

**CENTRAL DAVIS SEWER DISTRICT  
BASIC FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITORS' REPORTS  
YEAR ENDED DECEMBER 31, 2010**

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**CENTRAL DAVIS SEWER DISTRICT**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Central Davis Sewer District

We have audited the accompanying financial statements of the business-type activities of Central Davis Sewer District, as of and for the year ended December 31, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Central Davis Sewer District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Central Davis Sewer District, as of December 31, 2010, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2011, on our consideration of Central Davis Sewer District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Trustees  
Central Davis Sewer District

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental 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.

Wood Richards & Associates

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Ogden, Utah  
March 9, 2011

CENTRAL DAVIS SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDING DECEMBER 31, 2010

HIGHLIGHTS

During 2010, Central Davis Sewer District provided excellent operations and management of District facilities. This was demonstrated by the District receiving a Platinum Award from the National Association of Clean Water Agencies and an Outstanding Collections System Award from the Water Environment Association of Utah.

The District continued upgrading the wastewater treatment plant and collection system with major replacements in the electrical control system, the grit classifiers, digester boilers, and installation of a parallel trunk line on Flint Street. In addition, the District also provided for emergency treatment enhancements with the addition of a diesel standby pump for the oxidation ditch and the incorporation of chemical addition on both treatment trains at the plant. Finally, the District purchased a new collection system cleaning truck to augment the pipeline cleaning program. These upgrades provide a strong basis for continued treatment and collection system reliability.

The District remains financially sound and in 2010 completed over \$1.3 million in capital improvement and acquisitions while adding over \$0.5 million to the reserve account. During 2010 the District collected almost \$0.9 million in impact fees. This included major commercial construction that began this year. The District will, however, maintain a conservative approach to expenditures and upgrades to insure any continued economic downturns can be managed.

In 2010 the District continued to grow. The rate of growth increased slightly with 377 new residential and 22 new commercial connections. Growth in the near future may be limited by the availability of building lots, as the inventory of vacant lots continues to dwindle. With current growth and the current user rates, the District has sufficient funds available on an annual basis to continue to improve the system and remain current compared with system depreciation. Growth is expected to continue in 2011 with major new multi-unit development being proposed. The growth in both the commercial and multi-unit residential areas will require the construction of new pump stations. The commercial pump station is under construction with startup scheduled for spring 2011. The multi-unit residential pump station is designed and the pressure line for this pump station has been installed. Once the developer receives HUD approval for the project, the construction of the pump station will begin.

The greatest threat to District user rates continues to be potential changes to regulatory treatment requirements. Specifically, removal of nutrients have the potential to cause an increase in residential user rates of more than \$12 per month. The District staff is involved in continued research for the Great Salt Lake, Farmington Bay and the Jordan River. The manager for the District has been appointed chair of the Great Salt Lake Advisory Council by the Governor of Utah. The District is active in the Jordan River Farmington Bay Water Quality Council which provides much needed research on this ecosystem. The District has also been active in several regulatory work groups developing guidance for collection system management, for implementation of revised antidegradation rules and for the tri-annual review of the State's water quality standards.

The District continued its zero violations record and has complied with all permit requirements. This marks the eleventh year the District is violation free. This remarkable record speaks to the dedication of the operations staff of the District.

## Management's Discussion and Analysis

The District continues to be a Platinum Certified NBP Agency. The District also has a comprehensive Collection System EMS which will satisfy the proposed sanitary sewer management plan regulations set to be approved by the Water Quality Board in 2011. Central Davis continues to be the only facility in Utah to have both of these certifications.

Financially and operationally the District maintains a strong position. The District Board has a forward thinking management plan which has positioned the District to meet all future needs and requirements.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the District's Basic Financial Statements. The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States, promulgated by the Government Accounting Standards Board. The District reports as a single enterprise fund. Revenues are recognized when earned and expenses are recognized in the period in which they are incurred. See the notes to the financial statements for a summary of the District's significant accounting policies.

The District's financial statements are comprised of three basic statements. The Statement of Net Assets shows the overall net assets of the District. Increases and decreases in net assets are one indicator of the District's overall financial condition. The Statement of Revenues, Expenses, and Changes in Fund Net Assets identify functions of the District that are intended to recover all or most of their costs primarily through user fees and charges (business-type activities). The Statement of Cash Flows reports cash flows in four categories or activities - operating, capital and related financing, non-capital financing and investing.

### FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

#### Net Assets

<b>Business-Type Activities</b>	2010	2009
<b>Assets</b>		
Current and other assets	\$ 4,089,616	\$ 3,432,977
Restricted assets	248,000	248,000
Capital assets - net of depreciation	32,204,603	31,007,509
Total assets	36,542,219	34,688,486
<b>Liabilities</b>		
Current liabilities	287,457	321,958
Non-current liabilities	2,055,000	2,208,000
Total liabilities	2,342,457	2,529,958
<b>Net Assets</b>		
Invested in capital assets net of related debt	29,996,603	28,648,509
Restricted for debt retirement	248,000	248,000
Unrestricted	3,955,159	3,262,019
Total net assets	\$ 34,199,762	\$ 32,158,528

The largest component of the District's net assets, 87.7%, reflects investments in capital assets (land, buildings, equipment, and infrastructure) less all outstanding debt that was issued to buy or build those assets. As capital assets, these resources are not available for future spending, nor can they all be readily liquidated to pay off the related liabilities.

## Management's Discussion and Analysis

Restricted net assets comprise .7% of total net assets and are subject to external restrictions on how they may be used. The remaining 11.6% of net assets is unrestricted and may be used at the District's discretion to meet its ongoing obligations to citizens and creditors.

### Changes in Net Assets

The Net Assets in the Enterprise Fund increased by \$2,041,234.

	2010	2009
<b>Revenues</b>		
Operating revenue	\$ 3,223,555	\$ 3,158,784
Operating expenses	(4,081,229)	(4,004,508)
Operating income (loss)	(857,674)	(845,724)
Non-operating revenues	1,544,095	1,166,594
Non-operating expenses	(11,795)	(12,550)
Net income before capital contributions	674,626	308,320
Capital contributions	1,366,608	750,716
Change in net assets	2,041,234	1,059,036
Net assets - beginning	32,158,528	31,099,492
Net assets - ending	\$ 34,199,762	\$ 32,158,528

### Capital Assets

Central Davis Sewer District added \$2,755,420 in new capital assets during the fiscal year.

### Long-Term Debt

The District currently owes \$2,208,000 in sewer revenue bond obligations. The proceeds from the bonds were used to finance the District's construction of plant facilities and improvements to the sewer system. \$153,000 of the debt will be paid in the current year with \$2,055,000 remaining in long-term debt. Total long-term debt was reduced by \$151,000 during the year.

### ADDITIONAL INFORMATION

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of Central Davis Sewer District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or any other matters related to the District's finances should be addressed to Central Davis Sewer District, 2200 S. Sunset Drive, Kaysville, Utah 84037.

CENTRAL DAVIS SEWER DISTRICT

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS

DECEMBER 31, 2010

	Business-Type Activities - Enterprise Funds <u>Sewer</u>
<b><u>ASSETS</u></b>	
Current assets:	
Cash and cash equivalents	\$ 3,519,322
Accounts receivable	335,275
Property tax receivable	188,778
Prepaid expenses	46,241
Total current assets	<u>4,089,616</u>
Noncurrent assets:	
Restricted cash and cash equivalents	248,000
Fixed assets	51,640,779
Less: Accumulated depreciation	<u>(19,436,176)</u>
Total noncurrent assets	<u>32,452,603</u>
Total assets	<u>36,542,219</u>
<b><u>LIABILITIES</u></b>	
Current liabilities:	
Accounts payable	66,898
Other payables	683
Compensated absences	66,876
Revenue bonds - current	153,000
Total current liabilities	<u>287,457</u>
Noncurrent liabilities:	
Revenue bonds	<u>2,055,000</u>
Total liabilities	<u>2,342,457</u>
<b><u>NET ASSETS</u></b>	
Invested in capital assets, net of related debt	29,996,603
Restricted-debt retirement	248,000
Unrestricted	<u>3,955,159</u>
Total net assets	<u>\$ 34,199,762</u>

The accompanying notes are an integral part of these statements.

