

**FRISCO SANITATION DISTRICT
FRISCO, COLORADO**

FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT

December 31, 2018

**FRISCO SANITATION DISTRICT
FRISCO, COLORADO**

CONTENTS

	<u>Page</u>
Independent Auditor's Report	
Management's Discussion and Analysis.....	I-VII
Basic Financial Statements	
Statement of Net Position	1
Statement of Revenues, Expenses, and Changes in Net Position	2
Statement of Cash Flows	3
Notes to Financial Statements.....	4-11
Other Supplemental Information:	
Schedule of Revenues, Expenses and Changes in Net Position - Budget (Non - US GAAP Basis) and Actual.....	12



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Frisco Sanitation District
Frisco, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Frisco Sanitation District, as of and for the year ended December 31, 2018 which collectively comprises the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Frisco Sanitation District, as of December 31, 2018 and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages I through V 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 on the financial statements as a whole. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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.

Watson Coon Ryan, LLC

Watson Coon Ryan, LLC

Greenwood Village, Colorado
March 24, 2019

Management's Discussion and Analysis

The mission of the Frisco Sanitation District is to make wastewater collection and treatment decisions providing a quality wastewater product at a reasonable price.

Audit Assurance

The District is responsible for financial statements and related information. Independent external auditors audit the District's books yearly for the purpose of expressing an opinion on the financial statements. The District contracts with an outside accountant to assist the District Office Manager with the daily accounting. The District believes this procedure provides reasonable assurance the District's business is conducted in compliance with District policies.

The opinion of the independent external auditors, Watson Coon Ryan, LLC is included in this report. This section offers management's discussion and analysis of the District's financial condition and activities for the year ending December 31, 2018.

Responsibility and Control

The District prepared the financial statements and information included in this report. Internal accounting controls are maintained to provide reasonable assurance that assets are safeguarded. Books and records reflect authorized transactions. The District believes the internal accounting controls maintain an appropriate cost/benefit relationship.

Staff, an outside accountant and the Board of Directors evaluate internal controls. Independent external auditors evaluate certain elements of the internal controls in order to express an opinion on the financial statements.

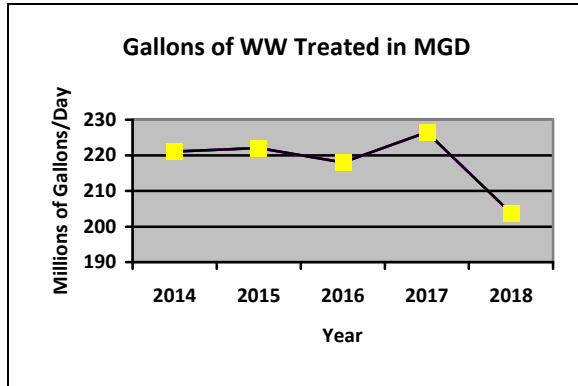
The Board of Directors meets bimonthly to go over expenditures. They meet annually with staff and the independent external auditor to ensure procedures are being followed. The Board meets in September to discuss and adopt a budget for the coming year.

The Board believes these procedures provide guidance and reasonable control that the District's management, accounting and operations are conducted in accordance with a high standard of business ethics. In the District's opinion, the financial statements represent fairly the financial position of the District in accordance with the accounting principals generally accepted by the State of Colorado.

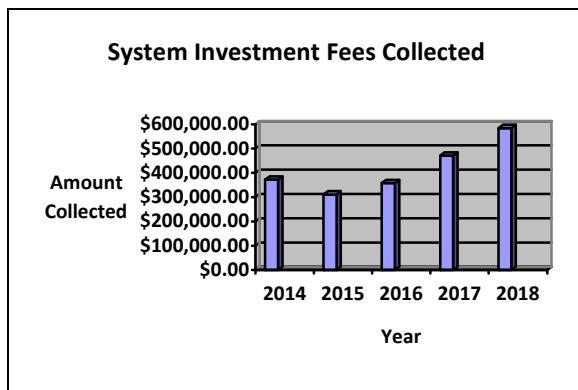
Financial Highlights

The District is a tax-free debt-free utility in a decent financial position. User fees cover operational and routine capital costs. Construction projects are funded from existing cash reserves.

