
MANAGEMENT'S DISCUSSION AND ANALYSIS,
FINANCIAL STATEMENTS AND
AUDITORS' REPORT

ORCHARD MESA SANITATION DISTRICT

GRAND JUNCTION, COLORADO

December 31, 2011

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Orchard Mesa Sanitation District
Grand Junction, CO

We have audited the accompanying basic financial statements of Orchard Mesa Sanitation District as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Orchard Mesa Sanitation District at December 31, 2011 and the results of its operations and 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 be presented to supplement the basic financial statements(pages i – iv). Budgetary comparison information on page 18 is presented as other supplemental information. We have applied certain limited procedures to the required and other 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.



JEFF WENDLAND, CPA, LLC
Fruita, Colorado
July 1, 2012

**REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Orchard Mesa Sanitation District Management Discussion and Analysis

The "Discussion and Analysis" is designed to provide an analysis of the District's financial condition and operating results and to also inform the reader on District financial issues and activities. Please read it in conjunction with the transmittal letter at the front of this report and the District's financial statements, which follow.

HIGHLIGHTS – Business-type Activities

- In 2010, net assets decreased by \$437,102.00 (or 8%) when compared to 2010
- Total revenues increased by \$16,247.00 (or 2%) to \$815,326.00 for 2011
- Total operating expenses increase by \$132,424.00 (or 9%) in 2011 when compared to 2010
- Net capital assets increased by \$436,443.00 to \$4,819,317.00 in 2011
- Capital contributions in 2010 were \$210,500.00 in comparison to \$136,750.00 in 2011
- Non-current liabilities decreased by \$50,000.00 to \$205,000.00 in 2010

USING THIS ANNUAL REPORT

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- **Statement of net assets** – reports the District's current financial resources (short-term spendable resources with capital assets and long-term obligations). (See pages 3-4)
- **Statements of revenues, expenses and changes in fund net assets** – reports the District's operating and non-operating revenues by major source along with operating and non-operating expenses and capital contributions. (See page 5)
- **Statements of cash flows** – reports the District's cash flows from operating, investing, capital and non-capital activities. (See page 6)
- **Statement of revenues and expenditures – budget and actual – (non-GAAP budgetary basis)** – reports the District's revenues and expenditures on the same basis as the budget. (See page 18)

Orchard Mesa Sanitation District
Management Discussion and Analysis

STATEMENT OF NET ASSETS

The following table shows the condensed statement of net assets for the past two years.

Years ended December	2011	2010
Current assets		
Restricted assets	\$1,285,237.00	\$1,980,968.00
Capital assets	357,930.00	355,830.00
Other assets	<u>4,519,317.00</u>	<u>4,382,874.00</u>
Total assets	<u>6,162,484.00</u>	<u>6,719,672.00</u>
Current liabilities		
Non-current liabilities	164,692.00	224,778.00
Total liabilities	<u>205,000.00</u>	<u>265,000.00</u>
	<u>369,692.00</u>	<u>489,778.00</u>
Net assets		
Invested in capital assets, net of related debt	4,175,817.00	4,067,874.00
Restricted for debt service	67,156.00	67,156.00
Unrestricted	1,087,959.00	1,655,877.00
Restricted for Capital Assets	<u>461,860.00</u>	<u>438,977.00</u>
Total net assets	<u>6,162,484.00</u>	<u>6,229,894.00</u>

The net assets of the District decreased to \$6,162,484.00 during 2011, a decrease of \$67,410.00 over 2010. The major reason for this decrease is due the continued slow economy, few sewer tap purchased for new construction and the District using its own funds.

REVIEW OF REVENUES

Years ended December 31,	2011	2010
Operating revenues		
Sewer service fees	\$714,911.00	\$709,535.00
Other	(0)	(0)
Total	<u>714,911.00</u>	<u>709,535.00</u>
No-operating revenues		
Property taxes	83,132.00	82,721.00
Investment income	17,283.00	6,823.00
Total	<u>100,514.00</u>	<u>89,544.00</u>
Total revenues	<u>815,425.00</u>	<u>799,079.00</u>

In 2011, operating revenues increased 2% from the prior year and the District's customer base increased about 1% from 2010. Non-operating revenue were \$16,346.00 more in 2011 when compare to the prior year. This is attributable primarily to more unrealized gain on investment due to fluctuations in fair value on investments.

