in 2008 by \$5,192,314 to \$66,927,598. This was caused by the net effect of a \$209,590 operating income and profit of \$1,274,131 for 2009. In 2008, there was an operating loss of \$20,250 and income profit of \$5,212,564. Included in the operating income/loss are Plant Investment Fees of \$1,063,564 for 2009 and \$4,557,860 for 2008.

Cash, Cash equivalents and investments of the District at December 31, 2009 totaled \$24,013,420, which represents 29.70% of the District's total assets, and at December 31, 2008 totaled \$29,212,140, which represents 36.90% of the District's total assets.

Capital assets, net of accumulated depreciation, of the District at December 31, 2009 totaled \$46,861,099, which represents 57.97% of the District's total assets as of December 31, 2009; and at December 31, 2008 totaled \$40,498,428, which represents 51.15% of the District's total assets as of December 31, 2008.

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>2009</u>	<u>2008</u>
Current Assets	32,320,104	37,503,668
Non Current Assets		
Cash and Investments	1,350,989	906,000
Capital Assets - Net	46,861,099	40,498,428
Other	306,549	267,824
Total Assets	<u>80,838,741</u>	<u>79,175,920</u>
Current Liabilities	2,458,311	1,521,889
Non Current Liabilities - Loan Payable	9,969,111	10,726,433
Total Liabilities	<u>12,427,422</u>	<u>12,248,322</u>
Net Assets		
Invested in Capital Assets - Net	35,967,976	28,856,241
Restricted	8,000,000	8,000,000
Unrestricted	24,443,343	30,071,357
Total Net Assets	<u>68,411,319</u>	<u>66,927,598</u>

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

Condensed Statement of Activities

	<u>2009</u>	<u>2008</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 4,518,262	\$ 4,208,586
Capital Grants and Contributions	<u>1,103,628</u>	<u>4,653,712</u>
Total Program Revenues	<u>5,621,890</u>	<u>8,862,298</u>
 General Revenues		
Investment Earnings	<u>580,967</u>	<u>988,387</u>
Total Revenues	<u>6,202,857</u>	<u>9,850,685</u>
 Expenses		
Wastewater Operations	<u>4,719,136</u>	<u>4,658,371</u>
 Change in Net Assets, Beginning	1,483,721	5,192,314
Net Assets, Beginning	<u>66,927,598</u>	<u>61,735,284</u>
Net Assets, Ending	<u>\$ 68,411,319</u>	<u>\$ 66,927,598</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.

Operating income for 2009, before depreciation and amortization expense, was approximately \$245,629 more than 2008 operating income because increases in user fees exceeded operating expense increases. The operating income for 2008, before depreciation and amortization expense, was approximately \$117,676 more than 2007 operating income.

Net non-operating revenues for 2009 were approximately \$3,938,433 less than 2008, and were approximately \$2,828,331 less than 2007. The decrease in 2009 was mostly due to a decrease in Plant Investment Fees of \$3,494,296 and decrease in Inclusion Fees of \$55,788.

Budget and Actual Comparisons

Actual revenues were below budgeted revenues by \$278,243 in 2009. The grant and bond money was not used as the project they were intended for was just started in the fall of 2009. Actual revenues exceeded budgeted revenues by \$2,747,385 in 2008. Plant Investment Fees were below the budgeted amount by \$257,036 in 2009 and were above the budgeted amount by \$2,864,860 in 2008.

Actual expenditures were approximately \$11,487,222 less than budgeted in 2009 and \$1,457,275 less than budgeted in 2008. Significant variations to budget are as follows:

- Administrative expenses were approximately \$298,442 less than budgeted in 2009 and \$92,641 less than budgeted in 2008.
- Plant expenses were approximately \$321,786 less than budgeted in 2009 due to utilities expenses, chemicals and sludge hauling being less than budgeted. For 2008 plant expenses were approximately \$230,475 less than budgeted for the same reasons.
- Replacement capital expenditures were approximately \$844,465 less than budgeted in 2009 and \$1,611,000 less than budgeted in 2008.
- Capital outlay for 2009 was approximately \$9,992,972 less than budgeted and for 2008 was approximately \$493,413 over budget. See discussion below.

