

**UPPER BLUE SANITATION DISTRICT
BRECKENRIDGE, COLORADO**

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2011

TABLE OF CONTENTS

INTRODUCTORY SECTION	PAGE
Title Page	
Table of Contents	
FINANCIAL SECTION	
Management's Discussion and Analysis	i - vii
Independent Auditors' Report	1
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	2
Statement of Activities	3
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund	4
Statement of Cash Flows - Proprietary Fund	5
Notes to Financial Statements	6 - 17
OTHER SUPPLEMENTARY INFORMATION	
<u>Proprietary Funds</u>	
Schedule of Revenues, Expenditures, and Changes in Net Assets - Budget and Actual	18-19

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, 2011

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, 2011. 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 2011 by \$72,620,910 (*net assets*), which is an increase of \$2,845,251 from the prior year. Of this amount \$13,749,840 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.

The District's policy is not to impose property taxes. The District may have large fund balances from time-to-time, but those funds are allocated to new capital projects and replacement capital projects. Those capital projects are identified in the District's ten year financial master plan.

The District had total revenues of \$7,658,635 in 2011 versus 2010 revenues of \$6,031,387. The total increase in revenues was \$1,627,248. The main increase was: Receipts from Plant Investment Fees in the amount of \$1,656,063 which was an increase in the amount of \$765,169 from 2010.

The District's total operating revenues increased in 2011 by \$273,861 from 2010. Investment Earnings decreased in 2011 by \$144,975 from 2010. The main increase in 2011 was receipts from sewer user fees in the amount of \$272,701.

Using the Basic Financial Statements

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

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

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

The Statement of Activities presents information showing how the District's net assets changed during 2011. 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 enterprise.

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's 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 2011 by \$2,845,251 to \$72,620,910 and in 2010 by \$1,364,340 to \$69,775,659. This was caused by the net effect of a \$725,919 operating income from operations and other income in the amount of \$2,119,332 for 2011. In 2010, there was an operating income from operations of \$600,568 and other income in the amount of \$763,772. Included in the other income are Plant Investment Fees in the amount of \$1,656,063 for 2011 and \$890,894 for 2010.

Cash, Cash equivalents and investments of the District at December 31, 2011 totaled \$13,139,673, which represents 15.24% of the District's total assets, and at December 31, 2010 totaled \$21,706,702, which represents 25.56% of the District's total assets.

Capital assets, net of accumulated depreciation, of the District at December 31, 2011 totaled \$70,130,175, which represents 81.31% of the District's total assets as of December 31, 2011; and at December 31, 2010 totaled \$60,380,999, which represents 71.12% of the District's total assets as of December 31, 2010.

Net Assets

A summary of District's net assets at December 31, 2011 is as follows:

Condensed Statement of Net Assets

Condensed Statement of Net Assets		
	<u>2011</u>	<u>2010</u>
Current Assets	13,581,764	22,014,462
Non Current Assets		
Cash and Investments	2,190,477	2,168,945
Capital Assets - Net	70,130,175	60,380,999
Other	<u>342,735</u>	<u>343,936</u>
Total Assets	<u>86,245,151</u>	<u>84,908,342</u>
Current Liabilities	3,420,401	4,038,249
Non Current Liabilities - Loan Payable	<u>10,203,839</u>	<u>11,094,434</u>
Total Liabilities	<u>13,624,240</u>	<u>15,132,683</u>
Net Assets		
Invested in Capital Assets - Net	58,871,070	48,243,017
Unrestricted	<u>13,749,840</u>	<u>21,532,642</u>
Total Net Assets	<u>72,620,910</u>	<u>69,775,659</u>