Orchard Mesa Sanitation District
 Management Discussion and Analysis

REVIEW OF EXPENSES

Years ended December 31,	2011	2010
Operating expenses		
City of Grand Junction service fee	\$ 474,462.00	\$ 468,121.00
Collection system	385,729.00	342,841.00
Professional services (including legal & engineering)	114,525.00	50,203.00
Administration	179,653.00	169,060.00
Finance & accounting	6,500.00	6,500.00
Depreciation	<u>212,056.00</u>	<u>203,776.00</u>
Total	1,372,925.00	1,240,501.00
Non-operating expenses		
Interest expense	14,750.00	17,438.00
County treasurer's fees	<u>1,503.00</u>	<u>1,087.00</u>
Total	<u>16,253.00</u>	<u>18,525.00</u>
Total expenses	<u>1,389,178.00</u>	<u>1,259,026.00</u>

The District's operating expenses increased by \$132,424.00 in 2011 compared to 2010. This increase is attributed to the District a capital improvement project. Non-operating expenses decreased in 2011 by \$2,272.00 due to a reduction in interest expense for debt retirement.

CAPITAL CONTRIBUTIONS

Years ended December 31,	2011	2010
Tap connection fees	\$ 36,750.00	\$110,500.00
Developer donated lines & system upgrades	<u>100,000.00</u>	<u>100,000.00</u>
Total capital contributions	<u>84,750.00</u>	<u>220,500.00</u>

In 2010, tap fees decreased \$73,750.00 over the prior year. This decrease resulted from continued decline in the economy within the District.

BUDGETARY HIGHLIGHTS

The overall budget appropriation for 2011 was not changed.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Orchard Mesa Sanitation District Management Discussion and Analysis

Capital assets, net of depreciation

In 2010, capital assets had a net increase (additions, retirements & depreciation) of \$136,283.00.

Years ended December 31,	2011	2010
Collection system	\$8,082,479.00	\$7,733,980.00
Land	88,500.00	88,500.00
Building & Improvement	84,319.00	84,319.00
Office Equipment	<u>61,733.00</u>	<u>61,733.00</u>
Total	8,317,031.00	7,968,532.00
Depreciation	<u>(3,797,714.00)</u>	<u>(3,585,658.00)</u>
Total Capital Assets, net	4,519,317.00	4,382,874.00

The major additions in 2011 are:

Collection system	\$348,499.00
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The District completed one capital repair projects in 2011. Rincon Project, Phase III, was completed in 2011 and new PVC line was installed to eliminate the old "Truss" pipe – eliminating I/I issues.

DEBT OUTSTANDING

Debt information is available in the notes to the financial statements (see page 15-16).

ECONOMIC AND OTHER FACTORS

The economy of the Orchard Mesa area served by the District continues to decline due to the downward spiral in the national economy. The decreasing number of sewer tap sales (see page 6) and subdivision development indicates a declining growth trend.

FINANCIAL CONTACT

The District's financial statements are designed to present (water users, taxpayers and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have any question concerning this report or need additional financial information, please contact the District's office, Orchard Mesa Sanitation District, 240 27-1/4 Road, Grand Junction, CO 81503.

STATEMENT OF NET ASSETS

ORCHARD MESA SANITATION DISTRICT

STATEMENT OF NET ASSETS

December 31, 2011

ASSETS

CURRENT ASSETS

Cash	\$ 594,029
Investments	486,759
Customer accounts receivable	143,058
Accrued property taxes receivable	56,967
Other assets	4,424
<i>TOTAL CURRENT ASSETS</i>	<u>1,285,237</u>

RESTRICTED ASSETS

Cash	<u>357,930</u>
<i>TOTAL RESTRICTED ASSETS</i>	<u>357,930</u>

PROPERTY, PLANT AND EQUIPMENT

Building and improvements	84,319
Collection system	8,082,479
Office equipment	61,733
	<u>8,228,531</u>
Less accumulated depreciation	<u>(3,797,714)</u>
	4,430,817
Land	88,500
<i>TOTAL PROPERTY, PLANT AND EQUIPMENT</i>	<u>4,519,317</u>
<i>TOTAL ASSETS</i>	<u><u>\$ 6,162,484</u></u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES

Current maturities of long-term debt	\$ 50,000
Accounts payable	4,327
Accrued expenses	1,067
Accrued interest	3,188
Due to other governments	49,143
Deferred revenue from property taxes	56,967
<i>TOTAL CURRENT LIABILITIES</i>	<u>164,692</u>

LONG-TERM DEBT

Bonds payable	255,000
Less current maturities	<u>(50,000)</u>
<i>TOTAL LONG-TERM DEBT</i>	<u>205,000</u>

NET ASSETS

Invested in capital assets, net of related debt	4,175,817
Restricted for debt service	67,156
Restricted for capital assets	461,860
Unrestricted	<u>1,087,959</u>
<i>TOTAL NET ASSETS</i>	<u>5,792,792</u>

TOTAL LIABILITIES AND FUND EQUITY \$ 6,162,484

ORCHARD MESA SANITATION DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year ended December 31, 2011

OPERATING INCOME	
Sewer service	\$ 714,911
OPERATING EXPENSES	
Audit and accounting	6,500
Depreciation	212,056
Directors' fees	8,000
Employee benefits	11,574
Legal and professional fees	62,308
Engineering fees	52,217
Salaries	114,545
Office expense	31,855
Operating expense	11,476
Repair and maintenance	374,253
Retirement	9,463
Service fees	474,462
Utilities and Telephone	4,216
	1,372,925
LOSS FROM OPERATIONS	(658,014)
NON-OPERATING REVENUES (EXPENSES)	
Property taxes	83,132
County treasurer's fees	(1,503)
Investment income	17,283
Interest expense	(14,750)
	84,162
LOSS BEFORE CONTRIBUTIONS	(573,852)
CAPITAL CONTRIBUTIONS	
Tap fees	36,750
Contributions for system upgrades	100,000
	136,750
CHANGE IN NET ASSETS	(437,102)
NET ASSETS, beginning of year	6,229,894
NET ASSETS, end of year	\$ 5,792,792

The accompanying notes are an integral part of these statements

ORCHARD MESA SANITATION DISTRICT

STATEMENT OF CASH FLOWS

Year ended December 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 708,098
Cash paid to suppliers	(1,067,607)
Cash paid to employees	(135,582)
<i>NET CASH USED BY OPERATING ACTIVITIES</i>	<u>(495,091)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Treasurer's fees paid	(1,503)
Property tax revenue received	83,132
<i>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</i>	<u>81,629</u>

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Tap fees and line costs received in excess of costs	36,750
Contributions for system upgrades	100,000
Acquisitions and construction of capital assets	(348,499)
Debt reduction	(60,000)
Interest paid on debt	(14,750)
<i>NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES</i>	<u>(286,499)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Net income (loss) on investments	8,325
Sale of investments	1,171,000
Purchase of investments	(695,987)
<i>NET CASH PROVIDED BY INVESTING ACTIVITIES</i>	<u>483,338</u>
<i>NET INCREASE IN CASH</i>	(216,623)

CASH - beginning of year	<u>810,652</u>
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CASH - end of year	<u><u>\$ 594,029</u></u>
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The accompanying notes are an integral part of these statements

**RECONCILIATION OF LOSS FROM OPERATIONS TO NET
CASH USED IN OPERATING ACTIVITIES**

<i>LOSS FROM OPERATIONS</i>	\$ (658,014)
ADJUSTMENTS TO RECONCILE LOSS FROM OPERATIONS TO NET CASH USED IN OPERATING ACTIVITIES	
Depreciation	212,056
(Increase) in accounts receivable	(3,430)
(Increase) in other current assets	(3,383)
(Decrease) in accounts payable	(1,478)
(Decrease) in accrued expenses	(1,748)
(Decrease) in due to other governments	(39,094)
<i>NET CASH USED IN OPERATING ACTIVITIES</i>	<u><u>\$ (495,091)</u></u>

The accompanying notes are an integral part of these statements

ORCHARD MESA SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE A - SUMMARY OF ACCOUNTING POLICIES

The District is organized under the laws of the State of Colorado by virtue of an organizational decree issued by the District Court in and for the County of Mesa and State of Colorado on November 25, 1974.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (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, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the committee on accounting procedure issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. The District has implemented the provisions of the Statement.

Basis of Presentation

The District is a special-purpose government engaged only in a business type activity. The accounts of the District are organized as a proprietary fund. This means that the District accounts for its operations in a manner similar to a private business enterprise. The intent is that the costs of providing services to the general public on a continuing basis be financed through user charges.