Capital Assets

Replacement Capital

Major repairs and line replacement projects were undertaken to help address infiltration and inflow problems. The District replaced old clay line in the New Eldorado subdivision for approximately \$107,062. Several hundred feet of clay line on Adams Street were slip lined at a cost of \$40,423.

In administration the District replaced the old inefficient hot water boilers at a cost of \$41,531.

New Capital

The District began the construction of the expanded Farmers Korner Treatment Plant and spent \$7,103,717.

In collections the District continued to extend service into existing subdivisions with failing septic systems. The approximate cost for these projects was \$93,416.

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:

	Balance 12/31/08	Additions	Deletions	Balance 12/31/09
Capital Assets Not Being Depreciated:				
Land and Easements	\$ 782,790	\$ -	\$ -	\$ 782,790
Capital Assets Being Depreciated:				
Treatment Plants	44,993,907	7,224,059	-	52,217,966
Upper Blue River System	1,868,671	-	-	1,868,671
Sewer Lines and Mains	<u>12,527,069</u>	<u>426,403</u>	<u>-</u>	<u>12,953,472</u>
Equipment and Vehicles	1,371,037	5,400	-	1,376,437
Employee Housing	<u>1,038,191</u>	<u>-</u>	<u>-</u>	<u>1,038,191</u>
Total Capital Assets Being Depreciated	<u>61,798,875</u>	<u>7,655,862</u>	<u>-</u>	<u>69,454,737</u>
Accumulated Depreciation:				
Treatment Plants	(15,017,067)	(825,017)	-	(15,842,084)
Upper Blue River System	(1,101,681)	(73,604)	-	(1,175,285)
Sewer Lines and Mains	(4,592,746)	(302,756)	-	(4,895,502)
Equipment and Vehicles	(1,164,105)	(71,050)	-	(1,235,155)
Employee Housing	<u>(207,638)</u>	<u>(20,764)</u>	<u>-</u>	<u>(228,402)</u>
Total Accumulated Depreciation	<u>(22,083,237)</u>	<u>(1,293,191)</u>	<u>-</u>	<u>(23,376,428)</u>
Capital Assets Being Depreciated, net	<u>39,715,638</u>	<u>6,362,671</u>	<u>-</u>	<u>46,078,309</u>
Total Capital Assets	<u>\$ 40,498,428</u>	<u>\$ 6,362,671</u>	<u>\$ -</u>	<u>\$ 46,861,099</u>

Long-Term Debt

A principal payment of \$741,630 was made during 2009 and \$725,593 during 2008 on the CWRPDA notes along with \$410,464 and \$429,535 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.

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, 2009, and for the year ended December 31, 2009, 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, 2009, 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, 2010

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BASIC FINANCIAL STATEMENTS

UPPER BLUE SANITATION DISTRICT
Breckenridge, Colorado

STATEMENT OF NET ASSETS
December 31, 2009
(With Comparative Totals for December 31, 2008)

	2009	2008
ASSETS		
Current Assets		
Cash and Equivalents	\$ 1,865,700	\$ 1,952,178
Investments	22,147,720	27,259,962
Accounts Receivable	12,328	1,280
Accrued Interest Receivable	34,219	19,520
Prepaid Expenses	137,893	118,222
Restricted Cash & Investments	8,122,244	8,152,506
Total Current Assets	32,320,104	37,503,668
Noncurrent Assets		
Capital Assets, not being depreciated	782,790	782,790
Capital Assets, being depreciated (net)	46,078,309	39,715,638
Loan Issuance Costs (net)	163,849	176,149
Notes and Other Receivables	142,700	91,675
Restricted Cash & Investments	1,350,989	906,000
Total Noncurrent Assets	48,518,637	41,672,252
Total Assets	80,838,741	79,175,920
LIABILITIES		
Current Liabilities		
Accounts Payable	1,301,577	345,215
Accrued Compensated Absences	110,478	108,414
Accrued Interest Payable	166,690	174,124
Deposits and Escrow Balances	122,244	152,506
Current Portion - Notes Payable	757,322	741,630
Total Current Liabilities	2,458,311	1,521,889
Noncurrent Notes Payable	9,969,111	10,726,433
Total Liabilities	12,427,422	12,248,322
NET ASSETS		
Invested in Capital Assets, net of Debt	35,967,976	28,856,241
Restricted:		
For Capital Improvements	8,000,000	8,000,000
Unrestricted	24,443,343	30,071,357
Total Net Assets	\$ 68,411,319	\$ 66,927,598