- The District treated 203.8 million gallons of wastewater in 2018. This flow indicates a decrease over previous years, this could be due to the relatively dry winter of 2017/2018 and the lower than usually amount of inflow and infiltration that results from drier conditions.

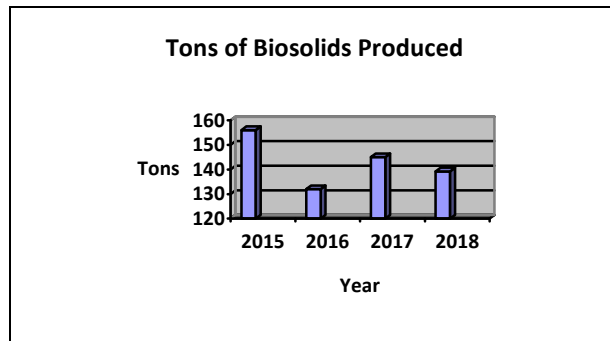


- The District hydro jetted approximately 1/3 of the collection system in 2018. Any excess foreign material was removed from the collection system by District staff. Small sections were also CCTVed for closer inspection of the integrity of the lines.
- The District benefitted from strong economic and development growth resulting in system investment fee revenue over 292% of projected. Revenues from system investment fees have been outpacing projections for a few years, however 2018 saw the District collecting some of the largest amounts in recent years.



- The District increased System Investment Fees to \$10,000 per EQR, beginning 1/1/2016. The SIF fee for non-residential is assessed at \$8,500/EQR in an attempt to not inhibit business growth.
- User fee collections increased as construction projects from previous years were granted certificates of occupancy and repurposed occupancy accounted for additional system investment fees purchased and user fees assessed.

- The District increased user fees 10% for 2017. No further increases will be considered until 2020.
- The District disposed of 139.2 dry metric tons of biosolids in 2018. This amount represents a decrease from 145 dry metric tons in 2017, but not significant. The entirety of this amount was transported to Climax mine for composting and subsequently land applied to assist in their reclamation efforts.



- The utility operates solely as an enterprise fund funded by user and tap fees.
- The District is in good financial shape for a small district of 4,853 EQRs. The operations staff has consistently maintained successful operation while keeping cost below budgeted amounts.
- Build out projections have indicated that build out of the district will require approximately 6,060 EQRs to serve the current district as well as anticipated future development. The District has sold 4,853 EQRs which is 80% of the available capacity within the treatment plant. It should also be noted that the sale of the System Investment Fees is a large funding source for plant upgrades and the sale of these fees will begin to taper off as build out approaches.
- Summit County Government has obtained the property on the Dam Road known as the Hill Property and the current projection is to develop the property with affordable housing units numbering over 400. A comprehensive collection system capacity study was conducted in the Summer of 2016. It was discovered that some improvements to that stretch of sewer line is necessary to accommodate the addition of Lake Hill. An additional feasibility study is to be conducted in 2019 to assess the total possible cost of the project. This study is a joint venture by the Town of Frisco and Summit County Government.
- 2.03 acres of vacant land adjacent to the treatment plant has been purchased for future expansions or buffer area. The Town of Frisco is currently planning to renovate the Frisco Bay Marina. Additional revenues from the acceptable use of this property by the Town of Frisco could be realized in the future.
- Budgeted Operating Revenues were \$ 2,059,737
- Budgeted Operating Expenses were \$ 1,540,587
- Budgeted Routine Capital Expenses \$ 299,000
- Budgeted Capital Special Projects \$ 200,000
- User fees cover the cost of routine operation and maintenance expenses. FSD user fees continue to be one of the lowest in Summit County.