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

Condensed Statement of Activities

	<u>2011</u>	<u>2010</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 5,129,087	\$ 4,855,226
Capital Grants and Contributions	<u>2,453,745</u>	<u>955,383</u>
Total Program Revenues	<u>7,582,832</u>	<u>5,810,609</u>
General Revenues		
Investment Earnings	<u>75,803</u>	<u>220,778</u>
Total Revenues	<u>7,658,635</u>	<u>6,031,387</u>
Expenses		
Wastewater Operations	<u>4,813,384</u>	<u>4,667,047</u>
Change in Net Assets, Beginning	2,845,251	1,364,340
Net Assets, Beginning	<u>69,775,659</u>	<u>68,411,319</u>
Net Assets, Ending	<u>\$ 72,620,910</u>	<u>\$ 69,775,659</u>

Reporting the District's Most Significant Funds

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

Net operating income for 2011, before depreciation and amortization expense, was approximately \$94,125 more than 2010 operating income. The increase in 2011 was due to a \$272,701 increase in user fees. The operating income for 2010, before depreciation and amortization expense, was approximately \$627,379 more than 2009 operating income.

Non-operating revenues for 2011 were approximately \$1,355,560 more than 2010, and were approximately \$845,201 more than 2009. The increase in 2011 was mostly due to an increase in Plant Investment Fees of \$765,169 from 2010, and a loan credit from Colorado Water & Power in the amount of \$736,688.

The District's policy is not to impose property taxes. The District may have large fund balances from time-to-time, but those funds are allocated to new capital projects and replacement capital projects. Those capital projects are identified in the District's ten year financial master plan.

Budget and Actual Comparisons

Actual revenues exceeded budgeted revenues by \$2,069,723 in 2011. Actual revenues exceeded budgeted revenues by \$210,594 in 2010. Plant Investment Fees exceeded the budgeted amount by \$1,210,543 in 2011. Plant Investment Fees exceeded the budgeted amount by \$141,194 in 2010.

Actual expenditures were approximately \$1,646,049 less than budgeted in 2011 and \$5,399,885 less than budgeted in 2010. Significant variations to budget are as follows:

- Administrative expenses were approximately \$172,404 less than budgeted in 2011 and approximately \$229,745 less than budgeted in 2010.
- Plant expenses were approximately \$151,539 less than budgeted in 2011 mainly due to utilities, chemicals and sludge hauling expenses being less than budgeted. For 2010 plant expenses were approximately \$335,534 less than budgeted for the same reasons.
- Replacement capital expenditures were approximately \$562,980 less than budgeted in 2011 and approximately \$746,465 less than budgeted in 2010.
- Capital outlay for 2011 was approximately \$748,108 less than budgeted and approximately \$3,864,671 less than budgeted in 2010. See discussion below.

Capital Assets

Replacement Capital

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

In administration, the District replaced the outdated Springbrook Software with a newer version of Springbrook in the amount of \$37,380.

New Capital

The District continued the construction of the expanded Farmers Korner Treatment Plant and spent \$10,110,783.

In Collections the District continued the extension of central sewer into the Town of Blue River. In 2011, the District spent \$467,622. In 2010, the District spent \$1,176,144. Future extensions are planned for 2012.

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

The following is a summary of capital asset activity:

	<u>Balance</u> <u>12/31/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/11</u>
Capital Assets Not Being Depreciated:				
Land and Easements	\$ 790,653	\$ -	\$ -	\$ 790,653
Construction in Progress	<u>23,005,504</u>	<u>10,110,783</u>	<u>-</u>	<u>33,116,287</u>
Total Capital Assets Not Being Depreciated	<u>23,796,157</u>	<u>10,110,783</u>	<u>-</u>	<u>33,906,940</u>
Capital Assets Being Depreciated:				
Treatment Plants	42,595,237	54,376	-	42,649,613
Upper Blue River System	3,080,937	506,814	-	3,587,751
Sewer Lines and Mains	13,105,903	262,320	-	13,368,223
Equipment and Vehicles	1,424,965	67,621	-	1,492,586
Employee Housing	<u>1,038,191</u>	<u>-</u>	<u>-</u>	<u>1,038,191</u>
Total Capital Assets Being Depreciated	<u>61,245,233</u>	<u>891,131</u>	<u>-</u>	<u>62,136,364</u>
Accumulated Depreciation:				
Treatment Plants	(16,635,541)	(761,144)	-	(17,396,685)
Upper Blue River System	(1,272,622)	(107,473)	-	(1,380,095)
Sewer Lines and Mains	(5,205,132)	(312,055)	-	(5,517,187)
Equipment and Vehicles	(1,297,930)	(51,302)	-	(1,349,232)
Employee Housing	<u>(249,166)</u>	<u>(20,764)</u>	<u>-</u>	<u>(269,930)</u>
Total Accumulated Depreciation	<u>(24,660,391)</u>	<u>(1,252,738)</u>	<u>-</u>	<u>(25,913,129)</u>
Capital Assets Being Depreciated, net	<u>36,584,842</u>	<u>(361,607)</u>	<u>-</u>	<u>36,223,235</u>
Total Capital Assets	<u>\$ 60,380,999</u>	<u>\$ 9,749,176</u>	<u>\$ -</u>	<u>\$ 70,130,175</u>

Long-Term Debt

A principal payment of \$867,859 was made during 2011 and \$764,141 during 2010 on the CWRPDA notes along with \$410,216 and \$412,389 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 final phase of construction of the Farmers Korner expansion project. This 2.0 million gallon per day expansion is anticipated to be completed in March of 2012.

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.

Holscher, Mayberry & Company, LLC

Certified Public Accountants

Member of the American Institute of Certified Public Accountants
Governmental Audit Quality Center
and Private Company Practice Section

Board of Directors
Upper Blue Sanitation District
Breckenridge, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the business-type activities and the major fund of the Upper Blue Sanitation District, as of December 31, 2011, and for the year ended December 31, 2011, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Upper Blue Sanitation District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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 business-type activities and the major fund of the Upper Blue Sanitation District, as of December 31, 2011, 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.



Englewood, Colorado
March 2, 2012

BASIC FINANCIAL STATEMENTS

UPPER BLUE SANITATION DISTRICT
Breckenridge, Colorado

STATEMENT OF NET ASSETS
December 31, 2011

	<u>Business-Type Activities & Proprietary Fund</u>
ASSETS	
Current Assets	
Cash and Equivalents	\$ 9,502,127
Investments	3,637,547
Accounts Receivable	46,729
Prepaid Expenses	273,125
Restricted Cash & Investments	<u>122,236</u>
Total Current Assets	<u>13,581,764</u>
Noncurrent Assets	
Capital Assets, not being depreciated	33,906,940
Capital Assets, being depreciated (net)	36,223,235
Loan Issuance Costs (net)	139,249
Notes and Other Receivables	203,486
Restricted Cash & Investments	<u>2,190,477</u>
Total Noncurrent Assets	<u>72,663,387</u>
Total Assets	<u>86,245,151</u>
 LIABILITIES	
Current Liabilities	
Accounts Payable	817,748
Retainage Payable	1,302,477
Accrued Compensated Absences	121,416
Accrued Interest Payable	164,671
Deposits and Escrow Balances	123,494
Current Portion - Notes Payable	<u>890,595</u>
Total Current Liabilities	3,420,401
Noncurrent Notes Payable	<u>10,203,839</u>
Total Liabilities	<u>13,624,240</u>
 NET ASSETS	
Invested in Capital Assets, net of Debt	58,871,070
Unrestricted	<u>13,749,840</u>
Total Net Assets	<u>\$ 72,620,910</u>

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, 2011**

<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>\$ 4,813,384</u>	<u>\$ 5,129,087</u>	<u>\$ -</u>	<u>\$ 2,453,745</u>	<u>\$ 2,769,448</u>
	General Revenues:				
				Investment Earnings	<u>75,803</u>
				Change in Net Assets	2,845,251
				NET ASSETS, Beginning	<u>69,775,659</u>
				NET ASSETS, Ending	<u>\$ 72,620,910</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, 2011
(With Comparative Totals for the Year Ended December 31, 2010)

