BRECKENRIDGE SANITATION DISTRICT
BRECKENRIDGE, COLORADO

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2008

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FINANCIAL SECTION

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)

BRECKENRIDGE SANITATON DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
December 31, 2008

The discussion and analysis of the Breckenridge Sanitation District's financial performance provides an overall review of the District's financial activities for the year ended December 31, 2008. 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.
Also it should be noted that in 2008 the Board of Directors changed the name of the District to the Upper Blue Sanitation District effective January 1, 2009. This was done to better identify the District's actual service area.

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 2008 by $66,927,598 *(net assets)*, which is an increase of $5,192,314 from the prior year. Of this amount $30,071,351 *(unrestricted net assets)* may be used to meet the District's ongoing obligations to citizens and creditors.

The District had total revenues of $9,850,685 in 2008 versus 2007 revenues of $8,262,607. The total increase in revenues was $1,588,078. The total operating revenues increased by $472,346 and Investment Earnings decreased by $380,041. The main increase was: Plant Investment Fees of $1,490,449.

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 2008. 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 2008 by $5,192,314 to $66,927,598 and in 2007 by $3,959,196 to $61,735,284. This was caused by the net effect of a $20,250 operating loss and income profit of $5,212,564 for 2008; the operating income of $143,266 and income profit of $4,102,462 for 2007. Included in the operating income/loss are Plant Investment Fees of 4,557,860 for 2008 and $3,067,411 for 2007.

Cash, Cash equivalents and investments of the District at December 31, 2008 totaled $29,212,140, which represents 36.90% of the District's total assets, and at December 31, 2007 totaled $27,065,215, which represents 36.28% of the District's total assets.

Capital assets, net of accumulated depreciation, of the District at December 31, 2008 totaled $40,498,428, which represents 51.15% of the District's total assets as of December 31, 2008; and at December 31, 2007 totaled $37,991,140, which represents 50.93% of the District's total assets as of December 31, 2007.

Net Assets

A summary of District's net assets at December 31, 2008 is as follows:

Condensed Statement of Net Assets

Condensed Statement of Net Assets

	2008	2007
Current Assets	37,503,668	35,574,346
Non Current Assets		
Cash and Investments	906,000	816,000
Capital Assets - Net	40,498,428	37,991,140
Other	267,824	208,556
Total Assets	79,175,920	74,590,042
Current Liabilities	1,521,889	1,386,694
Non Current Liabllities - Loan Payable	10,726,433	11,468,064
Total Liabilities	12,248,322	12,854,758
Net Assets		
Invested in Capital Assets - Net	28,856,241	25,615,047
Restricted	8,000,000	8,000,000
Unrestricted	30,071,357	28,120,237
Total Net Assets	66,927,598	61,735,284

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

Condensed Statement of Activities

	2008	2007
Revenues		
Program Revenues:		
Charges for Services	$ 4,208,586	$ 3,826,768
Capital Grants and Contributions	4,653,712	3,067,411
Total Program Revenues	8,862,298	6,894,179
General Revenues		
Investment Earnings	988,387	1,368,428
Other Revenues	-	(10,102)
Total General Revenues	988,387	1,358,326
Total Revenues	9,850,685	8,252,505
Expenses		
Wastewater Operations	4,658,371	4,293,309
Change in Net Assets, Beginning	5,192,314	3,959,196
Net Assets, Beginning	61,735,284	57,776,088
Net Assets, Ending	$ 66,927,598	$ 61,735,284

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 2008, before depreciation and amortization expense, was approximately $118,676 more than 2007 operating income because increases in user fees exceeded operating expense increases. The operating income for 2007, before depreciation and amortization expense, was approximately $68,232 less than 2006 operating income because operating expenses exceeded increases in user fees.

Net non-operating revenues for 2008 were approximately $1,110,102 more than 2007, which were approximately $2,044,185 less than 2006. The increase in 2008 was mostly due to increases in Plant Investment Fees of $1,490,449 and Inclusion Fees of $5,324.