The Budget Analysis in the Supplementary Information compares revenues and expenses. All of the current year's expenses and revenues are accounted for. The District's user fees cover all operational and routine maintenance expenses. System investment fees are totaled as part of the revenue stream and uses include capital treatment plant and collection system expenses above routine capital expense.

1. Operating Revenues are 2.90% favorable compared to budget.
2. Operating Expenses are 40.39% favorable compared to budget.
3. Non-Operating Revenues are 265.92% favorable compared to budget.

In 2018 there were a few notable variances. These variances were the most prominent in the operating expenses and the non-operating revenues, both were favorable as compared to the budget. Operating expenses were well under budget due to cost savings in the daily operations of the plant, most notably in the chemical costs and equipment and machinery parts. A strong effort by plant staff has cut chemical costs by running the plant more efficiently and proper maintenance of plant equipment has been instrumental in lowering equipment repair costs. Non-operating Revenues were greatly favorable as compared to the budgeted amounts. This was a result of a payout of a grant that was reimbursement for projects that were already completed as well as more than expected system investment fee revenues.

Required Financial Statements

Colorado Local Government Law requires the District to have an annual audit of financial statements included in this report. The financial statements report information about the District's accounting methods. These statements offer short- and long-term financial information.

The Financial Statements report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principals that are generally accepted in the United States of America. The Statement of Net Assets includes information on the District's assets and liabilities, providing information about the nature and amounts of investments in resources (assets) and the obligations to the District creditors (liabilities). The Statements of Revenues, Expenses and Changes in Net Assets identify the District's revenues and expenses for December 31, 2017. The statement provides information on the District's operations and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statement of Cash Flows. The Statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Statement of Cash Flows, the reader may obtain comparative information on the source and use of cash and the change in the cash and cash equivalents balance for each year.

Financial analysis of The District

The Statements of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provide an indication of the District’s financial condition and also indicate that the financial condition for the District remained stable during the last fiscal year. The District net assets reflect the difference between assets and liabilities. An increase in net assets over time indicates improvement in financial condition.

The Supplemental schedules include a Schedule of Revenues, Expenses and Changes in Net Assets-Budget (non-US GAAP Basis) and Actual. The schedule is other supplementary schedule by accounting principles generally accepted in the United States of America. They are presented for management analysis and legal compliance only. Financial statements are audited and adjusted, if necessary, during the independent audit process.

Summary of Organization and Business

The District is a public, non-profit organization created in 1967 providing wastewater collection and treatment for the Frisco Colorado area served by an elected five-member Board of Directors. The District serves the Town of Frisco and surrounding unincorporated areas of Summit County.

The Board of Directors is:

Ron Drake	Board President
Colleen Richmond	Vice President
Cheryl Thompson	Treasurer
Jamie Haass	Secretary
Bill Petty	Director

District infrastructure assets include the treatment plant, twenty miles of collection system and seven pumping stations. The District receives no financial support from the Town of Frisco. Enterprise revenues are derived from user fees, system investment fees and interest on investments. The District is a tax-free entity.

Conclusion

The treatment plant went through major upgrades in 2015, in 2016 District staff was fully able to fully utilize the improvements, 2017 saw even greater operational understanding of the upgrades, 2018 was spent fine tuning and optimizing the process. The improvements to the District’s nutrient removal capabilities appear to be able to achieve the limits currently mandated by the CDPHE, this could change if either the limits are changed or the District sees a large increase in loading or flows. The upcoming regulations aren’t expected to affect the District until 2027 or later. The current treatment plant is thought to be able to accommodate the buildout within the current District

boundaries, however, large scale housing developments or redevelopment to higher density type structures may necessitate plant expansion in the future.

