

**FRISCO SANITATION DISTRICT
FRISCO, COLORADO**

FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT

December 31, 2020

**FRISCO SANITATION DISTRICT
FRISCO, COLORADO**

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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, 2020 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, 2020 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

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

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
Centennial, Colorado
March 7, 2021

FRISCO SANITATION DISTRICT
FRISCO, COLORADO
Statement of Net Position
December 31, 2020

ASSETS

Current assets:

Cash and Cash Equivalents	\$ 6,779,078
Accounts receivable	74,535
Inventory	50,261
Prepaid expenses	73,981
Certificate of deposit, at amortized cost	2,254,626
Current portion of notes receivable	3,154

Total current assets	9,235,635
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Property and equipment:

Land	2,943,874
Treatment plant	22,477,677
Collection, storage and distribution system	5,733,129
Equipment, vehicles and furniture	4,258,835

Total property and equipment	35,413,515
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Less accumulated depreciation	(25,166,736)
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Net property and equipment	10,246,779
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Other assets:

Notes receivable, net of current portion	15,469
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Total assets	19,497,883
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LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable	23,061
Earned benefits payable	40,355
Payroll taxes payable	12,398

Total current liabilities	75,814
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Net position:

Net investment in capital assets	10,246,779
Unrestricted	9,175,290

Total net position	\$ 19,422,069
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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, 2020

Operating Revenues:	
User fees	\$ 2,070,853
Other charges	55,036
Total operating revenues	2,125,889
Operating Expenses:	
Operations	1,294,341
Depreciation	914,432
Total operating expenses	2,208,773
Operating loss	(82,884)
Non-operating revenues:	
System investment fees	198,136
Investment income	107,893
Total non-operating revenues	306,029
Change in Net Position	223,145
Net position - beginning of year	19,198,924
Net position - end of year	\$ 19,422,069

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, 2020

Cash flows from operating activities:	
Cash received from customers	\$ 1,999,014
Cash received from others	55,036
Cash paid to suppliers	(582,400)
Cash paid to employees	(707,120)
Net cash provided by operating activities	764,530
Cash flows from capital financing activities:	
System investment fees	202,686
Acquisition of capital assets	(398,520)
Net cash used by capital financing activities	(195,834)
Cash flows from investing activities:	
Purchase of certificates of deposit	(625,986)
Proceeds from sale of certificates of deposit	1,080,000
Interest on investments	107,893
Net cash provided by investing activities	561,907
Net increase in cash	1,130,603
Cash and cash equivalents, beginning of year	5,648,475
Cash and cash equivalents, end of year	\$ 6,779,078

**Reconciliation of operating income (loss) to net cash
provided (used) by operations:**

Operating Income (Loss)	\$ (82,884)
Adjustments to reconcile Operating Income (loss) to cash provided by operating activities:	
Depreciation	914,432
Decrease (increase) in:	
Receivables	(64,454)
Inventory	(7,211)
Prepaid expenses	2,312
(Decrease) increase in:	
Deferred Revenue	(7,385)
Accounts payable and accrued liabilities	9,720
Total adjustments	847,414
Net cash provided by operating activities	\$ 764,530

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.

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, 2020 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.

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.

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 2020, there was one budget amendment.

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.

Colorado State law requires the disclosure of over expended amounts on the budgetary schedules. During 2020, the District over expended the budget in some areas, see the Schedule of Revenues, Expenses and Changes in Net Position - Budget (Non - US GAAP Basis) and Actual in the Other Supplemental Information.

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

FRISCO SANITATION DISTRICT
FRISCO, COLORADO
Notes to the Financial Statements
December 31, 2020

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, 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, 2020, 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)	\$ 1,861,022
CSAFE (at NAV)	3,775,665
	<u>\$ 5,636,687</u>

FRISCO SANITATION DISTRICT
FRISCO, COLORADO
Notes to the Financial Statements
December 31, 2020

Custodial and concentration of credit risk

At December 31, 2020, the District had \$1,861,022 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.

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.

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 2020, the District's total pension costs were \$26,314. 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.

FRISCO SANITATION DISTRICT
FRISCO, COLORADO
Notes to the Financial Statements
December 31, 2020

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 \$34,984 of the earned benefits payable

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 \$5,371 of the earned benefits payable.

Changes in capital assets

The changes in capital assets for the year ended December 31, 2020 are as follows:

	Balance January 1, 2020	Additions	Deletions	Balance December 31, 2020
Land, not depreciated	\$ 2,943,874	\$ --	\$ --	\$ 2,943,874
Treatment plant	22,259,786	217,891	--	22,477,677
Collection system	5,614,283	118,846	--	5,733,129
Equipment, vehicles, and furniture	4,197,052	61,783	--	4,258,835
Total	35,014,995	398,520	--	35,413,515
Accumulated Depreciation	(24,252,304)	(914,432)	--	(25,166,736)
Net	\$ 10,762,692	\$ (515,912)	\$ --	\$ 10,246,779

Notes receivable

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.

<u>Current</u>	<u>Long-Term</u>
\$3,153	\$15,469
<u>\$3,153</u>	<u>\$15,469</u>

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.

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.

Subsequent Events

Events occurring subsequent to the statement of net position date have been evaluated for financial statement impact or disclosure through the date the financial statements were available to be issued.

At the time these financial statements were issued, the world economy was responding to the novel COVID-19 pandemic. This pandemic is anticipated to negatively affect the U.S. economy during 2020. No accruals or adjustments are reflected in the current financial statements to account for the potential impacts of the pandemic.

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, 2020

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Operating Revenues:				
User fees	\$ 2,045,706	\$ 2,045,706	\$ 2,070,853	\$ 25,147
Other charges	23,000	23,000	55,036	\$ 32,036
Total Operating Revenues	2,068,706	2,068,706	2,125,889	57,183
Operating Expenses:				
Salaries and benefits	838,500	838,500	707,120	131,380
Utilities	240,000	240,000	206,992	33,008
Chemicals and supplies	170,500	170,500	107,731	62,769
Repairs and maintenance	201,500	201,500	55,171	146,329
Sludge disposal	85,000	85,000	71,157	13,843
Insurance	65,000	65,000	55,980	9,020
Legal & Audit	31,500	31,500	26,148	5,352
Permits	35,000	35,000	13,308	21,692
Office supplies	20,000	20,000	13,886	6,114
Education	2,500	2,500	2,035	465
Miscellaneous	11,300	11,300	7,963	3,337
Telephone	8,500	8,500	8,705	(205)
Freight and postage	6,000	6,000	5,455	545
Consultants	12,000	12,000	6,320	5,680
Trash service	3,000	3,000	3,195	(195)
Printing and Legal notices	2,700	2,700	277	2,423
Bank service charge	2,000	2,000	1,728	272
Memberships and registration	3,000	3,000	1,170	1,830
Contingency	2,706	2,706	--	2,706
Wetlands	50,000	50,000	--	50,000
Capital outlay	455,000	655,000	398,520	256,480
Total Operating Expenses	2,245,706	2,445,706	1,692,861	752,845
Non-Operating Revenues:				
System investment fees	200,000	200,000	198,136	(1,864)
Investment income	75,000	75,000	107,893	32,893
Total Non-Operating Revenues	275,000	275,000	306,029	31,029
Net income (loss) - non-US GAAP budgetary basis	\$ 98,000	\$ (102,000)	\$ 739,057	\$ 641,057
Adjustments to US GAAP basis:				
Add:				
Capital outlay			398,520	
Less:				
Depreciation expense			(914,432)	
Total adjustments to US GAAP basis			(515,912)	
Net income (loss) - US GAAP basis			\$ 223,145	