

# Boxelder Sanitation District

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**Financial Statements  
and Supplementary Information**  
for the Years Ended December 31, 2010 and 2009



Anton Collins Mitchell LLP



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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Boxelder Sanitation District

We have audited the accompanying basic financial statements of Boxelder Sanitation District (the "District") as of and for the year ended December 31, 2010 as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The financial statements as of December 31, 2009, were audited by Watkins & Schommer, Inc., who merged with Anton Collins Mitchell LLP as of October 1, 2010, and whose report dated April 28, 2010 expressed an unqualified opinion on those statements.

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 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. 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 opinion.

In our opinion, the 2010 financial statements referred to above present fairly, in all material respects, the financial position of the District at December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion of the financial statements that collectively comprise the District's financial statements as a whole. The budgetary comparison information on pages 18 - 19 is presented for purposes of additional analysis and is not a required part of the financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Anton Collins Mitchell LLP*  
Greeley, Colorado  
May 26, 2011

[www.acmlp.com](http://www.acmlp.com)

Northern Colorado Office 3545 West 12th Street, Suite 201 · Greeley, Colorado 80634 · 970.352.1700 · Fax 970.352.1708  
Denver Office 17th & Grant Building · 303 East 17th Avenue, Suite 600 · Denver, Colorado 80203 · 303.830.1120 · Fax 303.830.8130



**Boxelder Sanitation District  
Management's Discussion and Analysis  
December 31, 2010 and 2009**

2010 Year in Perspective

Boxelder Sanitation District (the "District") experienced growth in its customer base, revenues and capital assets in 2010 as illustrated in the table below.

Category	Growth over the previous year		
	2010	2009	2008
Customer base	3%	2%	4%
Operating revenue	4%	(1%)	6%
Capital assets (net of depreciation)	18%	8%	9%

General Discussion

The District is a single fund entity whose primary function is to collect and treat wastewater. The operating revenues and expenses relate to the core function of operating the District and its facilities, while the non-operating revenues and expenses relate to various other miscellaneous charges and fees. The basic financial statements of the District consist of two primary statements: *Statements of Net Assets* and *Statements of Revenues, Expenses and Changes in Net Assets*.

*Statements of Net Assets* reflect the cumulative financial condition of the District at two points in time: December 31, 2010 and 2009. The net assets category of the *Statements of Net Assets* reflects the sum total of earnings (revenues less expenses) and contributions to the District over its lifetime, net of any losses incurred.

*Statements of Revenues, Expenses and Changes in Net Assets* show the change in financial condition from operations and other activities during the calendar years ending December 31, 2010, and 2009. Changes in net assets for this period are the net sum of operations, non-operating incomes and expenses, and capital contributions.

Discussion of Statements of Net Assets

Changes in the primary constituents of net assets are summarized in the table below.

Category	2010 (In Millions)	2009 (In Millions)	2008 (In Millions)
Current Assets	\$4.203	\$3.905	\$3.475
Non-current Assets	\$11.201	\$0	\$0
Net Capital Assets	\$15.522	\$13.108	\$12.125
Other Asset	\$0.011	\$0	\$0
Current Liabilities	\$0.173	\$0.156	\$0.167
Non-current Liabilities	\$10.822	\$0.027	\$0
Net Assets:			
Invested in capital assets, net of related debt	\$4.723	\$13.108	\$12.125
Restricted	\$11.200	\$0.000	\$0.000
Unrestricted	\$4.019	\$3.721	\$3.308
Total	\$19.942	\$16.829	\$15.433

**Boxelder Sanitation District  
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**Current Assets:** The 2010 current assets increased 7% from 2009. The 2009 current assets increased 12% from 2008. The 2010 increase is mainly evidenced in cash and cash equivalents (unrestricted).

**Non-current Assets:** Non-current assets reflect the restricted assets associated with the 2010 borrowing from the Colorado Water Resources and Power Development Authority ("CWR&PDA") for the change of wastewater treatment processes necessary to comply with the District's National Pollutant Discharge Elimination System ("NPDES") permit that requires the District to meet final ammonia and selenium limitations on or before October 1, 2015. The restricted amount is comprised of the full \$10,800,000 loan proceeds receivable and an operational and maintenance reserve in an amount equal to three months of operating expenses excluding depreciation as set forth in the annual budget for the current fiscal year, but in no event greater than \$1,250,000. Additional information on the borrowing can be found in Note 4 of this report.

**Capital Assets:** During the calendar year 2010, the most notable new capital assets are the Collection System and Treatment Plant Master Plans, the Utility Plan, a portable closed circuit television system, administrative computer server, and the inception of the wastewater treatment plant upgrade project. These main items and some smaller equipment purchases, coupled with approximately \$2,610,000 of contributed capital, resulted in a net increase of approximately \$2,415,000 capital assets net of depreciation.

During the financial year 2009, the District upgraded the chlorine and SO<sub>2</sub> delivery system, purchased aerator floats, replaced a 405' section of failing techite line, and lined more than 1,400 l.f. of main collector line. The District also sold four vehicles and disposed of various capital assets. These main items and some smaller equipment purchases, coupled with approximately \$1,163,000 of contributed capital, resulted in a net increase of approximately \$983,000 capital assets net of depreciation.