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
User Charges	\$ 4,981,298	\$ 4,708,597
Inspection Fees	4,500	3,950
Line Extension Fees	58,389	65,868
Rental Income	38,833	25,375
Other Charges	<u>46,067</u>	<u>51,436</u>
Total Operating Revenues	<u>5,129,087</u>	<u>4,855,226</u>
 OPERATING EXPENSES		
Administrative	1,794,670	1,778,429
Operating - Iowa Hill	420,037	389,756
Operating - Farmers Korner	764,572	657,146
Operating - Collection System	158,852	133,064
Amortization Expense	12,300	12,300
Depreciation Expense	<u>1,252,737</u>	<u>1,283,963</u>
Total Operating Expenses	<u>4,403,168</u>	<u>4,254,658</u>
 Income (Loss) from Operations	<u>725,919</u>	<u>600,568</u>
 OTHER INCOME (EXPENSE)		
Investment Earnings	75,803	220,778
Plant Investment Fees	1,656,063	890,894
Inclusion Fees	60,994	64,489
CWRPDA Loan Credit	736,688	-
Interest Expense	<u>(410,216)</u>	<u>(412,389)</u>
Total Other Income (Expense)	<u>2,119,332</u>	<u>763,772</u>
 Change in Net Assets	2,845,251	1,364,340
NET ASSETS, Beginning	<u>69,775,659</u>	<u>68,411,319</u>
 NET ASSETS, Ending	<u>\$ 72,620,910</u>	<u>\$ 69,775,659</u>

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

UPPER BLUE SANITATION DISTRICT
Breckenridge, Colorado

PROPRIETARY FUND
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2011
(With Comparative Totals for the Year Ended December 31, 2010)

	2011	2010
Cash Flows from Operating Activities:		
Cash Receipts from Customers	\$ 5,114,430	\$ 4,836,731
Cash Payments to Suppliers	(2,485,111)	(110,417)
Cash Payments to Employees	(1,407,630)	(1,399,011)
Net Cash Flows from Operating Activities	1,221,689	3,327,303
Cash Flows from Capital and Related Financing Activities:		
Plant Investment Fees	1,656,063	890,894
Inclusion Fees	60,994	64,489
Acquisition and Construction of Capital Assets	(11,001,912)	(14,803,865)
Proceeds from Loan Credit	736,688	-
Principal Paid on Loans	(867,859)	1,235,859
Interest Paid on Loans	(421,234)	(403,390)
Net Cash Flows from Capital and Related Financing Activities	(9,837,260)	(13,016,013)
Cash Flows from Investing Activities:		
Proceeds from Sale (Purchases) of Investments	5,894,825	7,993,132
Payments (Advances) on Notes Receivable	(11,099)	(49,687)
Investment Earnings	81,166	249,635
Net Cash Flows from Investing Activities	5,964,892	8,193,080
Net Increase (Decrease) in Cash and Equivalents	(2,650,679)	(1,495,630)
CASH AND EQUIVALENTS, Beginning	14,343,283	15,838,913
CASH AND EQUIVALENTS, Ending	\$ 11,692,604	\$ 14,343,283
Reconciliation of Income (Loss) from Operations to Net		
Cash Flows from Operations:		
Income (Loss) from Operations	\$ 725,919	\$ 600,568
Adjustments required to reconcile operating income (loss) to net cash flows from operations		
Depreciation	1,252,737	1,283,963
Amortization	12,300	12,300
Changes in Assets and Liabilities:		
Accounts Receivable	(8,802)	(25,600)
Prepaid Expenses	(130,899)	(4,333)
Accounts Payable	(627,407)	1,446,058
Unearned Revenue	(5,355)	5,355
Accrued Compensated Absences	3,696	7,242
Deposits and Escrow Balances	(500)	1,750
Total Adjustments	495,770	2,726,735
Net Cash Flows from Operating Activities	\$ 1,221,689	\$ 3,327,303

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

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

DECEMBER 31, 2011

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.