The District is in good financial shape for a small sanitation district. Sanitation District rate payers pay no taxes. Even after the large expenditures from the major plant rehabilitation the District still has in excess of 6.6 million dollars in reserve funds, an amount that with no pending expansions has allowed investments to be made further improving our financial standing, investment income has been a nice addition to the District's overall revenue stream. A recent boom in development in the Frisco area has added to reserves in additional system investment fees.

The District's financial condition can be attributed to a small multitalented utility staff and a forward-thinking Board of Directors. An efficient, dedicated staff of 5 full time employees and 1 part-time employee keep the utility operating smoothly. Discussions regarding staffing are underway and the possibility of adding another employee whether it be part time or full time exist.

Looking forward there are a few things to consider for long range financial planning. First and maybe the most immediate is how the District and its Board of Directors chooses to approach inclusion of new development. The plant is designed to handle a set amount of flow as well as a set amount of waste. Inclusion of developments may bring the district closer to those thresholds and necessitate the need for a plant expansion for additional capacity. Along with the addition of new development, there is a strong potential for redevelopment in some portions of the service area that will require service and may bring the plant and collection system closer to its capacity. The current development climate of the Frisco and Summit County areas is one of rapid growth, a close eye will have to be kept on the rate of growth so it won't outpace collection system and plant capabilities.

Along with the need for additional plant capacity there will be a need for additional collection system capacity, portions of the collection system are nearing capacity at their current state and may need upgrading with even the smallest increase of users along their reaches. This upgrading of collection system infrastructure will be important and potentially costly when areas of the current service area get redeveloped and have the need for expanded service from the District. Large scale redevelopment projects may have to be scrutinized with respect to their impacts on collection system capacity.

Another driver would be changes in water quality regulations above the regulations that are known to be forthcoming. Plant staff has been active in maintaining its awareness to upcoming regulations and the timelines that would accompany these changes. There should be ample time to plan financially if regulatory changes demand plant expansion. An additional nutrient incentive program is in place for entities that show good nutrient removal capabilities before the regulations take place, this will more than likely extend the implementation of nutrient regulations to the District.

District staff does a great job in maintaining our buildings; however, the District may incur expenses in the near future as aging buildings may need repair or replacement of key components such as roofs and exterior work. These building repairs are currently ongoing and careful staging of these repairs should not have large impacts of the finances of the District.

This report is designed to provide a general overview of District finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Matt Smith, District Manager, P.O. Box 601, Frisco, Colorado 80443.

FRISCO SANITATION DISTRICT
FRISCO, COLORADO
Statement of Net Position
December 31, 2018

ASSETS	
Current assets:	
Cash and Cash Equivalents	\$ 4,447,404
Accounts receivable	6,111
Inventory	45,563
Prepaid expenses	74,047
Certificate of deposit	2,205,284
Current portion of notes receivable	15,208
Total current assets	6,793,617
Property and equipment:	
Land	3,098,815
Treatment plant	22,211,906
Collection, storage and distribution system	5,606,722
Equipment, vehicles and furniture	4,170,959
Total property and equipment	35,088,402
Less accumulated depreciation	(23,198,807)
Net property and equipment	11,889,595
Other assets:	
Notes receivable, net of current portion	77,753
Total assets	18,760,965
LIABILITIES AND NET POSITION	
Current liabilities:	
Accounts payable	17,331
Earned benefits payable	38,026
Payroll taxes payable	7,500
Total current liabilities	62,857
Net position:	
Net investment in capital assets	11,889,595
Restricted - maintenance of wetlands	50,000
Unrestricted	6,758,513
Total net position	\$ 18,698,108

The accompanying notes are an integral part of this financial statement.