Additional information on the District's capital assets can be found in Note 3 of this report.

**Current Liabilities:** At December 31, 2010 current liabilities were 10% higher than at December 31, 2009 primarily due to accrued interest payable on the CWR&PDA loan. At the end of 2009 current liabilities were 10% higher than at the end of 2008.

**Non-current Liabilities:** The 2010 non-current liabilities show an approximate \$10,795,000 increase due to the District receiving the CWR&PDA loan in 2010. The non-current liability at the end of 2009 was 35% higher than 2008.

**Net Assets:** December 2010 net assets were approximately \$19.9 million, an increase of more than 18% (approximately \$3 million) over the total net assets at the end of calendar year 2009. Total net assets at calendar year end of 2009 were approximately \$16.8 million, an increase of 9% (approximately \$1.4 million) over the total net assets at the end of 2008.

**Boxelder Sanitation District  
Management's Discussion and Analysis  
December 31, 2010 and 2009**

Discussion of Statements of Revenues, Expenses and Changes in Net Assets

Category	2010 (In Millions)	2009 (In Millions)	2008 (In Millions)
Total Operating Revenue	\$2.111	\$2.031	\$2.049
Total Operating Expenses	\$(1.929)	\$(1.927)	\$(1.899)
Income from Operations	\$0.182	\$0.104	\$0.150
Non-operating Income (Expenses)	\$(0.063)	\$0.009	\$0.051
Capital Contributions	\$2.993	\$1.284	\$1.939
Increase in Net Assets	\$3.112	\$1.397	\$2.140
Net Assets – January 1	\$16.830	\$15.433	\$13.293
Net Assets – December 31	\$19.942	\$16.830	\$15.433

Revenue Streams: The main revenue streams to the District consist of sewer utility charges and System Development Charges. The sewer utility charges are on-going monthly charges paid by District customers while the System Development Charges ("SDC") are one-time capital infusions from new construction and development. A smaller revenue stream (other revenues) consists mainly of delinquent penalty charges, growth related plan review fees, and infrastructure inspection charges. The District does not levy a tax on properties in the District.

Capital Contributions: In 2010 the District received approximately \$2,610,000 of contributed sanitary sewer infrastructure. This is an increase from the growth experienced in 2009 when approximately \$1,163,000 of sanitary sewer infrastructure was contributed.

The 2009 contributed capital was a decrease from 2008 contributions of approximately \$1,437,000.

Historically, SDC collections have been a barometer of growth, as they are capital investments paid to the District as a result of new residential and non-residential construction. In 2010 approximately seventy-one Wastewater Discharge Rights ("WDRs") were purchased for total receipts of approximately \$383,000. This represents a 215% increase over the 2009 net SDC revenue. In 2009 net SDC revenue totaled approximately \$121,000 after 48 SDCs (that had been purchased in 2008) were refunded as they were not activated prior to their associated WDR expiration date, leaving a net of 5 SDCs collected in 2009. By contrast, the District collected approximately \$502,000 from the sale of 151 WDRs in 2008.

Operating Expenses: There are three categories of operating expenses tied integrally to the District's primary mission of providing sanitary sewer service: collection and transmission of the wastewater to the treatment plant, treatment of the wastewater, and the industrial pretreatment program. The four largest expenses in 2010, in decreasing rank by amount, were salaries and benefits, depreciation of District's capital assets, biosolids/sludge management (an infrequent expense), and sewage treatment utilities. The last time biosolids were removed from the District lagoons was in 1990. The four largest expenses in 2009, in decreasing rank by amount, were salaries and benefits, depreciation of District's capital assets, repair and maintenance of the District's sanitary sewer infrastructure (including the upkeep of the equipment needed for operations) and sewage treatment utilities. In 2010 there was a 4% increase in operating expenses (including depreciation and the biosolids/sludge management) from 2009. There would have been a 1% decrease in operating expenses in 2010 from 2009 except for the biosolids/sludge management expense of \$101,444. Depreciation reflected a 10% increase. The collection and transmission category reflects a 9% overall decrease, mainly in repair and maintenance of sewer infrastructure. The sewage treatment category reflects a 28% overall increase, 26% of which is the biosolids/sludge management expense.

**Boxelder Sanitation District  
Management's Discussion and Analysis  
December 31, 2010 and 2009**

In 2009 there was a 1% increase in operating expenses (including depreciation and the loss from abandonment of capital assets) from 2008. There would have been a 3% decrease in operating expenses in 2009 from 2008 except for the abandonment of approximately \$79,000 of capital assets. Depreciation reflected a 15% increase. The collection and transmission category reflects a 10% overall decrease, mainly in repair and maintenance of sewer infrastructure. The sewage treatment category reflects a 9% overall decrease, even though there were increased salaries and benefits, chemicals, insurance and permit related costs.