Basis of Accounting

The basis of accounting refers to the timing of the recognition of revenue and expenditures in the financial statements. Since the District is organized as a proprietary fund, it uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Bad Debts

All accounts are considered collectible, therefore, no provision for uncollectible accounts is considered necessary.

ORCHARD MESA SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS - continued

December 31, 2011

NOTE A - SUMMARY OF ACCOUNTING POLICIES - continued

Cash Equivalents

For purposes of the statement of cash flows, the District considers checking, money market, and passbook savings accounts to be cash equivalents.

Property, Plant, Equipment and Depreciation

Property, plant and equipment are recorded at cost. Depreciation is computed using the straight-line method over the following estimated useful lives of the assets.

Building and improvements	10-20 years
Collection system	40 years
Office equipment	5 years

Reporting Entity

The reporting entity of the District includes those activities and functions over which the District's officials maintain accountability, oversight and control. The District's financial statements include the accounts and operations of all of the District's functions. The District is the primary government and does not include any component units using the criteria set forth in generally accepted accounting principles.

Future Compensated Absences

It is the District's policy to permit employees to accumulate a limited amount of earned but unused vacation that will be taken after December 31, 2011 or paid upon separation from District service. As of December 31, 2011, the total of accrued future compensated absences was immaterial and not accrued in the basic financial statements.

Net Assets

Investments in capital assets (net of related debt) is intended to reflect the portion of net assets that are associated with non-liquid capital assets, less outstanding capital related debt. Restricted assets are liquid assets that have third-party limitations on their use.

Operating Revenues and Expenses

Operating revenues and expenses are those that result from providing sanitation service to customers. All revenues and expenses not in the course of providing service are reported as non-operating revenues and expenses.

ORCHARD MESA SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS - continued

December 31, 2011

NOTE A - SUMMARY OF ACCOUNTING POLICIES - continued

Budgets and Budgetary Accounting

Annual appropriation budgets are adopted by the District. The budgets are adopted on the accrual basis with certain modifications. The modifications include the addition of capital expenditures and debt service expenditures and the exclusion of depreciation. Appropriations lapse at the end of the year; therefore, no provision for encumbrances are included.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Application of GASB No. 20, Paragraph 7

The District has elected to follow all FASB statements issued after November 30, 1989, that do not conflict or contradict GASB pronouncements and that are developed for business enterprises.

NOTE B - CASH AND INVESTMENTS

The District may invest public funds and monies of the District in any securities designated as legal investments in any applicable statute of the state of Colorado. Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest including obligations of the United States and certain U.S. government agency securities; certain international agency securities; general obligation and revenue bonds of U.S. local government entities; bankers' acceptances of certain banks; commercial paper; local government investment pools; written repurchase agreements collateralized by certain authorized securities; certain money market funds; and guaranteed investment contracts. Colorado statutes require the District to make deposits only in eligible public depositories as defined by the Colorado Public Deposit Protection Act of 1975. The Act requires the eligible depository with public deposits in excess of federal insurance levels to create single institution collateral pools of defined eligible assets. Eligible collateral includes obligations of the United States, the state of Colorado or local Colorado governments and obligations secured by first lien mortgages on real property located in the state. The pool is to be maintained by another institution or held in trust for all uninsured public deposits as a group. The market value of the pool must be at least equal to the uninsured deposits.

ORCHARD MESA SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS - continued

December 31, 2011

NOTE B - CASH AND INVESTMENTS - continued

The District's investments consist of U.S. government securities and investments with the investment pool ColoTrust.

Cash and investments, at cost, consist of:

	Rating	Maturity less than one year
Cash		
Petty cash	N/A	\$ 75
Checking accounts	N/A	417,364
Passbook savings and money market accounts	N/A	534,520
Less: amount restricted		(357,930)
		<u>\$ 594,029</u>
Investments		
FNMA Notes	N/A	\$ 232,289
ColoTrust	AAAm	254,470
		<u>\$ 486,759</u>

The District's deposits with financial institutions had carrying amounts of \$570,414 and bank balances of \$621,248 on December 31, 2011. Balances exceeding federal depository insurance limits of \$206,033 are secured. The District's money market accounts with brokerage institutions had carrying amounts and institution amounts of \$381,470 on December 31, 2011. This entire amount was insured under the Securities Investors Protection Corporation. Further information on ColoTrust is available online at www.colotrust.com.