FRISCO SANITATION DISTRICT

FRISCO, COLORADO

Statement of Revenues, Expenses, and Changes in Net Position

For the year ended December 31, 2018

Operating Revenues:	
User fees	\$ 1,869,251
Other charges	25,763
Total operating revenues	1,895,014
Operating Expenses:	
Operations	1,133,767
Depreciation	1,100,396
Total operating expenses	2,234,163
Operating income (loss)	(339,149)
Non-operating revenues:	
Grant income	466,057
System investment fees	714,312
Investment income	83,945
Total non-operating revenues	1,264,314
Change in Net Position	925,165
Net position - beginning of year	17,772,943
Net position - end of year	\$ 18,698,108

The accompanying notes are an integral part of this financial statement.

FRISCO SANITATION DISTRICT
FRISCO, COLORADO
Statement of Cash Flows
For the year ended December 31, 2018

Cash flows from operating activities:	
Cash received from customers	\$ 1,864,863
Cash received from others	25,763
Cash paid to suppliers	(597,961)
Cash paid to employees	(606,955)
Net cash provided by operating activities	685,710
Cash flows from capital financing activities:	
System investment fees	674,163
Acquisition of capital assets	(82,029)
Net cash provided (used) by capital financing activities	592,134
Cash flows from investing activities:	
Purchase of certificates of deposit	(760,179)
Interest on investments	83,945
Net cash provided (used) by investing activities	(676,234)
Net increase in cash	601,610
Cash and cash equivalents, beginning of year	3,845,794
Cash and cash equivalents, end of year	\$ 4,447,404
	\$ 0
Reconciliation of operating income (loss) to net cash provided (used) by operations:	
Operating Income (Loss)	\$ (339,149)
Adjustments to reconcile Operating Income (loss) to cash provided by operating activities:	
Depreciation	1,100,396
Decrease (increase) in:	
Receivables	(4,388)
Inventory	(5,823)
Prepaid expenses	(60,652)
(Decrease) increase in:	
Accounts payable and accrued liabilities	(4,674)
Total adjustments	1,024,859
Net cash provided by operating activities	\$ 685,710

The accompanying notes are an integral part of this financial statement.

1. **Summary of significant accounting policies**

The accounting policies of the Frisco Sanitation District, located in Frisco, Colorado, (the District), conform to accounting principles generally accepted in the United States of America as applicable to governments (US GAAP). The following is a summary of the more significant policies consistently applied in the preparation of the financial statements.

Reporting entity

The District is incorporated as a separate local government entity under Colorado Revised Statutes. A Board of Directors, consisting of five elected Board members governs the District. As required by US GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District provides wastewater services to the Town of Frisco and surrounding unincorporated areas of Summit County.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the Governmental Accounting Standards Board (GASB), Statement No. 61, *The Financial Reporting Entity: Omnibus*, which amended GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which provides guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency. The pronouncements also require including a possible component unit if it would be misleading to exclude it.

Per GASB 61 the District is not financially accountable for any other organization.

1. **Summary of significant accounting policies (continued)**

Measurement focus, basis of accounting and financial statement presentation

The accompanying financial statements are presented in accordance with *GASB Statement No. 34*. The government-wide financial statements (i.e. the statement of net position and the statement of revenues, expenses, and changes in fund net position) report information on the business-type activities of the District, which rely to a significant extent on user fees and charges for support. The statement of activities demonstrates the degree to which expenses of the business-type activities are supported by user fees.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow.

The District's operations are classified as an Enterprise fund that accounts for the acquisition, operation, and maintenance of activities that are similar to a business. The business-type fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations, the treatment of wastewater. Operating expenses for the fund include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition, including system investment fees are reported as nonoperating revenues and expenses.

Assets, liabilities and net position

Cash and cash equivalents

For purposes of the statement of cash flows the District considers cash on hand, demand deposits with an original maturity of twelve months or less to be cash and cash equivalents.

Fair value of financial instruments

The District's financial instruments include cash and investments, accounts receivable, and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2018 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

1. **Summary of significant accounting policies (continued)**

Assets, liabilities and net position (continued)

Prepaid Supplies

The District's inventory is stated at cost, and recorded on the first in, first out method. Inventory consists of chemicals, and assorted parts that are used during the course of the District's business operations.