General and Administrative Expenses are included in the above-mentioned operating expenses and quantify the cost of support services provided to the District's activities centered on its core mission. These expenses for 2010 decreased by 0.4% from 2009; 2009 decreased by 2% from 2008. As was the case with the operating expenses, the major expense element in 2010 and 2009 is salaries and benefits.

Total 2010 operating revenue (sewage treatment and other revenue) exceeded budgetary projections by 5% and is a 4% increase above 2009 operating revenue. The 2010 operating expenses (exclusive of depreciation) are approximately 89% of budgetary projections, and 2% more than 2009 actual expenses. General and administrative costs are 37% of the overall operation expenses (exclusive of depreciation), a decrease of 0.4% from actual 2009 expenses. The 2010 general and administrative costs exceeded budget due to less staff time being needed to deal with growth and development which would have reclassified salaries and benefits accordingly.

Total 2009 operating revenue (sewage treatment and other revenue) exceeded budgetary projections by 1% but was a 0.1% decrease from 2008 operating revenue. The 2009 operating expenses (exclusive of depreciation and loss on capital assets) were approximately 80% of budgetary projections, and 7% less than actual 2008 expenses. General and administrative costs are 41% of the overall operation expenses (exclusive of depreciation and loss on capital assets), a decrease of 2% from 2008.

The District continues to be in good financial health. The District incurred debt in 2010 for one major capital improvement project. It was debt free in 2009 and 2008. Increased revenues are due to a blend of growth in the District's service area and rate adjustments. Knowing that a major capital improvement project would be starting in 2011, the District husbanded its cash and worked diligently on cost containment as evidenced by the minimal change in operating expenses in 2009 and 2010, even though 2010 included a large expense of approximately \$101,000 for biosolids management.

The District remains committed to its fiduciary responsibilities, both in the near and long-term and will contain costs as much as possible. This approach will continue to keep the District in a strong financial condition.

This financial report is designed to provide a general overview of the District's finances for all those with an interest in this matter. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the District's office at P. O. Box 1518, Fort Collins, CO 80522.

**FINANCIAL STATEMENTS**

**Boxelder Sanitation District  
Statements of Net Assets  
December 31, 2010 and 2009**

	2010	2009
<u>ASSETS</u>		
<u>Current assets</u>		
Cash and cash equivalents	\$ 3,874,015	\$ 3,552,831
Accounts receivable	198,510	194,989
Inventory	11,462	10,327
Prepaid expenses	118,939	146,845
<u>Total current assets</u>	4,202,926	3,904,992
<u>Non-current assets</u>		
<u>Restricted assets</u>		
Cash and cash equivalents	400,787	-
Loan proceeds receivable	10,800,000	-
<u>Total restricted assets</u>	11,200,787	-
<u>Capital assets</u>		
Buildings and improvements	1,146,832	1,146,832
Collection and disposal system	13,841,153	11,146,613
Treatment plant	4,048,517	4,030,534
Equipment	1,426,968	1,354,964
<u>Total</u>	20,463,470	17,678,943
Less: accumulated depreciation	(5,848,283)	(5,401,146)
<u>Total</u>	14,615,187	12,277,797
Land and easements	775,445	775,445
Construction in progress	132,100	54,938
<u>Total capital assets</u>	15,522,732	13,108,180
<u>Other asset</u>		
Loan issuance costs, net of accumulated amortization of \$129	11,233	-
<u>Total non-current assets</u>	26,734,752	13,108,180
<u>Total assets</u>	30,937,678	17,013,172

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

	<u>2010</u>	<u>2009</u>
<u>LIABILITIES</u>		
<u>Current liabilities</u>		
Current portion of long-term liabilities	5,000	-
Accounts payable	45,911	99,446
Accrued interest expense	66,559	-
Accrued expenses	22,779	22,722
Wages payable	32,853	34,206
	<hr/>	<hr/>
<u>Total current liabilities</u>	173,102	156,374
<u>Non-current liabilities</u>		
Accrued compensated absences	27,277	27,266
Long-term debt, net of current maturities and unamortized premium	10,795,000	-
	<hr/>	<hr/>
<u>Total non-current liabilities</u>	10,822,277	27,266
	<hr/>	<hr/>
<u>Total liabilities</u>	10,995,379	183,640
<u>NET ASSETS</u>		
<u>Net assets</u>		
Invested in capital assets, net of related debt	4,722,732	13,108,180
Restricted:		
Operations and maintenance	400,787	-
Loan reserves	10,800,000	-
Unrestricted	4,018,780	3,721,352
	<hr/>	<hr/>
<u>Total net assets</u>	<u>\$ 19,942,299</u>	<u>\$ 16,829,532</u>

**Boxelder Sanitation District**  
**Statements of Revenues, Expenses, and Changes in Net Assets**  
**Years Ended December 31, 2010 and 2009**