Budget and Actual Comparisons

Actual revenues exceeded budgeted revenues by $2,747,385 in 2008. The grant and bond money was not used as the project they were intended for was not started. Actual revenues exceeded budgeted revenues by $370,438 in 2007. Plant Investment Fees exceeded budgeted amount by $2,864,860 in 2008 and $625,411 in 2007.
Actual expenditures were approximately $1,457,275 in 2008 and $15,315,482 in 2007 less than budgeted. Significant variations to budget are as follows:

- Administrative expenses were approximately $92,641 in 2008 and $237,079 in 2007 less than budgeted.
- Plant expenses were approximately $230,475 less than budgeted in 2008 due to utilities expenses, chemicals and sludge hauling being less than budgeted. For 2007 plant expenses were approximately $362,672 less than budgeted for the same reasons.
- Replacement capital expenditures were approximately $1,611,000 for 2008 and $794,300 for 2007 less than budget.
- Capital outlay for 2008 was approximately $493,413 over budget and for 2007 $13,900,000 below budget. See discussion below.

Capital Assets

Replacement Capital

There were major collection system replacement expenditures of $653,183 for Peak 7. This project was to continue to increase the size of main line from 6" to 10". Replacement Capital is funded by revenue from service fees.

New Capital

The Board of Directors also approved the final extension of service into a portion of Breckenridge Park Estates and expending approximately $375,000. The expansion of Farmers Korner continued with finalizing the design portion of the project. Construction is anticipated to begin in the summer of 2009. In 2008, the District exceeded the budgeted amount for designing the Farmers Korner plant expansion; however the District was able to over come that through savings in other areas.
All capital expenditures were funded by revenue from service fees or revenue from plant investment fees.

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 12/31/07	Additions	Deletions	Balance 12/31/08
Capital Assets Not Being Depreciated:				
Land and Easements	$ 782,790	$ -	$ -	$ 782,790
Capital Assets Being Depreciated:				
Treatment Plants	42,400,431	2,593,476	-	44,993,907
Upper Blue River System	1,805,412	63,259	-	1,868,671
Sewer Lines and Mains	11,432,212	1,094,857	-	12,527,069
Equipment and Vehicles	1,368,361	33,099	(30,423)	1,371,037
Employee Housing	1,038,191	-	-	1,038,191
Total Capital Assets Being Depreciated	58,044,607	3,784,691	(30,423)	61,798,875
Accumulated Depreciation:				
Treatment Plants	(14,201,083)	(815,984)	-	(15,017,067)
Upper Blue River System	(1,028,077)	(73,604)	-	(1,101,681)
Sewer Lines and Mains	(4,295,667)	(297,079)	-	(4,592,746)
Equipment and Vehicles	(1,124,557)	(69,971)	30,423	(1,164,105)
Employee Housing	(186,874)	(20,764)	-	(207,638)
Total Accumulated Depreciation	(20,836,258)	(1,277,402)	30,423	(22,083,237)
Capital Assets Being Depreciated, net	37,208,349	2,507,289	-	39,715,638
Total Capital Assets	**$ 37,991,139**	**$ 2,507,289**	**$ -**	**$ 40,498,428**

Long-Term Debt

A principal payment of $725,593 was made during 2008 and $704,901 during 2007 on the CWRPDA notes along with $437,847 and $413,802 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 Board of Directors has approved moving forward with the expansion of the Farmers Korner facility. This 2.0 million gallon per day expansion is anticipated to begin construction in 2009.

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.