CENTRAL DAVIS SEWER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Sewer</u>
<b><u>OPERATING REVENUE</u></b>	
Sewer service charges	\$ 3,186,264
Miscellaneous sales	37,291
Total operating revenue	<u>3,223,555</u>
<b><u>OPERATING EXPENSES</u></b>	
Depreciation	1,557,843
Salaries and wages	953,905
Utilities	257,811
Employee benefits	415,271
Plant operating supplies	88,261
Plant, repairs and maintenance	242,678
Professional services	177,189
Collection system - repairs and maintenance	94,826
Insurance and surety bonds	79,137
Office supplies and expense	24,439
Travel	25,316
Auto and equipment expense	103,460
Fees - Board of Trustees	25,000
Collection system operating supplies	36,093
Total operating expenses	<u>4,081,229</u>
Operating income (loss)	<u>(857,674)</u>
<b><u>NONOPERATING REVENUE (EXPENSES)</u></b>	
General property taxes	577,403
Fees-in-lieu of taxes	55,077
Impact fees	891,240
Gain on sale of assets	2,200
Interest income	18,175
Interest on bonds	(11,795)
Total nonoperating revenue (expenses)	<u>1,532,300</u>
Net income (loss) before contributions	674,626
Capital contributions	<u>1,366,608</u>
Change in net assets	2,041,234
Net assets - beginning	<u>32,158,528</u>
Net assets - ending	<u>\$ 34,199,762</u>

The accompanying notes are an integral part of these statements.

CENTRAL DAVIS SEWER DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

	<b>Sewer</b>
<b>Cash Flows From Operating Activities</b>	
Receipts from customers	\$ 3,230,497
Payments to suppliers	(1,603,249)
Payments to employees	(957,169)
	670,079
<b>Net cash provided (used) by operating activities</b>	<b>670,079</b>
<b>Cash Flows From Noncapital Financing Activities</b>	
Receipts from property taxes	668,668
	668,668
<b>Net cash provided (used) by noncapital financing activities</b>	<b>668,668</b>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Undepreciated cost of asset expensed	484
Proceeds from the sale of assets	2,200
Impact fees	891,240
Principal paid on capital debt	(151,000)
Interest paid on capital debt	(11,795)
Purchases of capital assets	(1,388,813)
	(657,684)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(657,684)</b>
<b>Cash Flows From Investing Activities</b>	
Interest and dividends received	18,175
	18,175
<b>Net cash provided (used) by investing activities</b>	<b>18,175</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>699,238</b>
Cash and cash equivalents - beginning	3,068,084
Cash and cash equivalents - ending	<b>\$ 3,767,322</b>

The accompanying notes are an integral part of these statements.

CENTRAL DAVIS SEWER DISTRICT  
STATEMENT OF CASH FLOWS (CONTINUED)  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

	<b>Sewer</b>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>	
Operating income (loss)	\$ (857,674)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	1,557,843
(Increase) decrease in prepaid expense	(531)
(Increase) decrease in accounts receivable	6,942
Increase (decrease) in accounts payable	<u>(36,501)</u>
Net cash provided (used) by operating activities	<u>\$ 670,079</u>

**Noncash Capital Financing Activities:**

Capital assets of \$1,366,608 were acquired through contributions from developers.

The accompanying notes are an integral part of these statements.

CENTRAL DAVIS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Central Davis Sewer District, Utah conform in all material respects to generally accepted accounting principles (GAAP) as applicable to governments. The District has adopted the provisions of the Governmental Accounting Standards Board (GASB). Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements.

The following is a summary of the more significant policies and is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements.

**A. Reporting Entity**

The Central Davis Sewer Improvement District is a special district organized for the purpose of providing sewage treatment services to Davis County cities. The District operates under a Board of Trustees form of government.

The criteria set forth by generally accepted accounting principles (GAAP) was used to determine which entities to include in this report. GASB Concepts Statement-1 (Objectives of Financial Reporting) concludes that the basic foundation for governmental financial reporting is accountability. The Concepts Statement asserts that accountability requires governments to answer to the citizenry - to justify the raising of public resources and the purposes for which they are used. In turn, the concept of accountability becomes the basis for defining the financial reporting entity. Under GASB-14 (The Financial Reporting Entity) the financial reporting entity consists of the primary government.

The District has no component units.