FNMA notes are purchased at a premium or discount and are carried at fair market value as determined by quoted prices.

ORCHARD MESA SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS - continued

December 31, 2011

NOTE C - PROPERTY TAXES

Property taxes for 2011, collectible in 2012, were approved by the Board of Directors in December, 2011 and levied by the Mesa County Commissioners. Property taxes attach as an enforceable lien on January 1, 2012, and are payable in two installments due February 28 and June 15, or in one installment due April 30.

Property taxes for 2011, collectible in 2012, are shown as property taxes receivable and deferred revenue on the balance sheet in the amount of assessed taxes. No allowance is made for uncollectible taxes.

Revenue from 2010 property taxes collected in 2011 is recognized in these financial statements as follows:

Assessed valuation	\$85,113,890
Mill levy	0.88
Property taxes levied	\$74,900
Property taxes collected	\$74,757
Percent collected	99.8%

NOTE D – CAPITAL ASSETS

At December 31, 2011, capital assets (property, plant and equipment) include the following:

	Beginning	Additions	Deletions	Ending
Non-depreciable assets				
Land	\$ 88,500	\$ -	\$ -	\$ 88,500
Depreciable assets				
Building and improvements	84,319	-	-	84,319
Collection system	7,733,980	348,499	-	8,082,479
Office equipment	61,733	-	-	61,733
Total cost	7,968,532	348,499	-	8,317,031
Less accumulated depreciation	(3,585,658)	(212,056)	-	(3,797,714)
Total capital assets, net	\$ 4,382,874	\$ 136,443	\$ -	\$ 4,519,317

ORCHARD MESA SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS - continued

December 31, 2011

NOTE D - LONG TERM DEBT

Sewer Revenue Bonds and Reserve

Sewer Revenue Bonds, Series 1976, were issued January 1, 1977. Commencing in 1977, the bonds mature in serial number order in varying amounts on October 1. Interest of 5% is payable each April 1 and October 1.

The following is a summary of bond principal and interest requirements:

Year	<u>PRINCIPAL</u>	<u>INTEREST</u>		Annual Total
	October 1	October 1	April 1	
2012	50,000	6,625	6,625	63,250
2013	50,000	5,375	5,375	60,750
2014	55,000	4,125	4,125	63,250
2015	55,000	2,750	2,750	60,500
2016	45,000	1,375	1,375	47,750
	<u>\$ 255,000</u>	<u>\$ 20,250</u>	<u>\$ 20,250</u>	<u>\$ 295,500</u>

A Bond Reserve Account of \$67,000 as required by the bond indenture was established upon receipt of the loan proceeds. Funds may be expended from the Reserve for the purpose of preventing defaults in the payments of the bonds or interest. If used, the Reserve must be replenished by a yearly addition of \$6,700 until the required amount of \$67,000 is attained. The reserve account had a balance of \$67,156 on December 31, 2011.

ORCHARD MESA SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS - continued

December 31, 2011

NOTE D - LONG TERM DEBT - continued

Following is a summary of changes in long-term debt for the year ended December 31, 2010

	<u>January 1</u>	<u>Borrowing</u>	<u>Repayments</u>	<u>December 31</u>
Bonds payable	<u>\$ 315,000</u>	<u>\$ -</u>	<u>\$ 60,000</u>	<u>\$ 255,000</u>

NOTE E - SEWER SERVICE AND INTERGOVERNMENTAL AGREEMENT

Sewer service income is recognized monthly as the service by the District is rendered. The City of Grand Junction/Mesa County, Colorado Joint Sewer System charges the District a monthly fee for operating services performed. The charges by the Joint Sewer System are recognized on the same basis as the service income. Terms of a revised agreement with the Joint Sewer System completed in 2004, require a return of a portion of these charges. Beginning in 2004 and finishing in 2015, the District is to receive \$43,400 per year to be used for non-specific capital purposes. In addition, beginning in 2004 and ending in 2012, the District is to receive \$56,600 per year in capital funds to be used for specified capital expenditures. Of funds received as of December 31, 2011 \$461,860 remained unspent as of December 31, 2011 as a result this amount is shown as restricted portion of net assets. On or before the November 2015 general election, the District board shall take steps to take to the voters a plan and proposal to dissolve the district.