Capital assets

It is the District's policy to capitalize items that cost more than \$500 and have a useful life in excess of one year. All purchased capital assets are recorded at cost. Major capital outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant and equipment are depreciated using the straight-line method over their estimated useful lives ranging from 5 to 50 years. A half-year of depreciation is computed in the year of acquisition. Donated assets are valued at their estimated fair market value when received. Land and construction in process are not depreciated.

Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Position

Net Position of the District is classified into three components:

- Net investment in capital assets;
- Restricted net positions, which are non-capital assets that must be used for a particular purpose; and
- Unrestricted net positions, which are the remaining assets not otherwise classified.

The District applies restricted net positions first when both restricted and unrestricted resources are available.

1. **Summary of significant accounting policies (continued)**

Budgetary information

The District is required by State Statute to adopt a budget for the ensuing year. The District budgets for all its operations, except as explained below. The District follows the following schedule in its budgetary process.

- By October 15; Preliminary budget presented to the Board and advertised in a public record that a budget is available for review.
- By December 15; Property tax mill levies certified to County Commissioners, budget adopted and the funds appropriated for the following year.
- By December 31; if no mill levies are to be certified, budget must be adopted and funds appropriated for the following year.

During the year the Board may authorize supplemental appropriations, if necessary. In 2018, there were no an additional appropriations.

Budgets are prepared using the accrual basis of accounting, except as follows:

- There is no budget provision for depreciation or amortization.
- A budget provision is made for capital outlay costs which are treated as asset additions in the financial statements.

2. **Detailed notes concerning the funds**

Cash and cash equivalents

Colorado statutes require protection of public moneys in banks beyond that provided by the federal insurance corporations. The Public Deposit Protection Act in Colorado Revised Statutes 11-10.5-107(5) requires all eligible depositories holding public deposits, including those of the State's component units, to pledge designated eligible collateral having market value equal to at least 102 percent of the deposits exceeding the amounts insured by federal insurance. Upon liquidation of a defaulting eligible depository, the statute requires the banking board to seize the eligible collateral, liquidate the collateral, repay the public deposits to the depositing government. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be equal to 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by Colorado Revised Statutes to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

COLOTRUST (Colorado Local Government Liquid Asset Trust) and CSAFE (Colorado Surplus Asset Fund Trust) are local government investment vehicles that qualify as 2a7-like investment pools, where the value of each share is maintained at \$1.00. COLOTRUST,

FRISCO SANITATION DISTRICT
FRISCO, COLORADO
Notes to the Financial Statements
December 31, 2018

CSAFE and the third party investment fund have credit quality ratings of AAA, while cash held by the State Treasurer is not rated for credit quality.

As of December 31, 2018, all of the District's deposits were either held in deposit accounts insured by the Federal Deposit Insurance Corporation or in eligible depositories as required by PDPA.

Investments

Credit risk

The District has not adopted a formal investment policy; however, the District follows Colorado Revised Statutes regarding its investments. Colorado Revised Statutes specify investment instruments meeting defined rating and risk criteria in which the District may invest which include local government investment pools.

Investment Valuation

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds (PFM Funds Governmental Select series); money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee); and CSAFE which record their investments at net asset value (NAV) per share, measured using amortized cost.

<u>Investments:</u>	<u>Fair Value</u>
COLOTRUST (at NAV)	\$ 1,804,907
CSAFE (at NAV)	1,466,672
	<u>\$ 3,271,579</u>

Custodial and concentration of credit risk

At December 31, 2018, the District had \$1,804,907 invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST), an investment vehicle established for local government entities in Colorado to pool surplus funds. COLOTRUST operates similarly to a money market fund and each share is equal in value to \$1.00. Investments of COLOTRUST consist of U.S. Treasury bills, notes and note strips, and repurchase agreements collateralized by U.S. Treasury Securities. A designated custodial bank provides safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal functions of COLOTRUST. Substantially all securities owned by COLOTRUST are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by COLOTRUST.