Johnson, Holscher & Company, P.C.
Certified Public Accountants

Board of Directors
Breckenridge 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 Breckenridge Sanitation District, as of December 31, 2008, and for the year ended December 31, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Breckenridge 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 Breckenridge Sanitation District, as of December 31, 2008, 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 Breckenridge 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
May 15, 2009

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BASIC FINANCIAL STATEMENTS

BRECKENRIDGE SANITATION DISTRICT
Breckenridge, Colorado

STATEMENT OF NET ASSETS
December 31, 2008
(With Comparative Totals for December 31, 2007)

	2008	2007
ASSETS		
Current Assets		
Cash and Equivalents	$ 1,952,178	$ 14,599,997
Investments	27,259,962	12,465,218
Accounts Receivable	1,280	21,022
Accrued Interest Receivable	19,520	258,182
Prepaid Expenses	118,222	13,626
Restricted Cash & Investments	8,152,506	8,216,301
Total Current Assets	37,503,668	35,574,346
Noncurrent Assets		
Capital Assets, not being depreciated	782,790	782,790
Capital Assets, being depreciated (net)	39,715,638	37,208,350
Loan Issuance Costs (net)	176,149	188,449
Notes and Other Receivables	91,675	20,107
Restricted Cash & Investments	906,000	816,000
Total Noncurrent Assets	41,672,252	39,015,696
Total Assets	79,175,920	74,590,042
LIABILITIES		
Current Liabilities		
Accounts Payable	345,215	171,033
Unearned Revenue	-	74,937
Accrued Compensated Absences	108,414	91,394
Accrued Interest Payable	174,124	182,436
Deposits and Escrow Balances	152,506	141,301
Current Portion - Notes Payable	741,630	725,593
Total Current Liabilities	1,521,889	1,386,694
Noncurrent Notes Payable	10,726,433	11,468,064
Total Liabilities	12,248,322	12,854,758
NET ASSETS		
Invested in Capital Assets, net of Debt	28,856,241	25,615,047
Restricted:		
For Capital Improvements	8,000,000	8,000,000
Unrestricted	30,071,357	28,120,237
Total Net Assets	$ 66,927,598	$ 61,735,284

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

BRECKENRIDGE SANITATION DISTRICT
Breckenridge, Colorado

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2008

		Program Revenues			
Function/Program:	Expenditures	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Revenue (Expense)
Business-type Activities:					
Wastewater Operations	$ 4,658,371	$ 4,208,586	$ -	$ 4,653,712	$ 4,203,927
		General Revenues:			
		Investment Earnings			988,387
		Other Revenues			-
		Total General Revenues			988,387
		Change in Net Assets			5,192,314
		NET ASSETS, Beginning			61,735,284
		NET ASSETS, Ending			$ 66,927,598

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

BRECKENRIDGE SANITATION DISTRICT
Breckenridge, Colorado

PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2008
(With Comparative Totals for the Year Ended December 31, 2007)

	2008	2007
OPERATING REVENUES		
User Charges	$ 4,110,778	$ 3,623,590
Inspection Fees	5,650	8,000
Line Extension Fees	38,007	27,888
Rental Income	9,400	20,925
Other Charges	44,751	55,837
Total Operating Revenues	4,208,586	3,736,240
OPERATING EXPENSES		
Admininstrative	1,667,109	1,570,636
Operating - Iowa Hill	415,875	379,008
Operating - Farmers Korner	717,293	527,513
Operating - Collection System	138,857	108,307
Amortization Expense	12,300	12,300
Depreciation Expense	1,277,402	1,281,742
Total Operating Expenses	4,228,836	3,879,506
Income (Loss) from Operations	(20,250)	(143,266)
OTHER INCOME (EXPENSE)		
Investment Earnings	988,387	1,368,428
Plant Investment Fees	4,557,860	3,067,411
Inclusion Fees	95,852	90,528
Interest Expense	(429,535)	(413,803)
(Gain)/Loss on Sale of Assets	-	(10,102)
Total Other Income (Expense)	5,212,564	4,102,462
Change in Net Assets	5,192,314	3,959,196
NET ASSETS, Beginning	61,735,284	57,776,088
NET ASSETS, Ending	$ 66,927,598	$ 61,735,284

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

BRECKENRIDGE SANITATION DISTRICT
Breckenridge, Colorado

PROPRIETARY FUND
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2008
(With Comparative Totals for the Year Ended December 31, 2007)