**B. Fund Financial Statements**

The financial transactions of the District are recorded in an individual fund. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The District reports the following major proprietary fund:

**Sewer Fund -** The sewer fund is used to account for operations of the sewer system, (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

CENTRAL DAVIS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus and Basis of Accounting**

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of the cash flows. Taxes and fees are recognized in the year in which the related sales or other activity has occurred. Grants and similar items are recognized as revenue when all eligibility requirements have been met. When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the District generally uses restricted resources first, then unrestricted resources.

Proprietary funds separate operating and non-operating revenues and expenses. Operating revenues and expenses normally arise from providing goods and services in connection with the fund's normal ongoing operations. The principal sources of operating revenues for the proprietary funds are charges to customers for goods and services. Operating expenses include the cost of sales and services, administrative overhead expenses and depreciation on capital assets. All other revenues or expenses are recorded as non-operating.

The District has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. Accordingly, the District has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Consequently, the District does not apply FASB pronouncements issued after November 30, 1989.

**D. Assets, Liabilities, and Fund Balances/Net Assets**

The following are the District's significant policies regarding recognition and reporting of certain assets, liabilities, and equity.

***Pooled Cash and Temporary Investments***

Unrestricted and restricted cash balances are combined to form a pool of cash which is managed by the District Treasurer. Utah State Statutes allow for investments in the Utah Public Treasurer's Investment Fund and Utah Money Management Act (UMMA) approved financial institutions. The UMMA provides for a committee to evaluate financial institutions and provide a list of those qualified as depositories for public funds, including the amount they are authorized to maintain over and above insured amounts. The District Treasurer invests unrestricted and restricted cash with the Utah Public Treasurer's Investment Fund and with local financial institutions. Investments in the pooled cash fund consist primarily of certificates of deposit, repurchase agreements, and time deposits and are carried at cost which approximates market value. Interest income earned as a result of pooling is distributed to the appropriate funds based on month end balances of cash. The District considers all highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

***Inventories***

No significant inventories are maintained by the District, therefore none are reflected in these statements.

***Restricted Assets***

Certain resources set aside as reserves in accordance with District resolutions and State statutes are classified as restricted assets on the statement of net assets because their use is limited.

CENTRAL DAVIS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2010

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, and Fund Balances/Net Assets (Continued)**

***Capital Assets***

All purchased fixed assets are valued at cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Capital assets are defined as assets with an initial, individual cost of more than \$5,000.

Infrastructure capital assets which are newly constructed or contributed are capitalized.

Depreciation of all exhaustible capital assets is charged as an expense in the related program. Accumulated depreciation is reported on the Statement of Net Assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	30-50 years	Equipment	5-10 years
Improvements	10-50 years	Infrastructure	25-40 years

***Long-term Obligations***

In the proprietary fund financial statements, long-term debt obligations are reported as liabilities.

***Net Assets/Fund Balances***

The difference between assets and liabilities is *net assets* on the fund financial statements. The District's net assets are classified as follows:

*Invested in capital assets, net of related debt* - This component of net assets consists of the District's total investment in capital assets, net of accumulated depreciation, reduced by the outstanding debt obligations related to those assets. To the extent debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

*Restricted for debt retirement* - This component of net assets consists of that portion of the net assets that is restricted for retirement of debt.

*Restricted for construction* - This component of net assets consists of that portion of the net assets that is restricted for construction purposes.

*Unrestricted* - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

**E. Contributions**

Certain proprietary fund types receive contributions for aid in construction from various sources. With the adoption of GASB No. 33, these contributions that were formerly credited directly to contributed capital accounts are now reflected as non-operating revenue.

CENTRAL DAVIS SEWER DISTRICT  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2010

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Compensated Absences**

District policy provides for vested or accumulated vacation leave. All compensated absences are accrued when incurred in the proprietary financial statements.

**G. Use of Estimates**

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

**A. Deposits**

The District's deposits are carried at cost.

At December 31, 2010, the carrying amount of the District's deposits was \$80,670 and the bank balance was \$213,780. Of the bank balance, \$213,780 was covered by federal depository insurance.

**B. Investments**

At year-end investments consist of funds in the Utah Public Treasurer's Investment Fund. This investment is administered by the State of Utah and is regulated by the Money Management Council under provisions of the Utah State Money Management Act. The investment is not categorized as to credit risk because it does not represent a security that exists in physical or book entry form. Investments are carried at cost which approximates their fair value.