	2010	2009
<u>Operating revenues</u>		
Sewer charges and other services	\$ 2,013,437	\$ 1,925,894
Other revenue	98,255	105,041
<u>Total operating revenues</u>	2,111,692	2,030,935
<u>Operating expenses</u>		
General and administrative expenses	554,354	556,461
Collection and transmission	294,168	323,810
Building and site	47,768	47,628
Sewage treatment	491,490	383,834
Pretreatment	49,921	42,752
Growth	35,551	80,165
Depreciation	455,684	412,803
<u>Total operating expenses</u>	1,928,936	1,847,453
<u>Operating income</u>	182,756	183,482
<u>Nonoperating revenues (expenses)</u>		
Loss from sale or abandonment of capital assets	-	(79,443)
Interest expense	(66,559)	-
Net investment income	3,823	8,510
<u>Total nonoperating revenues (expenses)</u>	(62,736)	(70,933)
<u>Income before contributions</u>	120,020	112,549
<u>Capital contributions</u>		
System development charges	383,088	121,315
Contributed assets from developers	2,609,659	1,162,832
<u>Total capital contributions</u>	2,992,747	1,284,147
<u>Change in net assets</u>	3,112,767	1,396,696
<u>Net assets at beginning of year</u>	16,829,532	15,432,836
<u>Net assets at end of year</u>	\$ 19,942,299	\$ 16,829,532

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

**Boxelder Sanitation District**  
**Statements of Cash Flows**  
**Years Ended December 31, 2010 and 2009**

	2010	2009
<u>Cash flows from operating activities</u>		
Cash received from customers	\$ 2,108,171	\$ 2,041,057
Cash paid to suppliers and vendors	(838,566)	(754,621)
Cash paid to employees	(662,735)	(660,915)
<u>Net cash flows from operating activities</u>	606,870	625,521
<u>Cash flows from capital and related financing activities</u>		
Change in restricted cash	(400,787)	-
System development charges received	383,088	121,315
Acquisition of capital assets	(260,448)	(318,720)
Proceeds from sale of capital assets	-	6,418
Payment of loan issuance costs	(11,362)	-
<u>Net cash flows from capital and related financing activities</u>	(289,509)	(190,987)
<u>Cash flows from investing activities</u>		
Interest received	3,823	8,510
<u>Net cash flows from investing activities</u>	3,823	8,510
<u>Net change in cash and cash equivalents</u>	321,184	443,044
<u>Cash and cash equivalents at beginning of year</u>	3,552,831	3,109,787
<u>Cash and cash equivalents at end of year</u>	\$ 3,874,015	\$ 3,552,831
<u>Reconciliation of operating income to net cash flows from operating activities:</u>		
Operating income	\$ 182,756	\$ 183,482
Adjustments to reconcile operating income to net cash flows from operating activities:		
Depreciation	455,684	412,803
Changes in assets and liabilities:		
Receivables	(3,521)	10,122
Inventory	(1,135)	(1,641)
Prepaid expenses	27,906	4,294
Accounts payable and accrued expenses	(53,467)	7,401
Wages payable	(1,353)	9,060
<u>Net cash flows from operating activities</u>	\$ 606,870	\$ 625,521
<u>Non-cash capital and financing transactions</u>		
Loan proceeds receivable	\$ 10,800,000	\$ -
Contributed capital assets	\$ 2,609,659	\$ 1,162,832

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

**Boxelder Sanitation District**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

Note 1 - Summary of Significant Accounting Policies

Form of Organization

Boxelder Sanitation District (the "District") is organized under the provisions of Section 32-1-305 (6) C.R.S. It is a quasi-municipal corporation and a political subdivision of the State of Colorado with all powers thereof which include the power to levy taxes against property within the District.

Scope of Reporting Entity

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District applies all applicable GASB pronouncements as well as Financial Accounting Standards Board ("FASB") Statements and Interpretations issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Financial Reporting Entity

For financial reporting purposes, management has considered all potential component units in defining the District. The basic criterion for including a potential component unit is the District's ability to exercise significant operational control or financial accountability with the District. Financial relationship or operational control is determined on the basis of the District's obligation to fund deficits, responsibility for debt, budgetary authority, fiscal management, selection of governing authority and/or management, and the ability to significantly influence operations.

Based on the criteria mentioned above, no other entities are considered to be component units of the District, nor is the District a component unit of any other governmental entity.

Basis of Accounting

Proprietary funds are accounted for using the accrual basis of accounting and a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of net assets. Revenues and expenses are recorded in the accounting period in which they are earned or incurred, and they become measurable. Total net assets are segregated into amounts invested in capital assets, net of related debt, restricted for maintenance and operations and loan reserves, and unrestricted net assets. Proprietary fund-type operating statements present increases (e.g., revenues) and decrease (e.g., expenses) in net assets. Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly-liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents.

Allowance for Doubtful Accounts

User and other similar fees set from time to time by the District's governing board constitute a perpetual lien on or against the property served until paid. Such liens may be foreclosed in the same manner as provided by the laws of the State of Colorado. Therefore, no provision for uncollectible receivables has been made.

Inventory

Inventory, consisting principally of chemicals and supplies, is recorded at the lower-of-cost (determined on the first-in, first-out basis) or market.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

**Boxelder Sanitation District  
Notes to Financial Statements  
December 31, 2010 and 2009**

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost. Expenditures for maintenance and repairs are charged to operations as incurred. Property replacements and improvements, which extend the lives of assets, are capitalized and subsequently depreciated. Contributed assets are reported at their fair market value at the date received.