	2008	2007
Cash Flows from Operating Activities:		
Cash Receipts from Customers	$ 4,164,595	$ 3,769,910
Cash Payments to Suppliers	(1,590,606)	(1,420,586)
Cash Payments to Employees	(1,261,921)	(1,179,703)
Net Cash Flows from Operating Activities	1,312,068	1,169,621
Cash Flows from Capital and Related Financing Activities:		
Proceeds from Sale of Assets	-	(10,102)
Plant Investment Fees	4,557,860	3,067,411
Inclusion Fees	95,852	90,528
Acquisition and Construction of Capital Assets	(3,784,690)	(2,959,133)
Principal Paid on Loans	(725,593)	(704,901)
Interest Paid on Loans	(437,847)	(349,744)
Net Cash Flows from Capital and Related Financing Activities	(294,418)	(865,941)
Cash Flows from Investing Activities:		
Proceeds from Sale (Purchases) of Investments	(14,820,949)	12,450,981
Payments (Advances) on Notes Receivable	(71,569)	(20,107)
Investment Earnings	1,227,049	1,142,581
Net Cash Flows from Investing Activities	(13,665,469)	13,573,455
Net Increase (Decrease) in Cash and Equivalents	(12,647,819)	13,877,135
CASH AND EQUIVALENTS, Beginning	14,599,997	722,862
CASH AND EQUIVALENTS, Ending	$ 1,952,178	$ 14,599,997
Reconciliation of Income (Loss) from Operations to Net Cash Flows from Operations:		
Income (Loss) from Operations	$ (20,250)	$ (143,266)
Adjustments required to reconcile operating income (loss) to net cash flows from operations		
Depreciation	1,277,402	1,281,742
Amortization	12,300	12,300
Changes in Assets and Liabilities:		
Accounts Receivable	(5,196)	38,130
Prepaid Expenses	(104,595)	(2,292)
Accounts Payable	174,182	(33,203)
Unarned Revenue	(50,000)	-
Accrued Compensated Absences	17,020	20,670
Deposits and Escrow Balances	11,205	(4,460)
Total Adjustments	1,332,318	1,312,887
Net Cash Flows from Operating Activities	$ 1,312,068	$ 1,169,621

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Breckenridge 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.

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, 2008 is $12,300. Accumulated amortization is $79,478 at December 31, 2008.

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 2008.

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 2009 budget, the District has designated $8,817,260 of net asset carryforward 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.

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, 2008 balance sheet as follows:

Cash Deposits and On Hand	$ 17,682,308
Investments	12,588,338
CWRPDA Escrow	8,000,000
Total Cash and Investments	**$ 38,270,646**

Unrestricted	$ 29,212,140
Restricted	9,058,506
Total Cash and Investments	**$ 38,270,646**

Note 2: CASH AND INVESTMENTS (Continued)

CASH DEPOSITS

At December 31, 2008, the District's cash deposits had bank and carrying balances as follows:

		Bank Balance		Carrying Balance
FDIC Insured	$	1,000,000	$	1,000,000
PDPA Collateralized		16,873,736		16,682,108
Petty Cash		-		200
Total Cash Balances	**$**	**17,873,736**	**$**	**17,682,308**

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 depositary 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, 2008, 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

Note 2: CASH AND INVESTMENTS (Continued)

INVESTMENTS (Continued)

The District had the following investments as of December 31, 2008:

		Fair Value	Weighted Avg. Maturity in Years	% Of Portfolio	Rating
U.S. Treasury Bills	$	5,491,277	1.36	43.6%	AAA
Local Government Pools		7,097,061	-	56.4%	AAAm
Total Investments	**$**	**12,588,338**	**0.59**	**100.0%**	

At December 31, 2008, 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.