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, 2009**

<u>Function/Program:</u>	Program Revenues			Net
<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>\$ 4,719,136</u>	<u>\$ 4,518,262</u>	<u>\$ -</u>	<u>\$ 1,103,628</u>
				<u>580,967</u>
				1,483,721
				<u>66,927,598</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 REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2009
(With Comparative Totals for the Year Ended December 31, 2008)

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
User Charges	\$ 4,404,187	\$ 4,110,778
Inspection Fees	2,150	5,650
Line Extension Fees	57,828	38,007
Rental Income	17,350	9,400
Other Charges	<u>36,747</u>	<u>44,751</u>
Total Operating Revenues	<u>4,518,262</u>	<u>4,208,586</u>
OPERATING EXPENSES		
Administrative	1,711,467	1,667,109
Operating - Iowa Hill	424,955	415,875
Operating - Farmers Korner	674,182	717,293
Operating - Collection System	192,577	138,857
Amortization Expense	12,300	12,300
Depreciation Expense	<u>1,293,191</u>	<u>1,277,402</u>
Total Operating Expenses	<u>4,308,672</u>	<u>4,228,836</u>
Income (Loss) from Operations	<u>209,590</u>	<u>(20,250)</u>
OTHER INCOME (EXPENSE)		
Investment Earnings	580,967	988,387
Plant Investment Fees	1,063,564	4,557,860
Inclusion Fees	40,064	95,852
Interest Expense	<u>(410,464)</u>	<u>(429,535)</u>
Total Other Income (Expense)	<u>1,274,131</u>	<u>5,212,564</u>
Change in Net Assets	1,483,721	5,192,314
NET ASSETS, Beginning	<u>66,927,598</u>	<u>61,735,284</u>
NET ASSETS, Ending	<u>\$ 68,411,319</u>	<u>\$ 66,927,598</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, 2009
(With Comparative Totals for the Year Ended December 31, 2008)

	2009	2008
Cash Flows from Operating Activities:		
Cash Receipts from Customers	\$ 4,476,952	\$ 4,164,595
Cash Payments to Suppliers	(741,336)	(1,590,606)
Cash Payments to Employees	(1,323,090)	(1,261,921)
Net Cash Flows from Operating Activities	2,412,526	1,312,068
 Cash Flows from Capital and Related Financing Activities:		
Plant Investment Fees	1,063,564	4,557,860
Inclusion Fees	40,064	95,852
Acquisition and Construction of Capital Assets	(7,655,863)	(3,784,690)
Principal Paid on Loans	(741,631)	(725,593)
Interest Paid on Loans	(417,898)	(437,847)
Net Cash Flows from Capital and Related Financing Activities	(7,711,764)	(294,418)
 Cash Flows from Investing Activities:		
Proceeds from Sale (Purchases) of Investments	4,697,515	(14,820,949)
Payments (Advances) on Notes Receivable	(51,025)	(71,569)
Investment Earnings	566,268	1,227,049
Net Cash Flows from Investing Activities	5,212,758	(13,665,469)
 Net Increase (Decrease) in Cash and Equivalents	(86,480)	(12,647,819)
CASH AND EQUIVALENTS, Beginning	1,952,178	14,599,997
 CASH AND EQUIVALENTS, Ending	\$ 1,865,698	\$ 1,952,178
 Reconciliation of Income (Loss) from Operations to Net		
Cash Flows from Operations:		
Income (Loss) from Operations	\$ 209,590	\$ (20,250)
Adjustments required to reconcile operating income (loss) to net cash flows from operations		
Depreciation	1,293,191	1,277,402
Amortization	12,300	12,300
Changes in Assets and Liabilities:		
Accounts Receivable	(11,047)	(5,196)
Prepaid Expenses	(19,672)	(104,595)
Accounts Payable	956,363	174,182
Unearned Revenue	-	(50,000)
Accrued Compensated Absences	2,064	17,020
Deposits and Escrow Balances	(30,263)	11,205
Total Adjustments	2,202,936	1,332,318
 Net Cash Flows from Operating Activities	\$ 2,412,526	\$ 1,312,068

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

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

DECEMBER 31, 2009

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, 2009

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, 2009 is \$12,300. Accumulated amortization is \$91,778 at December 31, 2009.