Investments not subject to categorizations:

	Carrying Amount	Market Value
Utah Public Treasurer's Investment Fund	\$ 3,686,651	\$ 3,706,724

**C. Summary**

	Carrying Amount
Deposits	\$ 80,671
Investment in Utah Public Treasurer's Investment Fund	3,686,651
Total deposits and investments	\$ 3,767,322
Equity in pooled cash and investments	\$ 3,519,322
Restricted cash - debt retirement	248,000
Total deposits and investments	\$ 3,767,322

CENTRAL DAVIS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010

**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

*Deposit and Investment Risk Disclosure.* Deposits and investments for Central Davis Sewer District are governed by the Utah Money Management Act (Utah Code Annotated, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the District's exposure to various risks related to its cash management activities.

*Deposits.* Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be recovered. The District's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of District funds to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commission of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The District's deposits in the bank in excess of the insured amount are uninsured and are not collateralized, nor do state statutes require them to be. The District's deposits at December 31, 2010, were \$213,780, of which \$213,780 was insured under federal depository insurance.

*Credit risk.* Credit risk is the risk that the counterparty to an investment transaction will not fulfill its obligations. The District's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first-tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rated "A" or higher by two nationally recognized statistical rating organizations; and shares in a money market fund as defined in the Act.

The District is also authorized to invest in the Utah Public Treasurer's Investment Fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

For the year ended December 31, 2010, the local government had investments of \$3,686,651 with the PTIF. The entire balance had a maturity less than one year. The PTIF pool has not been rated.

*Interest rate risk.* Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The District manages its exposure by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

*Concentration of credit risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy to limit this risk is to adhere to the rules of the Money Management Act.

CENTRAL DAVIS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2010

**NOTE 3 - CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2010, was as follows:

BUSINESS-TYPE ACTIVITIES	Balance December 31, 2009	Additions	(Deletions)	Balance December 31, 2010
<b>Nondepreciated Assets</b>				
Land	\$ 854,781	\$ -	\$ -	\$ 854,781
Construction in progress	-	130,513	-	130,513
Total nondepreciated assets	<u>854,781</u>	<u>130,513</u>	<u>-</u>	<u>985,294</u>
<b>Depreciated Assets</b>				
Fruit Heights collection system	1,856,954	-	-	1,856,954
Farmington collection system	8,962,600	300,362	-	9,262,962
Buildings and structures	8,525,301	82,136	-	8,607,437
Improvements - other than buildings	1,308,370	26,493	-	1,334,863
Machinery and equipment	9,969,381	360,166	(1,114,403)	9,215,144
Sewer collection system	11,133,239	443,085	-	11,576,324
Kaysville collection system	6,501,535	1,066,246	-	7,567,781
Vehicles	814,395	341,269	-	1,155,664
Office furniture and equipment	110,097	5,150	(36,891)	78,356
Total depreciated assets	<u>49,181,872</u>	<u>2,624,907</u>	<u>(1,151,294)</u>	<u>50,655,485</u>
<b>Less accumulated depreciation</b>				
Fruit Heights collection system	(174,015)	(44,485)	-	(218,500)
Farmington collection system	(1,888,324)	(190,899)	-	(2,079,223)
Buildings and structures	(3,848,208)	(238,146)	-	(4,086,354)
Improvements - other than buildings	(819,646)	(64,549)	-	(884,195)
Machinery and equipment	(7,302,797)	(546,879)	1,114,404	(6,735,272)
Sewer collection system	(2,529,496)	(228,585)	-	(2,758,081)
Kaysville collection system	(1,743,343)	(146,468)	-	(1,889,811)
Vehicles	(627,879)	(90,827)	-	(718,706)
Office furniture and equipment	(95,436)	(7,005)	36,407	(66,034)
Total	<u>(19,029,144)</u>	<u>(1,557,843)</u>	<u>1,150,811</u>	<u>(19,436,176)</u>
Net assets depreciated	<u>30,152,728</u>	<u>1,067,064</u>	<u>(483)</u>	<u>31,219,309</u>
Business type activities - net	<u>\$ 31,007,509</u>	<u>\$ 1,197,577</u>	<u>\$ (483)</u>	<u>\$ 32,204,603</u>