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 has elected to present a combined business-type activity and proprietary fund statement of net assets as the statements are identical. The statement of activities presentation follows the GASB 34 guidance for business-type activities, while the Statement of Revenue, Expenses, and Changes in Net Assets is presented based on the fund level reporting model. The board considers both presentations beneficial in understanding the District's operations.

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, 2011

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, 2011 is \$12,300. Accumulated amortization is \$116,378 at December 31, 2011.

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

DECEMBER 31, 2011

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 2011.

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 2012 budget, the District has designated \$2,613,612 of net asset carry forward for subsequent year's expenditures.

Compensated Absences

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

Use of Estimates in the Preparation of Financial Statements

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

Cash Equivalents

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

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

DECEMBER 31, 2011

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, 2011 statement of net assets as follows:

Cash Deposits and On Hand	\$ 11,814,840
Investments	<u>3,637,547</u>
Total Cash and Investments	<u>\$ 15,452,387</u>

Cash and Equivalents	\$ 9,502,127
Investments	3,637,547
Restricted Cash and Investments	
Developer Escrow Balances	122,236
Construction Retainage Escrow	1,302,477
CWRPDA O& M Reserves	<u>888,000</u>
Total Cash and Investments	<u>\$ 15,452,387</u>

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

DECEMBER 31, 2011

Note 2: CASH AND INVESTMENTS (Continued)

CASH DEPOSITS

At December 31, 2011, the District's cash deposits had bank and carrying balances as follows:

	<u>Bank Balance</u>	<u>Carrying Balance</u>
FDIC Insured	\$ 250,000	\$ 250,000
PDPA Collateralized	11,659,080	11,564,640
Petty Cash	-	200
Total Cash Balances	<u>\$ 11,909,080</u>	<u>\$ 11,814,840</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, 2011, 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, 2011

Note 2: CASH AND INVESTMENTS (Continued)

INVESTMENTS (Continued)

The District had the following investments as of December 31, 2011:

	Fair Value	Weighted Avg. Maturity in Years	% Of Portfolio	Rating
Local Government Pools	3,637,547	-	100.0%	AAAm
Total Investments	<u>\$ 3,637,547</u>	-	<u>100.0%</u>	

At December 31, 2011, 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, 2011

Note 2: CASH AND INVESTMENTS (Continued)

INVESTMENTS (Continued)

Concentration of Credit Risk

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

RESTRICTED CASH AND INVESTMENTS

Restricted cash and investments for the operations and maintenance reserve for 2011 represent an amount equal to three months of 2012 budgeted operating expenses as required by the 1997, 2005, and 2010 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 in escrow per developer agreements. The amount held in construction retainage escrow ultimately belongs to the contractor and a retainage payable account has been established to offset this amount.

Developer Escrow Balances	\$ 122,236
Construction Retainage Escrow	1,302,477
CWRPDA O& M Reserves	<u>888,000</u>
Total Restricted Cash and Investments	<u>\$ 2,312,713</u>