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

DECEMBER 31, 2009

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 2009.

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 \$10,517,881 of net asset carry forward for subsequent year's expenditures, plus an additional \$8,000,000 of CWRPDA note proceeds being held in escrow that will be used toward construction costs.

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, 2009

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, 2009 balance sheet as follows:

Cash Deposits and On Hand	\$ 14,464,425
Investments	11,022,228
CWRPDA Escrow	<u>8,000,000</u>
Total Cash and Investments	<u>\$ 33,486,653</u>
Unrestricted	\$ 24,013,420
Restricted	<u>9,473,233</u>
Total Cash and Investments	<u>\$ 33,486,653</u>

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

DECEMBER 31, 2009

Note 2: CASH AND INVESTMENTS (Continued)

CASH DEPOSITS

At December 31, 2009, the District's cash deposits had bank and carrying balances as follows:

	<u>Bank Balance</u>	<u>Carrying Balance</u>
FDIC Insured	\$ 750,000	\$ 750,000
PDPA Collateralized	13,858,025	13,714,225
Petty Cash	-	200
Total Cash Balances	<u>\$ 14,608,025</u>	<u>\$ 14,464,425</u>

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, 2009, 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, 2009

Note 2: CASH AND INVESTMENTS (Continued)

INVESTMENTS (Continued)

The District had the following investments as of December 31, 2009:

	Fair Value	Weighted Avg. Maturity in Years	% Of Portfolio	Rating
U.S. Treasury Bills	\$ 1,499,388	0.08	13.6%	AAA
Local Government Pools	<u>9,522,840</u>	-	<u>86.4%</u>	AAAm
Total Investments	<u>\$ 11,022,228</u>	0.01	<u>100.0%</u>	

At December 31, 2009, 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, 2009

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.

ESCROW DEPOSITS

Additionally, at December 31, 2009, unspent loan proceeds of \$8,000,000 were on deposit with the Colorado Water Resources and Power Development Authority.

RESTRICTED CASH AND INVESTMENTS

Restricted cash and investments for the operations and maintenance reserve for 2009 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 and the Colorado Water Resource and Power Development escrow balance.

Developer Escrow Balances	\$	122,244
Construction Retainage Escrow		469,989
CWRPDA Loan Proceeds		8,000,000
CWRPDA O& M Reserves		881,000
Total Restricted Cash and Investments	\$	<u>9,473,233</u>

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

DECEMBER 31, 2009

Note 3: CAPITAL ASSETS

Summaries of changes to capital assets for 2009 are as follows:

	Balance 12/31/08	Additions	Deletions	Balance 12/31/09
Capital Assets Not Being Depreciated:				
Land and Easements	\$ 782,790	\$ -	\$ -	\$ 782,790
Capital Assets Being Depreciated:				
Treatment Plants	44,993,907	7,224,059	-	52,217,966
Upper Blue River System	1,868,671	-	-	1,868,671
Sewer Lines and Mains	12,527,069	426,403	-	12,953,472
Equipment and Vehicles	1,371,037	5,400	-	1,376,437
Employee Housing	1,038,191	-	-	1,038,191
Total Capital Assets Being Depreciated	<u>61,798,875</u>	<u>7,655,862</u>	<u>-</u>	<u>69,454,737</u>
Accumulated Depreciation:				
Treatment Plants	(15,017,067)	(825,017)	-	(15,842,084)
Upper Blue River System	(1,101,681)	(73,604)	-	(1,175,285)
Sewer Lines and Mains	(4,592,746)	(302,756)	-	(4,895,502)
Equipment and Vehicles	(1,164,105)	(71,050)	-	(1,235,155)
Employee Housing	(207,638)	(20,764)	-	(228,402)
Total Accumulated Depreciation	<u>(22,083,237)</u>	<u>(1,293,191)</u>	<u>-</u>	<u>(23,376,428)</u>
Capital Assets Being Depreciated, net	<u>39,715,638</u>	<u>6,362,671</u>	<u>-</u>	<u>46,078,309</u>
Total Capital Assets	<u>\$ 40,498,428</u>	<u>\$ 6,362,671</u>	<u>\$ -</u>	<u>\$ 46,861,099</u>

Depreciation expense for the year ended December 31, 2009 was \$1,293,191.