NOTE F - RETIREMENT PLANS

A. The District provides pension benefits for all of its full-time employees through a defined contribution plan with the Colorado County Officials and Employees Retirement Association Retirement Plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate six months from the date of employment. The District contributed from 6% to 8% of the employee's monthly base salary to the plan. The District's contribution for each employee (and interest allocated to the employee's account) vest at a rate of 20% per year. Any non-vested District contributions forfeited by an employee who leaves the District's employment are remitted to the District. Further information on CCOERA may be found online at www.ccoera.org.

ORCHARD MESA SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS - continued

December 31, 2011

NOTE F - RETIREMENT PLANS - continued

The District's total payroll was \$114,545 in 2011. The total payroll covered by the pension plan was \$114,331. Employees, through a deferred compensation arrangement, contributed \$8,829 to the plan and the District's contribution totaled \$9,463.

- B. The District offers a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code. The plan permits employees to defer a portion of their salary to future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the deferred compensation plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held in trust by an independent trustee for the exclusive benefit of the participants and their beneficiaries.

NOTE G - RECONCILIATION OF REVENUE AND EXPENSES – BUDGETARY BASIS TO GAAP BASIS

Excess revenue over expenditures - budget basis	\$ (633,544)
Plus:	
Debt principal	60,000
Capital outlay	348,499
Less:	
Depreciation expense	<u>(212,056)</u>
Net adjustment	196,443
Change in Net Assets (GAAP Basis)	<u>\$ (437,101)</u>

ORCHARD MESA SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS - continued

December 31, 2011

NOTE H - TAX, SPENDING, AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The Amendment is complex and subject to judicial interpretation. The voters of the District exempted the District from all Amendment requirements in a 1995 election, therefore, the District believes none of the Amendment's provisions apply. The exemption applies to the 1995 fiscal year as well as subsequent years.

NOTE I - RISK MANAGMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters. The District participates in the Colorado Special Districts Property and Liability Pool to provide workers' compensation coverage and general liability and property insurance. The District, along with other participating entities, contributes annual amounts determined by the Pool management. As claims arise, they are submitted to and paid by the Pool. There have been no significant reductions in insurance coverage, nor have settlement amounts exceeded coverage for the current or prior three years.

NOTE J – SUBSEQUENT EVENTS

The district has considered subsequent events through July 1, 2011, the date of issuance of the statements, as they may affect these financial statements.

OTHER SUPPLEMENTARY INFORMATION

ORCHARD MESA SANITATION DISTRICT

**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL
(NON-GAAP BUDGETARY BASIS)**

Year Ended December 31, 2011

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUE			
Sewer service	\$ 688,250	\$ 714,911	\$ 26,661
Taps	15,000	36,750	21,750
Property taxes	74,900	83,132	8,232
Capital contributions	97,000	100,000	3,000
Transfer from savings	750,000		(750,000)
Investment income	3,520	17,283	13,763
	<u>\$ 1,628,670</u>	<u>\$ 952,076</u>	<u>\$ (676,594)</u>
EXPENDITURES			
Audit	\$ 7,000	\$ 6,500	\$ 500
Interest expense	15,750	14,750	1,000
Debt principal	50,000	60,000	(10,000)
Capital outlay	5,000	-	5,000
Collection system development	553,600	348,499	205,101
Clerical	46,750	47,478	(728)
County Treasurer's fees	2,000	1,503	497
Director's fees	8,000	8,000	-
Employee benefits	15,000	11,574	3,426
Legal and professional	50,000	114,525	(64,525)
Management fees	65,275	67,066	(1,791)
Office expense	35,000	31,855	3,145
Operating expense		11,476	(11,476)
Repairs and maintenance	250,000	374,253	(124,253)
Retirement	35,000	9,463	25,537
Service fees	475,000	474,462	538
Utilities and telephone	5,500	4,216	1,284
	<u>\$ 1,618,875</u>	<u>\$ 1,585,620</u>	<u>\$ 33,255</u>
Excess Revenues over Expenditures		(633,544)	
Adjustments - budgetary basis to GAAP basis - Note G		196,443	
CHANGE IN NET ASSETS - (GAAP Basis)		<u>\$ (437,101)</u>	

The accompanying notes are an integral part of these statements.