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

DECEMBER 31, 2011

Note 3: CAPITAL ASSETS

Summaries of changes to capital assets for 2011 are as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>12/31/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/11</u>
Capital Assets Not Being Depreciated:				
Land and Easements	\$ 790,653	\$ -	\$ -	\$ 790,653
Construction in Progress	<u>23,005,504</u>	<u>10,110,783</u>	<u>-</u>	<u>33,116,287</u>
Total Capital Assets Not Being Depreciated	<u>23,796,157</u>	<u>10,110,783</u>	<u>-</u>	<u>33,906,940</u>
Capital Assets Being Depreciated:				
Treatment Plants	42,595,237	54,376	-	42,649,613
Upper Blue River System	3,080,937	506,814	-	3,587,751
Sewer Lines and Mains	13,105,903	262,320	-	13,368,223
Equipment and Vehicles	1,424,965	67,621	-	1,492,586
Employee Housing	<u>1,038,191</u>	<u>-</u>	<u>-</u>	<u>1,038,191</u>
Total Capital Assets Being Depreciated	<u>61,245,233</u>	<u>891,131</u>	<u>-</u>	<u>62,136,364</u>
Accumulated Depreciation:				
Treatment Plants	(16,635,541)	(761,144)	-	(17,396,685)
Upper Blue River System	(1,272,622)	(107,473)	-	(1,380,095)
Sewer Lines and Mains	(5,205,132)	(312,055)	-	(5,517,187)
Equipment and Vehicles	(1,297,930)	(51,302)	-	(1,349,232)
Employee Housing	<u>(249,166)</u>	<u>(20,764)</u>	<u>-</u>	<u>(269,930)</u>
Total Accumulated Depreciation	<u>(24,660,391)</u>	<u>(1,252,738)</u>	<u>-</u>	<u>(25,913,129)</u>
Capital Assets Being Depreciated, net	<u>36,584,842</u>	<u>(361,607)</u>	<u>-</u>	<u>36,223,235</u>
Total Capital Assets	<u>\$ 60,380,999</u>	<u>\$ 9,749,176</u>	<u>\$ -</u>	<u>\$ 70,130,175</u>

Depreciation expense for the year ended December 31, 2011 was \$1,252,738.

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

DECEMBER 31, 2011

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, 2011 are \$598,335 with Glacier Construction and \$130,394 with M.A. Mortenson Company.

Note 5: LONG TERM DEBT

The District has three outstanding loans with the Colorado Water Resources and Power Development Authority. In 1997, the District entered into a loan agreement to partially finance a wastewater treatment expansion project, and in 2005, the District entered into a second loan agreement that will finance the construction of a pump-back system. However due to the Board canceling the pump-back project these funds have been diverted to facility expansion at the Farmers Korner treatment plant. In 2010, the District entered into a third loan agreement that will further the completion of the Farmers Korner facility expansion. The loans contain various covenants and a revenue pledge. Among the covenants are rate maintenance provisions, operations and maintenance reserve requirements and provisions against providing free service or capacity to any person, firm, corporation, public agency or instrumentality.

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, 2011

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. In 2011, the District received a credit of \$736,688 for interest earned on the remainder of the project funds to be used to subsidize future loan payments in 2011 and 2012.

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

The District has pledged the revenue from the operation and use of the wastewater treatment facilities and other legally available revenue, after the payment of operation and maintenance expenses of the system, for the repayment of the above loans. The loan agreements contain restrictive covenants and requirements, including a rate covenant (See Note 9) 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, 2011.

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

	<u>Balance</u> <u>12/31/10</u>	<u>Advances</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/11</u>	<u>Current</u> <u>Portion</u>	<u>Interest</u> <u>Expense</u>
Notes Payable:						
1997 CWRPDA	\$ 3,464,111	\$ -	\$ 438,360	\$ 3,025,751	\$ 454,397	\$ 170,146
2005 CWRPDA	6,505,000	-	345,000	6,160,000	350,000	211,645
2010 CWRPDA	<u>1,993,181</u>	<u>-</u>	<u>84,498</u>	<u>1,908,683</u>	<u>86,198</u>	<u>39,443</u>
Total Long-Term Debt	\$ 11,962,292	\$ -	\$ 867,858	\$ 11,094,434	\$ 890,595	\$ 421,234

A schedule of future loan payments is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	890,595	394,782	1,285,376
2013	913,365	481,550	1,394,915
2014	941,170	446,637	1,387,806
2015	964,010	411,110	1,375,121
2016	1,002,579	376,198	1,378,777
2017-2021	3,088,303	1,254,047	4,342,351
2022-2026	2,877,457	643,700	3,521,157
2027-2030	<u>416,955</u>	<u>16,844</u>	<u>433,797</u>
Totals	\$ 11,094,434	\$ 4,024,868	\$ 15,119,300

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

DECEMBER 31, 2011

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 \$47,373, \$49,003, and \$47,130, for 2011, 2010 and 2009, respectively.