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

DECEMBER 31, 2009

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, 2009 are \$22,111,272 with Glacier Construction and \$798,502 with M.A. Mortenson Company.

Note 5: LONG TERM DEBT

The District has two 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.

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, 2009

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 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, 2009.

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

	<u>Balance 12/31/08</u>	<u>Advances</u>	<u>Payments</u>	<u>Balance 12/31/09</u>	<u>Current Portion</u>
Notes Payable:					
1997 CWRPDA	\$ 4,298,064	\$ -	\$ 411,630	\$ 3,886,433	\$ 422,322
2005 CWRPDA	<u>7,170,000</u>	<u>-</u>	<u>330,000</u>	<u>6,840,000</u>	<u>335,000</u>
Total Long-Term Debt	<u>\$ 11,468,064</u>	<u>\$ -</u>	<u>\$ 741,630</u>	<u>\$ 10,726,433</u>	<u>\$ 757,322</u>

A schedule of future loan payments is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	757,322	527,911	1,285,233
2011	783,360	503,383	1,286,743
2012	804,397	472,180	1,276,578
2013	825,435	445,537	1,270,972
2014	851,472	412,392	1,263,864
2015-2019	3,544,447	1,467,429	5,011,876
2020-2024	2,150,000	832,511	2,982,511
2025-2026	<u>1,010,000</u>	<u>125,710</u>	<u>1,135,710</u>
Totals	<u>\$ 10,726,433</u>	<u>\$ 4,787,053</u>	<u>\$ 15,513,487</u>

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

DECEMBER 31, 2009

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 \$47,130, \$45,243, and \$42,481 for 2009, 2008 and 2007, respectively.

Covered and total payroll for 2009, 2008 and 2007 was \$942,600, \$904,869, and \$849,619, 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	\$ 6,202,857	\$ 11,811,138
GAAP Basis Adjustments		
Capital Replacement	-	(338,835)
Capital Outlay	-	(7,317,028)
Debt Service Principal	-	(741,630)
Amortization Expense	-	12,300
Depreciation Expense	-	1,293,191
GAAP Basis	<u>\$ 6,202,857</u>	<u>\$ 4,719,136</u>

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

DECEMBER 31, 2009

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, 2009. 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.

Note 9: SUBSEQUENT EVENT

The District is anticipating entering into a new loan agreement with the CWRPDA in the first quarter of 2010. The loan would be for \$2,000,000 repaid over 20 years at a 2% interest rate.

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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, 2009

(With Comparative Totals for the Year Ended December 31, 2008)