Property and equipment of the District is depreciated using the straight-line method over the following estimated useful lives.

	Years
Buildings and improvements	7-20
Collection and disposal system	50-100
Treatment plant	50
Equipment	3-10

Loan issuances costs, Premiums and Discounts

Loan issuance costs and legal fees associated with the issuance of loans are amortized over the life of the loans using the imputed-interest method of accounting. Loan discounts or premiums associated with the issuance of loans are amortized according to the imputed-interest method. For financial reporting, unamortized premiums and discounts are netted against the applicable long-term debt.

Connection Fees

Customers may purchase a Wastewater Discharge Right by paying a system development charge ("SDC"). The SDC for nonresidential customers is based upon their water meter size and for residential customers it was \$5,333 per single family residential unit, as of December 31, 2010 and 2009.

Compensated Absences

In accordance with the provisions of the Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*, vested or accumulated vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expense and a liability. The District has recorded a liability of \$27,277 and \$27,266 at December 31, 2010 and 2009, respectively.

Budget

Colorado state law requires the adoption of an annual budget. Appropriations lapse at the end of each year. The budget and related appropriations are prepared on the budgetary basis, which differs from GAAP, in that certain capital outlays are budgeted as expenditures and depreciation is not budgeted.

Therefore, a comparison of actual operations on the accrual basis to the annual budget is not meaningful. However, a statement comparing actual (budgetary basis) to the budget is included in the supplementary information. The adjustments necessary to convert the actual revenue and expenditures to the budgetary basis for the years ended December 31, 2010 and 2009, are presented in the following schedule.

Years ended December 31,	2010	2009
Changes in net assets	\$ 3,112,767	\$ 1,396,696
Add: Depreciation	455,684	412,803
Interest expense	66,559	-
Loss from sale or abandonment of capital assets	-	79,443
Less: Developer contributions	(2,609,659)	(1,162,832)
Capital outlay	(260,448)	(318,720)
Excess of revenues over expenditures	\$ 764,903	\$ 407,390

For the year ended December 31, 2010, the original and final budget for the District was \$2,189,055.

**Boxelder Sanitation District**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

Note 1 - Summary of Significant Accounting Policies (Continued)

Net Assets

Net assets are classified in the following categories:

***Invested in capital assets, net of related debt*** – This category groups all capital assets, including infrastructure, into one component of nets assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

***Restricted net assets*** – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

***Unrestricted net assets*** – This category represents the net assets of the District, which are not restricted for any project or other purpose. A deficit will require future funding.

If applicable, the District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Reclassifications

In 2010, the District reclassified the loss from sale or abandonment of capital assets from operating expenses to nonoperating expenses. Amounts presented for the year ended December 31, 2009, have been reclassified to conform to the current presentation. This reclassification had no effect on the previously reported change in net assets.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Cash and Investments

**Cash Deposits**

Custodial Credit Risk

This is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits. The District's deposit policy is in accordance with CRS 11-10.5-101, the Colorado Public Deposit Protection Act ("PDPA"), which governs the investment of public funds. PDPA requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The financial institution is allowed to create a single collateral pool for all public funds held. The pool is maintained by another institution, or held in trust for all of the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The institution's internal records identify collateral by depositor and as such, these deposits are considered uninsured but collateralized. The State Regulatory Commission for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools. At December 31, 2010 all of the District's deposits as shown below were either insured by federal depository insurance or collateralized under PDPA and are therefore not deemed to be exposed to custodial credit risk.

**Boxelder Sanitation District  
Notes to Financial Statements  
December 31, 2010 and 2009**

**Investments**

Credit Risk

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which the District may invest, which include:

- U.S. Treasury obligations
- U.S. instrumentality obligations
- Certificates of deposit with original maturities of greater than three months
- Commercial paper rated in the highest tier by a nationally recognized rating agency
- Repurchase agreements
- Investment grade obligations of state, county and local governments and public authorities
- Money market mutual funds regulated by the Securities and Exchange Commission whose portfolios consist of only dollar denominated securities.
- Local government investment pools

District policy is to hold investments until maturity.

Note 2 - Cash and Investments (Continued)

Interest Rate Risk

The District's investment policy, established July 11, 1994, follows the guidelines and limitations set forth by the Colorado Revised Statutes. The policy limits investment maturities to 5 years or less from the date of purchase. This limit on investment maturities is a means of limiting exposure to fair values arising from increasing interest rates.

Local Government Investment Pools

As of December 31, 2010 and 2009, the District had invested balances of \$3,992,146 and \$3,067,436 in COLOTRUST, an investment vehicle established for local government entities in Colorado to pool surplus funds for investment purposes. COLOTRUST operates similarly to a money market fund and each share is equal in value to \$1.00. The designated custodial bank of COLOTRUST provides safekeeping and depository services in connection with the direct investment and withdrawal functions of COLOTRUST. All securities owned by COLOTRUST are held by the Federal Reserve Bank in the account maintained for the custodial bank. Investments of COLOTRUST consist of U.S. Treasury bills, notes and note strips and repurchase agreements collateralized by U.S. Treasury Notes. The final maturity of any and all securities purchased by COLOTRUST may not exceed one year. COLOTRUST is rated AAAM by Standard & Poor's.