Covered and total payroll for 2011, 2010 and 2009 was \$947,460, \$980,060, and \$942,600, respectively. Employer contributions vest at a rate of 20% per year of service with employees fully vested after five years.

Beginning in 2011, the District contributes an additional 2.5% of each employee's salary into the 401 (a) based upon their optional contribution to the District's 457 plan. In 2011 the total contributions were \$21,569.

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	\$ 7,658,635	\$ 15,418,118
GAAP Basis Adjustments		
Capital Replacement	-	(145,020)
Capital Outlay	-	(10,856,892)
Debt Service Principal	-	(867,859)
Amortization Expense	-	12,300
Depreciation Expense	-	1,252,737
GAAP Basis	<u>\$ 7,658,635</u>	<u>\$ 4,813,384</u>

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

DECEMBER 31, 2011

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, 2011. 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: RATE MAINTENANCE

The 1997 Colorado Water Resources and Power Development Authority loan agreement requires that Net Revenues shall represent a sum equal to 110% of the amount necessary to pay when due the principal and interest on the loan and any parity debt coming due.

The 2010 Colorado Water Resources and Power Development Authority loan agreement requires that Net Revenues shall represent a sum equal to 110% of the amount necessary to pay when due the principal and interest on the loan and any parity debt coming due.

Gross operating revenue	\$ 5,129,087
Other revenue	1,792,860
Total revenue	<u>6,921,947</u>
Operations and maintenance expense	4,403,168
Less: Capital Outlay	<u>(11,001,912)</u>
Adjusted O&M	<u>(6,598,744)</u>
Net revenue	<u><u>\$ 13,520,691</u></u>
Total debt service	
1997 CWRPDA	608,505
2010 CWRPDA	<u>123,942</u>
	732,447
Required rate	<u>110.00%</u>
Net revenue required	<u>805,692</u>
Excess (deficit)	<u><u>\$ 12,714,999</u></u>

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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, 2011

(With Comparative Totals for the Year Ended December 31, 2010)