	2009			2008 Actual
	Final Budget	Actual	Variance Pos (Neg)	
REVENUES				
User Charges	\$ 4,347,000	\$ 4,404,187	\$ 57,187	\$ 4,110,778
Inspection Fees	5,000	2,150	(2,850)	5,650
Inclusion Fees	50,000	40,064	(9,936)	95,852
Line Extension Fees	10,000	57,828	47,828	38,007
Other Charges	28,000	36,747	8,747	44,751
Investment Earnings	711,500	580,967	(130,533)	988,387
Plant Investment Fees	1,320,600	1,063,564	(257,036)	4,557,860
Rental Income	<u>9,000</u>	<u>17,350</u>	<u>8,350</u>	<u>9,400</u>
Total Revenues	<u>6,481,100</u>	<u>6,202,857</u>	<u>(278,243)</u>	<u>9,850,685</u>
EXPENDITURES				
Administrative				
Personnel Services	1,592,409	1,325,154	267,255	1,278,941
Office Administration	123,500	94,970	28,530	117,523
Legal and Other Professional	108,500	127,581	(19,081)	118,032
Board Expenses	8,000	7,389	611	10,307
Insurance	94,000	90,491	3,509	87,220
Building Maintenance	40,000	21,938	18,062	18,368
Employee Housing	24,000	28,247	(4,247)	21,063
Other Administrative Expenses	<u>19,500</u>	<u>15,697</u>	<u>3,803</u>	<u>15,655</u>
Total Administrative	<u>2,009,909</u>	<u>1,711,467</u>	<u>298,442</u>	<u>1,667,109</u>
Operating - Iowa Hill				
Utilities	275,000	183,391	91,609	227,703
Repairs	62,000	65,874	(3,874)	37,207
Chemicals and Other Supplies	152,000	149,580	2,420	122,084
Biomonitoring	12,000	10,970	1,030	4,260
Permits & Fees	14,000	6,535	7,465	9,360
Other Operating Expenses	<u>24,000</u>	<u>8,605</u>	<u>15,395</u>	<u>15,261</u>
Total Operating - Iowa Hill	<u>539,000</u>	<u>424,955</u>	<u>114,045</u>	<u>415,875</u>
Operating - Farmers Korner				
Utilities	425,000	304,651	120,349	320,484
Repairs	80,000	70,878	9,122	60,690
Chemicals and Other Supplies	151,000	116,785	34,215	144,203
Biomonitoring	12,000	6,460	5,540	5,941
Permits & Fees	28,000	15,662	12,338	12,211
Sludge Hauling & Land Application	188,000	115,357	72,643	134,734
Site Monitoring	25,000	27,848	(2,848)	23,054
Other Operating Expenses	<u>25,000</u>	<u>16,541</u>	<u>8,459</u>	<u>15,976</u>
Total Operating - Farmers Korner	<u>934,000</u>	<u>674,182</u>	<u>259,818</u>	<u>717,293</u>
Operating - Collection System				
Utilities	14,500	12,117	2,383	10,610
Repairs	93,000	160,374	(67,374)	101,274
Inspection Expenses	3,000	1,007	1,993	2,549
Other Operating Expenses	<u>30,000</u>	<u>19,079</u>	<u>10,921</u>	<u>24,424</u>
Total Operating - Collection System	<u>140,500</u>	<u>192,577</u>	<u>(52,077)</u>	<u>138,857</u>

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, 2009

(With Comparative Totals for the Year Ended December 31, 2008)

(Continued)

EXPENDITURES (continued)

Capital Replacement	<u>1,183,300</u>	<u>338,835</u>	<u>844,465</u>	<u>-</u>
Capital Outlay	<u>17,310,000</u>	<u>7,317,028</u>	<u>9,992,972</u>	<u>2,518,413</u>
Debt Service				
Debt Service Principal	741,630	741,630	-	725,593
Interest Expense	<u>440,021</u>	<u>410,464</u>	<u>29,557</u>	<u>429,535</u>
Total Debt Service	<u>1,181,651</u>	<u>1,152,094</u>	<u>29,557</u>	<u>1,155,128</u>
Total Expenses	<u>23,298,360</u>	<u>11,811,138</u>	<u>11,487,222</u>	<u>6,612,675</u>
Change in Net Assets - Budget Basis	<u>(16,817,260)</u>	<u>(5,608,281)</u>	<u>11,208,979</u>	<u>3,238,010</u>
GAAP Basis Adjustments				
Capital Replacement	-	338,835	338,835	-
Capital Outlay	-	7,317,028	7,317,028	2,518,413
Debt Service Principal	-	741,630	741,630	725,593
Amortization Expense	-	(12,300)	(12,300)	(12,300)
Depreciation Expense	<u>-</u>	<u>(1,293,191)</u>	<u>(1,293,191)</u>	<u>(1,277,402)</u>
Net GAAP Basis Adjustments	<u>-</u>	<u>7,092,002</u>	<u>7,092,002</u>	<u>1,954,304</u>
Change in Net Assets - GAAP Basis	<u>(16,817,260)</u>	<u>1,483,721</u>	<u>18,300,981</u>	<u>5,192,314</u>
NET ASSETS, Beginning	<u>38,014,059</u>	<u>66,927,598</u>	<u>28,913,539</u>	<u>61,735,284</u>
NET ASSETS, Ending	<u>\$ 21,196,799</u>	<u>\$ 68,411,319</u>	<u>\$ 47,214,520</u>	<u>\$ 66,927,598</u>

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