FRISCO SANITATION DISTRICT
FRISCO, COLORADO
Notes to the Financial Statements
December 31, 2018

2. Detailed notes concerning the funds (continued)

Colorado Revised Statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest. The allowed investments include local state sponsored investment pools. The District invests in two such pools, the Colorado Surplus Asset Fund Trust (CSAFE) and the Colorado Local Government Liquid Asset Trust (COLOTRUST) which were both rated AAAM by Standards and Poor's. These investments are not categorized because the investments are not evidenced by securities that exist in physical or book entry form. The District also invests excess undesignated cash reserves into certificates of deposits.

Credit risk

The District has adopted a formal investment policy that complies with the Colorado Revised Statutes. The policy specifies investment instruments in which the District may invest including certificates of deposits, and local government investment pools.

Interest rate risk

The District has a formal investment policy that limits investment maturities to five years from the purchase date as a means of managing its exposure to fair value losses arising from increasing interest rates.

Changes in capital assets

The changes in capital assets for the year ended December 31, 2018 are as follows:

	Balance January 01, 2018	Additions	Deletions	Balance December 31, 2018
Land, not depreciated	\$ 3,098,815	\$ --	\$ --	\$ 3,098,815
Treatment plant	22,172,260	39,645	--	22,211,906
Collection system	5,596,910	9,812	--	5,606,722
Equipment, vehicles, and furniture	4,138,387	32,572	--	4,170,959
Total	35,006,372	82,029	--	35,088,401
Accumulated Depreciation	(22,098,410)	(1,100,396)	--	(23,198,806)
Net	\$ 12,907,962	\$ (1,018,367)	\$ --	\$ 11,889,595

FRISCO SANITATION DISTRICT
FRISCO, COLORADO
Notes to the Financial Statements
December 31, 2018

2. Detailed notes concerning the funds (continued)

Notes receivable

	<u>Current</u>	<u>Long-Term</u>
During 1997 - 2003 the district extended service lines into the residential subdivisions Bills Ranch, Evergreen, Frisco Heights, and Wiborg Park. The cost of these lines was apportioned to the properties benefited. For those that requested it, the District financed their share of the cost over 10 years at 5% per annum with quarterly payments of principal and interest required.	\$12,694	\$63,877
An "affordable housing project" was built in the District's service area during 1997. The total system investment fee for this project was \$168,000. After a 50% down payment, the District agreed to finance the balance over 30 years at a 3% interest rate.	2,514	13,876
	<u>\$15,208</u>	<u>\$77,753</u>

Pension obligations

At the present time, District employees participate in a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and administered by PEBSCO. This plan is a defined contribution plan that requires a minimum of \$25 per month for an employee to participate. This plan allows the employee to contribute up to the lesser of 25% of their salary or \$9,000 per year, including District matching funds. Employees are not required to contribute to the plan. If they do not contribute, this results in the employee accumulating only the District's contribution. The District contribution is based on years of service for each employee as follows: 1% of salary in year 1, 4% in year 2, 5% in year 3, 6% in year 4, and 7% for year 5. The District contribution is capped at 7%. For 2018, the District's total pension costs were \$23,474. The District has no administrative or fiduciary control over the funds in this plan. Accordingly, the District does not report the plan assets and corresponding liability in its financial statements, in accordance with GASB Statement No. 32.

Earned Benefits Payable

Annual leave - Employees earn 80 hours for their first full year of service, then 80 hours plus eight additional hours for each additional year of service. Employees may accumulate up to 240 hours. Upon leaving the employment of the District, an employee is paid for all accumulated annual leave up to a maximum of 240 hours. The annual leave accounts for \$28,429 of the earned benefits payable.