	2011			2010 Actual
	Final Budget	Actual	Variance Pos (Neg)	
REVENUES				
User Charges	\$ 4,939,461	\$ 4,981,298	\$ 41,837	\$ 4,708,597
Inspection Fees	1,000	4,500	3,500	3,950
Inclusion Fees	20,000	60,994	40,994	64,489
Line Extension Fees	20,000	58,389	38,389	65,868
Other Charges	28,500	46,067	17,567	51,436
Investment Earnings	114,431	75,803	(38,628)	220,778
Plant Investment Fees	445,520	1,656,063	1,210,543	890,894
CWRPDA Loan Credit	-	736,688	736,688	-
Rental Income	20,000	38,833	18,833	25,375
Total Revenues	<u>5,588,912</u>	<u>7,658,635</u>	<u>2,069,723</u>	<u>6,031,387</u>
EXPENDITURES				
Administrative				
Personnel Services	1,571,574	1,411,326	160,248	1,406,253
Office Administration	109,000	107,897	1,103	98,829
Legal and Other Professional	83,000	87,978	(4,978)	91,228
Board Expenses	6,000	6,000	-	13,354
Insurance	131,000	104,514	26,486	98,507
Building Maintenance	25,000	21,409	3,591	34,328
Employee Housing	25,000	36,931	(11,931)	22,053
Other Administrative Expenses	16,500	18,615	(2,115)	13,877
Total Administrative	<u>1,967,074</u>	<u>1,794,670</u>	<u>172,404</u>	<u>1,778,429</u>
Operating - Iowa Hill				
Utilities	220,000	203,992	16,008	203,307
Repairs	65,000	50,513	14,487	54,473
Chemicals and Other Supplies	123,000	140,753	(17,753)	108,894
Biomonitoring	10,000	8,869	1,131	8,859
Permits & Fees	7,000	6,090	910	6,090
Other Operating Expenses	9,000	9,820	(820)	8,133
Total Operating - Iowa Hill	<u>434,000</u>	<u>420,037</u>	<u>13,963</u>	<u>389,756</u>
Operating - Farmers Korner				
Utilities	435,000	368,220	66,780	332,136
Repairs	68,000	64,215	3,785	53,505
Chemicals and Other Supplies	179,000	128,901	50,099	109,867
Biomonitoring	7,000	6,970	30	5,200
Permits & Fees	18,000	15,236	2,764	3,070
Sludge Hauling & Land Application	165,000	130,086	34,914	110,255
Site Monitoring	25,000	28,497	(3,497)	25,623
Other Operating Expenses	20,000	22,447	(2,447)	17,490
Total Operating - Farmers Korner	<u>917,000</u>	<u>764,572</u>	<u>152,428</u>	<u>657,146</u>
Operating - Collection System				
Utilities	18,000	13,212	4,788	12,573
Repairs	93,000	120,280	(27,280)	94,599
Inspection Expenses	8,000	1,162	6,838	316
Other Operating Expenses	25,000	24,198	802	25,576
Total Operating - Collection System	<u>144,000</u>	<u>158,852</u>	<u>(14,852)</u>	<u>133,064</u>

See the accompanying Independent Auditor's Report
(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, 2011

(With Comparative Totals for the Year Ended December 31, 2010)

(Continued)

EXPENDITURES (continued)

Capital Replacement	<u>708,000</u>	<u>145,020</u>	<u>562,980</u>	<u>168,535</u>
Capital Outlay	<u>11,605,000</u>	<u>10,856,892</u>	<u>748,108</u>	<u>14,635,329</u>
Debt Service				
Debt Service Principal	867,859	867,859	-	764,141
Interest Expense	<u>421,234</u>	<u>410,216</u>	<u>11,018</u>	<u>412,389</u>
Total Debt Service	<u>1,289,093</u>	<u>1,278,075</u>	<u>11,018</u>	<u>1,176,530</u>
Total Expenses	<u>17,064,167</u>	<u>15,418,118</u>	<u>1,646,049</u>	<u>18,938,789</u>
Change in Net Assets - Budget Basis	<u>(11,475,255)</u>	<u>(7,759,483)</u>	<u>3,715,772</u>	<u>(12,907,402)</u>
GAAP Basis Adjustments				
Capital Replacement	-	145,020	145,020	168,535
Capital Outlay	-	10,856,892	10,856,892	14,635,329
Debt Service Principal	-	867,859	867,859	764,141
Amortization Expense	-	(12,300)	(12,300)	(12,300)
Depreciation Expense	<u>-</u>	<u>(1,252,737)</u>	<u>(1,252,737)</u>	<u>(1,283,963)</u>
Net GAAP Basis Adjustments	<u>-</u>	<u>10,604,734</u>	<u>10,604,734</u>	<u>14,271,742</u>
Change in Net Assets - GAAP Basis	<u>(11,475,255)</u>	<u>2,845,251</u>	<u>14,320,506</u>	<u>1,364,340</u>
NET ASSETS, Beginning	<u>11,475,255</u>	<u>69,775,659</u>	<u>58,300,404</u>	<u>68,411,319</u>
NET ASSETS, Ending	<u>\$ -</u>	<u>\$ 72,620,910</u>	<u>\$ 72,620,910</u>	<u>\$ 69,775,659</u>

See the accompanying Independent Auditor's Report