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, 2008, 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 2008 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	$	152,506
CWRPDA Loan Proceeds		8,000,000
CWRPDA O& M Reserves		906,000
Total Restricted Cash and Investments	**$**	**9,058,506**

Note 3: CAPITAL ASSETS

Summaries of changes to capital assets for 2008 are as follows:

	Balance 12/31/07	Additions	Deletions	Balance 12/31/08
Capital Assets Not Being Depreciated:				
Land and Easements	$ 782,790	$ -	$ -	$ 782,790
Capital Assets Being Depreciated:				
Treatment Plants	42,400,431	2,593,476	-	44,993,907
Upper Blue River System	1,805,412	63,259	-	1,868,671
Sewer Lines and Mains	11,432,212	1,094,857	-	12,527,069
Equipment and Vehicles	1,368,361	33,099	(30,423)	1,371,037
Employee Housing	1,038,191	-	-	1,038,191
Total Capital Assets Being Depreciated	58,044,607	3,784,691	(30,423)	61,798,875
Accumulated Depreciation:				
Treatment Plants	(14,201,083)	(815,984)	-	(15,017,067)
Upper Blue River System	(1,028,077)	(73,604)	-	(1,101,681)
Sewer Lines and Mains	(4,295,667)	(297,079)	-	(4,592,746)
Equipment and Vehicles	(1,124,557)	(69,971)	30,423	(1,164,105)
Employee Housing	(186,874)	(20,764)	-	(207,638)
Total Accumulated Depreciation	(20,836,258)	(1,277,402)	30,423	(22,083,237)
Capital Assets Being Depreciated, net	37,208,349	2,507,289	-	39,715,638
Total Capital Assets	**$ 37,991,139**	**$ 2,507,289**	**$ -**	**$ 40,498,428**

Depreciation expense for the year ended December 31, 2008 was $1,277,402.

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.

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.

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, 2008.

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

	Balance 12/31/07	Advances	Payments	Balance 12/31/08	Current Portion
Notes Payable:					
1997 CWRPDA	$ 4,693,657	$ -	$ 395,593	$ 4,298,064	$ 411,630
2005 CWRPDA	7,500,000	-	330,000	7,170,000	330,000
Total Long-Term Debt	**$ 12,193,657**	**$ -**	**$ 725,593**	**$ 11,468,064**	**$ 741,630**

A schedule of future loan payments is as follows:

Fiscal Year	Principal	Interest	Total
2009	$ 741,630	$ 551,921	$ 1,303,631
2010	757,322	527,911	1,293,551
2011	783,360	503,383	1,285,233
2012	804,397	472,180	1,286,743
2013	825,435	445,537	1,276,578
2014-2018	3,995,919	1,657,526	6,295,323
2019-2023	2,100,001	925,276	3,065,406
2024-2026	1,460,000	255,240	2,304,205
Totals	**$ 11,468,064**	**$ 5,338,974**	**$ 18,110,670**

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 $45,243, $42,481 and $36,062 for 2008, 2007 and 2006, respectively.

Covered and total payroll for 2008, 2007 and 2006 was $904,869, $849,619 and $767,398, 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.

0.021	Revenues	Expenditures
Budgetary Basis	$ 9,850,685	$ 6,612,675
GAAP Basis Adjustments		
Capital Outlay	-	(2,518,413)
Debt Service Principal	-	(725,593)
Amortization Expense	-	12,300
Depreciation Expense	-	1,277,402
GAAP Basis	$ 9,850,685	$ 4,658,371

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, 2008. 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

BRECKENRIDGE SANITATION DISTRICT
Breckenridge, Colorado

PROPRIETARY FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN NET ASSETS - BUDGET AND ACTUAL
For the Year Ended December 31, 2008
(With Comparative Totals for the Year Ended December 31, 2007)