Cash and cash equivalents held by the District at December 31, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Cash on hand	\$ 150	\$ 150
Cash on deposit with financial institution	282,506	485,245
Local government investment pool	<u>3,992,146</u>	<u>3,067,436</u>
<u>Total cash</u>	<u>\$ 4,274,802</u>	<u>\$ 3,552,831</u>

**Boxelder Sanitation District**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

**Note 3 - Capital Assets**

The following is a summary of capital asset activities for the year December 31, 2010:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land and easements	\$ 775,445	\$ -	\$ -	\$ 775,445
Construction in progress	54,938	131,139	(53,977)	132,100
Total capital assets, not being depreciated	830,383	131,139	(53,977)	907,545
Capital assets, being depreciated:				
Buildings and improvements	1,146,832	-	-	1,146,832
Collection and disposal system	11,146,613	2,694,540	-	13,841,153
Treatment plant	4,030,534	17,983	-	4,048,517
Equipment	1,354,964	80,422	(8,418)	1,426,968
Total capital assets, being depreciated	17,678,943	2,792,945	(8,418)	20,463,470
Less accumulated depreciation	(5,401,146)	(455,555)	8,418	(5,848,283)
Total capital assets, being depreciated, net	12,277,797	2,337,390	-	14,615,187
Total capital assets, net	<u>\$ 13,108,180</u>	<u>\$ 2,468,529</u>	<u>\$ (53,977)</u>	<u>\$ 15,522,732</u>

The following is a summary of capital asset activities for the year December 31, 2009:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land and easements	\$ 774,894	\$ 551	\$ -	\$ 775,445
Construction in progress	81,848	48,818	(75,728)	54,938
Total capital assets, not being depreciated	856,742	49,369	(75,728)	830,383
Capital assets, being depreciated:				
Buildings and improvements	1,146,832	-	-	1,146,832
Collection and disposal system	9,782,604	1,380,531	(16,522)	11,146,613
Treatment plant	3,982,633	47,901	-	4,030,534
Equipment	1,430,558	3,751	(79,345)	1,354,964
Total capital assets, being depreciated	16,342,627	1,432,183	(95,867)	17,678,943
Less accumulated depreciation	(5,074,077)	(412,803)	85,734	(5,401,146)
Total capital assets, being depreciated, net	11,268,550	1,019,380	(10,133)	12,277,797
Total capital assets, net	<u>\$ 12,125,292</u>	<u>\$ 1,068,749</u>	<u>\$ (85,861)</u>	<u>\$ 13,108,180</u>

**Boxelder Sanitation District  
Notes to Financial Statements  
December 31, 2010 and 2009**

**Note 4 - Long Term Debt**

**Water Pollution Control Revolving Fund**

In October 2010, the District entered into a loan agreement (the "Agreement") with the Colorado Water Resource and Power Development Authority ("CWRPDA") for a principal amount of \$10,410,000, plus a premium of \$390,000 for total proceeds of \$10,800,000. The loan accrues interest at 2.5%, and is payable in semi-annual principal and interest payments, beginning on February 1, 2011. The loan is secured by the Net Revenues of the District, as defined within the Agreement. As of December 31, 2010, the District had not drawn any payments from this loan. Therefore, the amount to be received is reflected as loan proceeds receivable in the accompanying statement of net assets.

Loan requirements to maturity are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Administrative Fee</u>
2011	\$ 5,000	\$ 149,502	\$ 52,050
2012	5,000	156,872	83,280
2013	435,000	173,157	83,280
2014	440,000	166,468	83,280
2015	450,000	160,025	83,280
2016-2020	2,370,000	670,877	416,400
2021-2025	2,600,000	434,596	416,400
2026-2030	2,815,000	231,391	405,990
2030-2032	1,290,000	28,580	62,460
<b>Total</b>	<b><u>\$ 10,410,000</u></b>	<b><u>\$ 2,171,468</u></b>	<b><u>\$ 1,686,420</u></b>

A summary of changes in debt is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
2010 CWRPDA Loan	\$ -	\$10,410,000	\$ -	\$10,410,000
Current portion of long-term debt	-			(5,000)
Net bond premiums	-			390,000
Noncurrent portion of long-term debt	<u>\$ -</u>			<u>\$10,795,000</u>

**Note 5 - Risk Management**

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets, errors and omissions, or acts of God. The District maintains commercial insurance coverage to mitigate these risks of loss. Settled claims have not exceeded this commercial insurance coverage in any of the past three years.