2. **Detailed notes concerning the funds (continued)**

Earned Benefits Payable (continued)

Sick leave - Employees earn 10 hours per month. In January, when an employee has accumulated over 300 hours of sick leave by December 31st of the prior year, they may convert those hours in excess of 300 at the rate of 1 day of sick leave for a ½ day vacation, enabling them to acquire a maximum of 6 additional days of vacation leave per year. The earned sick leave accounts for \$9,598 of the earned benefits payable.

3. **Other information**

Risk management

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets, errors or omissions, injuries to employees, or acts of God. The District covers its exposure to these risks through the use of commercial insurance, except for the deductibles on certain policies, which are insignificant in amount. Settlement amounts have not exceeded insurance coverage during the last three years and there has been no significant decrease in coverage during that period.

TABOR Amendment

In November of 1992, Colorado voters approved Amendment 1 to the state Constitution which, is commonly known as The Taxpayer's Bill of Rights or the TABOR Amendment. The amendment applies to all units of local government and limits taxes, spending, revenue, and multi-year debt (excepting bond refundings to lower interest rates and adding employees to pension plans). "Enterprises" are excluded from the requirements of TABOR. "Enterprises" are defined as a government owned business receiving less than 10% of annual revenue in grants from all Colorado and local governments. Grant revenue includes grants as well as property tax revenue received by the District. Based on the definition of an "Enterprise", the District believes that it is in compliance with the provisions of being classified as an "Enterprise" and therefore, is not subject to TABOR.

Joint venture

The District, through a joint venture with the Town of Frisco (Town), purchased a culvert cleaner in February 1998 for a cost of \$24,000. The agreement between the Town and the District is that the cleaner is titled in the Town's name and the District is responsible for the storage of the equipment. When the Town and District decide to sell the cleaner, each party will be entitled to receive one-half of the proceeds.

Other Supplemental Information

FRISCO SANITATION DISTRICT
FRISCO, COLORADO
Schedule of Revenues, Expenses and Changes in Net Position -
Budget (Non - US GAAP Basis) and Actual
For the year ended December 31, 2018

	Original and Final Budget	Actual	Variance Positive (Negative)
Operating Revenues:			
User fees	\$ 1,839,587	\$ 1,869,251	\$ 29,664
Other charges	2,000	25,763	23,763
Total Operating Revenues	1,841,587	1,895,014	53,427
Operating Expenses:			
Salaries and benefits	699,500	606,955	92,545
Utilities	225,000	189,364	35,636
Chemicals and supplies	164,300	96,821	67,479
Repairs and maintenance	312,787	56,759	256,028
Sludge disposal	60,000	51,794	8,206
Insurance	65,000	50,191	14,809
Legal & Audit	26,200	17,683	8,517
Permits	35,000	16,421	18,579
Office supplies	3,000	11,997	(8,997)
Education	8,500	1,184	7,316
Miscellaneous	57,300	15,901	41,399
Telephone	8,000	7,095	905
Freight and postage	6,500	4,605	1,895
Consultants	5,000	850	4,150
Trash service	3,000	2,690	310
Printing and Legal notices	2,500	353	2,147
Bank service charge	2,000	1,843	157
Memberships and registration	2,000	1,261	739
Contingency	5,000	--	5,000
Capital outlay	349,000	82,029	266,971
Total Operating Expenses	2,039,587	1,215,796	823,791
Non-Operating Revenues:			
Grant income	-	466,057	466,057
System investment fees	203,150	714,312	511,162
Investment income	15,000	83,945	68,945
Total Non-Operating Revenues	218,150	1,264,314	580,107
Net income (loss) - non-US GAAP budgetary basis	\$ 20,150	\$ 1,943,532	\$ 1,923,382
Adjustments to US GAAP basis:			
Add:			
Capital outlay		82,029	
Less:			
Depreciation expense		(1,100,396)	
Total adjustments to US GAAP basis		(1,018,367)	
Net income (loss) - US GAAP basis		\$ 925,165	