	2008			
	Final Budget	Actual	Variance Pos (Neg)	2007 Actual
REVENUES				
User Charges	$ 4,078,800	$ 4,110,778	$ 31,978	$ 3,623,590
Inspection Fees	5,000	5,650	650	8,000
Inclusion Fees	50,000	95,852	45,852	90,528
Line Extension Fees	30,000	38,007	8,007	27,888
Other Charges	29,500	44,751	15,251	55,837
Investment Earnings	1,195,000	988,387	(206,613)	1,368,428
Plant Investment Fees	1,693,000	4,557,860	2,864,860	3,067,411
Rental Income	22,000	9,400	(12,600)	20,925
Total Revenues	7,103,300	9,850,685	2,747,385	8,262,607
EXPENDITURES				
Admininstrative				
Personnel Services	1,316,950	1,278,941	38,009	1,200,373
Office Administration	134,300	117,523	16,777	98,398
Legal and Other Professional	107,500	118,032	(10,532)	111,330
Board Expenses	11,000	10,307	693	5,800
Insurance	102,000	87,220	14,780	86,370
Building Maintenance	50,000	18,368	31,632	26,662
Employee Housing	19,000	21,063	(2,063)	26,005
Other Administrative Expenses	19,000	15,655	3,345	15,698
Total Administrative	1,759,750	1,667,109	92,641	1,570,636
Operating - Iowa Hill				
Utilities	267,000	227,703	39,297	192,221
Repairs	72,000	37,207	34,793	71,166
Chemicals and Other Supplies	159,000	122,084	36,916	93,025
Biomonitoring	12,000	4,260	7,740	7,635
Permits & Fees	9,000	9,360	(360)	8,330
Other Operating Expenses	12,000	15,261	(3,261)	6,631
Total Operating - Iowa Hill	531,000	415,875	115,125	379,008
Operating - Farmers Korner				
Utilities	325,000	320,484	4,516	263,021
Repairs	70,000	60,690	9,310	52,711
Chemicals and Other Supplies	138,000	144,203	(6,203)	93,669
Biomonitoring	9,000	5,941	3,059	5,865
Permits & Fees	15,000	12,211	2,789	13,435
Sludge Hauling & Land Application	235,000	134,734	100,266	61,137
Site Monitoring	27,000	23,054	3,946	19,788
Other Operating Expenses	25,000	15,976	9,024	17,887
Total Operating - Farmers Korner	844,000	717,293	126,707	527,513
Operating - Collection System				
Utilities	11,000	10,610	390	8,939
Repairs	86,000	101,274	(15,274)	75,877
Inspection Expenses	3,500	2,549	951	-
Other Operating Expenses	27,000	24,424	2,576	23,491
Total Operating - Collection System	127,500	138,857	(11,357)	108,307

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

(Continued)

BRECKENRIDGE SANITATION DISTRICT
Breckenridge, Colorado

PROPRIETARY FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN NET ASSETS - BUDGET AND ACTUAL
For the Year Ended December 31, 2008
(With Comparative Totals for the Year Ended December 31, 2007)
(Continued)

EXPENDITURES (continued)				
Capital Replacement	1,611,000	-	1,611,000	2,755,808
Capital Outlay	2,025,000	2,518,413	(493,413)	322,387
Debt Service				
Debt Service Principal	725,593	725,593	-	704,901
Interest Expense	446,107	429,535	16,572	413,803
Total Debt Service	1,171,700	1,155,128	16,572	1,118,704
Total Expenses	8,069,950	6,612,675	1,457,275	6,782,363
Change in Net Assets - Budget Basis	(966,650)	3,238,010	4,204,660	1,480,244
GAAP Basis Adjustments				
Capital Replacement	-	-	-	2,755,808
Capital Outlay	-	2,518,413	2,518,413	322,387
Debt Service Principal	-	725,593	725,593	704,901
Amortization Expense	-	(12,300)	(12,300)	(12,300)
Depreciation Expense	-	(1,277,402)	(1,277,402)	(1,281,742)
(Gain)/Loss on Sale of Assets	-	-	-	(10,102)
Net GAAP Basis Adjustments	-	1,954,304	1,954,304	2,478,952
Change in Net Assets - GAAP Basis	(966,650)	5,192,314	6,158,964	3,959,196
NET ASSETS, Beginning	36,107,429	61,735,284	25,627,855	57,776,088
NET ASSETS, Ending	$ 35,140,779	$ 66,927,598	$ 31,786,819	$ 61,735,284

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