**Boxelder Sanitation District  
Notes to Financial Statements  
December 31, 2010 and 2009**

**Note 6 - Public Employees Retirement Association of Colorado**

**Plan Description** - The District contributes to the Local Government Division Trust Fund ("LGDTF"), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado ("PERA"). The LGDTF provides retirement and disability, post-retirement annual increases, and death benefits for members or their beneficiaries. All employees of District are members of the LGDTF. Title 24, Article 51 of the Colorado Revised Statutes ("CRS"), as amended, assigns the authority to establish benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the LGDTF. That report may be obtained online at [www.copera.org](http://www.copera.org) or by writing to Colorado PERA, 1301 Pennsylvania Street, Denver, Colorado 80203, or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

**Note 6 - Public Employees Retirement Association of Colorado (Continued)**

**Funding Policy** - The District is required to contribute member and employer contributions to PERA at a rate set by statute. The contribution requirements of plan members and the District are established under Title 24, Article 51, Part 4 of the CRS, as amended. The contribution rate for members is 8.0% and for the District it is 10.0% of covered salary. A portion of the District's contribution (1.02% of covered salary) is allocated to the Health Care Trust Fund (See Note 7). The District is also required to pay an amortization equalization disbursement ("AED") equal to 2.2% of the total payroll for the calendar year 2010 (1.8% of total payroll for the calendar year 2009, and 1.4% of total payroll for the calendar year 2008). Additionally, the District is required to pay a supplemental amortization equalization disbursement ("SAED") equal to 1.5% of the total payroll for the calendar year 2010 (1.0% of total payroll for the calendar year 2009 and 0.5% of total payroll for the calendar year 2008). If the District rehires a PERA retiree as an employee or under any other work arrangement, it is required to report and pay the employer contribution rate, the AED and the SAED on the amounts paid for the retiree; however no member contributions are required. For the years ending December 31, 2008, 2009, and 2010, the District's employer contributions to the LGDTF were \$71,572, \$74,794, and \$81,014, respectively, equal to their required contributions for each year.

**Note 7 - Postemployment Healthcare Benefits**

**Plan Description** - The District contributes to the Health Care Trust Fund ("HCTF"), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF provides a health care premium subsidy to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the HCTF. That report may be obtained online at [www.copera.org](http://www.copera.org) or by writing to Colorado PERA, 1301 Pennsylvania Street, Denver, Colorado 80203, or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

**Funding Policy** - The District is required to contribute at a rate of 1.02 percent of covered salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the District are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contribution to the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. For the years ending December 31, 2008, 2009, and 2010, the District's employer contributions to the HCTF were \$6,710, \$6,476 and \$6,517, respectively, equal to their required contributions for each year.

**Boxelder Sanitation District  
Notes to Financial Statements  
December 31, 2010 and 2009**

**Note 8 - Voluntary Investment Program**

**Description** - Employees of the District who are members of the LGDTF (see Note 6) may voluntarily contribute to the Voluntary Investment Program ("401(k) Plan"), an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Plan participation is voluntary, and contributions are separate from others made to PERA. Title 24, Article 51, Part 14 of the CRS, as amended, assigns the authority to establish the 401(k) Plan provisions to the State Legislature. PERA issues a publicly available annual financial report for the 401(k) Plan. That report may be obtained online at [www.copera.org](http://www.copera.org) or by writing to Colorado PERA, 1301 Pennsylvania Street, Denver, Colorado 80203, or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

**Funding Policy** - The 401(k) Plan is funded by voluntary member contributions of up to a maximum limit set by the IRS (\$16,500 for the calendar year 2009 and calendar year 2010). Catch-up contributions up to \$5,500 for the calendar year 2009 and for the calendar year 2010 were allowed for participants who had attained age 50 before the close of the plan year, subject to the limitations of IRC §414(v). The contribution requirements for the District are established under Title 24, Article 51, and Section 1402 of the CRS, as amended. For the years ended December 31, 2009, and 2010, the 401(k) Plan member contributions from the District were \$21,868 and \$13,087, respectively.

**Note 9 - TABOR Compliance**

In November 1992, Colorado voters passed an amendment (the "Amendment" or "TABOR") to the State Constitution (Article X, Section 20) which limits the revenue raising and spending abilities of state and local governments. The limits on property taxes, revenue, and "fiscal year spending" include allowable annual increases tied to inflation and local growth in construction valuation. Fiscal year spending, as defined by the Amendment, excludes spending from certain revenue and financing sources such as federal funds, gifts, property sales, fund transfers, damage awards, and fund reserves (balances). The Amendment requires voter approval for any increase in mill levy or tax rates, new taxes, or creation of multi-year debt. Revenue earned in excess of the "spending limit" must be refunded or approved to be retained by the entity under specified voting requirements by the entire electorate.

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. The District management believes its operations qualifies for this exclusion.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits and qualification as an Enterprise will require judicial interpretation.

**Note 10 - Commitments and Contingencies**

The Environmental Protection Agency ("EPA") has notified the District that "On or before October 1, 2015, the permittee shall submit to the Permits Section a letter of notification that all construction of the wastewater treatment plant ("WWTP") has been completed and that the upgraded WWTP is in operation." The District is following the processes outlined in the letter from the EPA to accomplish the construction of a new WWTP to meet the EPA guidelines for ammonia and selenium limitations.