**Depreciation Expense**

December 31, 2010

Business  
Type  
\$ 1,557,843

CENTRAL DAVIS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2010

**NOTE 4 - LONG-TERM DEBT**

Long-term liability activity for the year ended December 31, 2010, was as follows:

Description	Interest Rate	Outstanding 12/31/2009	Additions	Payments	Outstanding 12/31/2010	Current Portion
Sewer Revenue and Refunding Bond Series 2005	0.5%	2,359,000	-	(151,000)	2,208,000	153,000
Total Long Term Debt		<u>\$ 2,359,000</u>	<u>\$ -</u>	<u>\$ (151,000)</u>	<u>\$ 2,208,000</u>	<u>\$ 153,000</u>

Bond Resolution

On March 10, 2005, Central Davis Sewer District passed a resolution authorizing the issuance and confirming the sale of \$3,105,000 sewer revenue and refunding bonds, Series 2005, for the purposes of funding the Farmington Bay Study, completing construction of the Issuer's sewer system and related improvements, and retiring and refunding all of the Issuer's outstanding sewer revenue bonds Series 2003A; prescribing the form of bonds; the terms and condition of issuance and retirement and the security therefore; providing for the collection handling and disposition of the revenues to be derived from the District's sewer system; authorizing the publication of a notice of bonds to be issued; authorizing the taking of all other actions necessary to the consummation of the transactions contemplated by this Bond Resolution; and related matters.

Amortization of long-term bonded debt

Fiscal Year Ended Dec. 31	Principal	Sewer Revenue Bonds Series 2005 Interest	Total
2011	*	*	*
2012	153,000	11,040	164,040
2013	153,000	10,275	163,275
2014	154,000	9,510	163,510
2015	155,000	8,740	163,740
2016	155,000	7,965	162,965
2017	156,000	7,190	163,190
2018	157,000	6,410	163,410
2019	158,000	5,625	163,625
2020	159,000	4,835	163,835
2021	160,000	4,040	164,040
2022	161,000	3,240	164,240
2023	161,000	2,435	163,435
2024	161,000	1,630	162,630
2025	165,000	825	165,825
	<u>\$ 2,208,000</u>	<u>\$ 83,760</u>	<u>\$ 2,291,760</u>

\* The January 1, 2011, payment was made on December 31, 2010.

CENTRAL DAVIS SEWER DISTRICT  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2010

**NOTE 5 - PENSION PLANS AND RETIREMENT BENEFITS**

**Local Governmental - Cost Sharing**

Plan Description. The Central Davis Sewer District contributes to the Local Governmental Noncontributory Retirement system, which is a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems. Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes general-purpose financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. In the Local Governmental Noncontributory Retirement System the Central Davis Sewer District was required to contribute 11.66% from January to June and 13.37% from July to December of its covered salary for the year ended December 31, 2010. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The Central Davis Sewer District contributions to the Local Governmental Noncontributory Retirement System for 2010, 2009, and 2008, were \$100,098, \$97,045, and \$89,538, respectively. The contributions were equal to the required contributions for each year.

The Central Davis Sewer District contributions for 401(k) system for 2010, 2009, and 2008, were as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Employee contribution	\$ 24,010	\$ 25,125	\$ 38,380
Employer for employee contributions	\$ 18,684	\$ 19,074	\$ 17,875

**NOTE 6 - LIABILITY FOR COMPENSATED ABSENCES**

The liability for compensated absences represents the accrued liability for the vested or accumulated vacation leave for earlier years. These amounts represent the accumulated unpaid vacation leave which would be paid if employees terminated employment as of December 31, 2010. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability as the benefits accrue to employees. The amount accrued as of December 31, 2010 and 2009 was \$66,876 and \$70,140 respectively.

CENTRAL DAVIS SEWER DISTRICT  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2010

**NOTE 7 - BOND RESOLUTION COMPLIANCE - SEWER REVENUE BONDS**

The Central Davis Sewer District has carried out the requirements of the bond resolution. Central Davis Sewer District has established the funds required by the bond resolution.