**Note 11 - Subsequent Events**

Management of the District has evaluated subsequent events through May 26, 2011, the date that the financial statements were available to be issued. No transactions or events that would require adjustment to, or disclosure in the financial statements were identified.

**OTHER SUPPLEMENTARY INFORMATION**

**Boxelder Sanitation District**  
**Schedule of Revenues and Expenditures - Budget and Actual (Budgetary Basis)**  
**For the Year Ended December 31, 2010**  
**With Comparative Actual Amounts for Year Ended December 31, 2009**  
**(Unaudited)**

	Original and Final Budget	Actual Amounts Budget Basis	Variance with Final Budget Positive (Negative)	2009 Actual
<b><u>Revenues</u></b>				
Sewage treatment revenues	\$ 1,911,735	\$ 2,013,437	\$ 101,702	\$ 1,925,894
Other revenues	85,878	98,255	12,377	105,041
Net investment income	9,136	3,823	(5,313)	8,510
System development charges	239,985	383,088	143,103	121,315
<b><u>Total revenues</u></b>	<b>2,246,734</b>	<b>2,498,603</b>	<b>251,869</b>	<b>2,160,760</b>
<b><u>Expenditures</u></b>				
<b>Collection and transmission:</b>				
Salaries and benefits	236,286	174,713	61,573	183,868
Other	22,207	10,043	12,164	19,527
Legal	6,000	912	5,088	2,870
Small tools	14,675	9,849	4,826	8,966
Repairs and maintenance	68,574	51,914	16,660	67,742
Insurance	19,460	19,321	139	18,356
Fuel	7,654	8,208	(554)	8,470
Utilities	14,354	11,554	2,800	8,323
Material and supplies	13,550	7,654	5,896	5,688
<b><u>Total collection and transmission</u></b>	<b>402,760</b>	<b>294,168</b>	<b>108,592</b>	<b>323,810</b>
<b>Building and site:</b>				
Insurance	5,393	10,298	(4,905)	9,341
Utilities	16,253	15,447	806	14,535
Salaries and benefits	3,038	7,302	(4,264)	4,702
Repairs and maintenance	18,455	13,800	4,655	18,582
Other	200	921	(721)	468
<b><u>Total building and site</u></b>	<b>43,339</b>	<b>47,768</b>	<b>(4,429)</b>	<b>47,628</b>
<b>Sewage treatment:</b>				
Salaries and benefits	200,758	161,761	38,997	154,207
Utilities	83,201	84,220	(1,019)	73,174
Repairs and maintenance	63,902	26,420	37,482	37,941
Lab services	54,882	45,075	9,807	40,012
Biosolids removal	96,500	101,445	(4,945)	-
Chemicals	24,972	19,692	5,280	24,616
Other	14,219	8,959	5,260	6,955
Supplies	16,354	10,207	6,147	13,534
Permit	7,878	25,977	(18,099)	25,977
Insurance	8,168	7,734	434	7,418
<b><u>Total sewage treatment</u></b>	<b>570,834</b>	<b>491,490</b>	<b>79,344</b>	<b>383,834</b>

**Boxelder Sanitation District**  
**Schedule of Revenues and Expenditures - Budget and Actual (Budgetary Basis)**  
**For the Year Ended December 31, 2010**  
**With Comparative Actual Amounts for Year Ended December 31, 2009**  
**(Unaudited)**

	Original and Final Budget	Actual Amounts Budget Basis	Variance with Final Budget Positive (Negative)	2009 Actual
<u>Expenditures (Continued)</u>				
Pretreatment:				
Salaries and benefits	33,070	23,607	9,463	27,760
Other	11,727	20,757	(9,030)	3,755
Outside services	6,455	3,115	3,340	11,112
Legal and publications	2,300	2,367	(67)	50
Permits	75	75	-	75
<u>Total pretreatment</u>	53,627	49,921	3,706	42,752
General and administrative:				
Salaries and benefits	342,729	431,506	(88,777)	411,616
Customer and billing outreach	53,495	47,540	5,955	44,234
Repairs and maintenance	7,437	8,278	(841)	5,207
Legal	54,343	17,761	36,582	35,644
Insurance	5,294	3,889	1,405	4,974
Audit	5,800	5,800	-	5,500
Director fees and expenses	9,016	6,825	2,191	7,497
Utilities	5,804	6,605	(801)	5,733
Office expenses	17,166	14,093	3,073	15,336
Conferences, meeting and travel	4,086	1,014	3,072	1,668
Fees and dues	8,652	9,624	(972)	10,272
Other	6,493	1,419	5,074	8,780
<u>Total general and administrative</u>	520,315	554,354	(34,039)	556,461
Growth:				
Salaries and benefits	56,369	28,733	27,636	53,529
Other	11,811	6,818	4,993	26,636
<u>Total growth</u>	68,180	35,551	32,629	80,165
<u>Capital outlay</u>	530,000	260,448	269,552	318,720
<u>Total expenditures</u>	2,189,055	1,733,700	455,355	1,753,370
<u>Excess of revenues over expenditures</u>	\$ 57,679	\$ 764,903	\$ 707,224	\$ 407,390

See accompanying Independent Auditors' Report.