2005 Series

The required reserve accounts were set up as follows:

- 1) The debt service account was established to accumulate debt service payments over the next twelve months, the principal and interest payment of \$162,795 due and payable January 1, 2010, was made prior to December 31, 2009, in accordance with the bond resolution; therefore, the balance in the reserve account at December 31, 2009, was \$-0-.
- 2) The debt service reserve fund requirement shall be \$165,825. This reserve is fully funded and the balance in the reserve account at December 31, 2010, was \$166,000.
- 3) The renewal and replacement reserve fund requirement shall be \$81,765. This reserve is fully funded and the balance in the reserve account at December 31, 2010, was \$82,000.

The net revenues for the year ended December 31, 2010, were equal to at least 125% of the aggregate debt service for such year on the bonds, computed in accordance with the bond resolution.

The number of customers at December 31, 2010, were as follows:

County	61 Residential	
	1 Commercial	
Farmington	4,922 Residential	
	187 Commercial	
Kaysville	6,560 Residential	
	377 Commercial	
Fruit Heights	1,503 Residential	
	13 Commercial	
	13,624	
Total Residential	13,046	
Total Commercial	578	
	13,624	
Total service fees collected		\$3,186,264
Minus Lagoon		(83,232)
		3,103,032
Divided by number of connections (not including two large commercial users)		13,624
Average charge per connection		\$ 227.76

CENTRAL DAVIS SEWER DISTRICT  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2010

**NOTE 8 - RISK MANAGEMENT**

Central Davis Sewer 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 for which the District carries commercial insurance. The District maintains comprehensive insurance coverage in aggregate amounts sufficient to protect against all reasonably foreseeable liability risks. Specific liability policies purchased include automobile, general liability, property, bond (employee dishonesty), treasurer, public officials and officers, excess liability, and workman's compensation. As of December 31, 2010, there is no anticipation of unpaid claims. Therefore, a liability is not accrued. Settlement amounts have not exceeded coverage for the current year or the three prior years.

A list of insurance policies in force at December 31, 2010, is as follows:

<u>Coverage</u>	<u>Policy Limits</u>	<u>Insurer</u>	<u>Expiration Date</u>
Property and buildings	\$ 18,927,565	Travelers	8/1/2011
Excess liability	\$ 10,000,000	Travelers	8/1/2011
Employee practices liability	\$ 5,000,000	Travelers	8/1/2011
General liability	\$ 2,000,000	Travelers	8/1/2011
Business auto	\$ 2,000,000	Travelers	8/1/2011
Employee benefits liability	\$ 2,000,000	Travelers	8/1/2011
Management liability	\$ 2,000,000	Travelers	8/1/2011
Inland marine	\$ 1,458,778	Travelers	8/1/2011
Crime	\$ 385,000	Travelers	8/1/2011
Public officials:			8/1/2011
Bonding - Treasurer	\$ 385,000	Travelers	8/1/2011
ID fraud	\$ 25,000	Travelers	8/1/2011

**NOTE 9 - RESTRICTED ASSETS**

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "revenue bond current debt service" account is used to segregate resources accumulated for debt service payments over the next twelve months. The "revenue bond future debt service" account is used to report resources set aside to make up potential future deficiencies in the revenue bond current debt service account. The "revenue bond renewal and replacement" account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.

The Revenue Bond Resolution for Sewer Revenue Bonds Series 2005 requires the following restricted accounts:

Debt service account (note 7)	\$ -
Debt service reserve account (note 7)	166,000
Renewal and replacement reserve (note 7)	<u>82,000</u>
Total sewer revenue bond Series 2005 reserve	<u><u>\$ 248,000</u></u>

CENTRAL DAVIS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2010

**NOTE 10- LEGAL COMPLIANCE BUDGETS**

The budget for the fiscal year ending December 31, 2010, was approved and adopted by resolution or ordinance dated December 10, 2009. A public hearing, meeting the requirements specified in the Utah Code 11-35-113/114, was held on December 10, 2009. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the enterprise fund. All annual appropriations lapse at fiscal year end. Encumbrance accounting is not used by the District.

**NOTE 11 - POST-EMPLOYMENT BENEFITS**

The District does not provide any post-employment benefits.

**NOTE 12 - INTEREST EXPENSE**

The proprietary fund incurred \$11,795 in interest expense of which \$11,795 was charged to expense and \$-0- was capitalized.

**NOTE 13 - PROPERTY TAX CALENDAR**

Lien date	Jan. 1
Taxing districts notify the county of date, time and place of public hearing	Mar. 1
County auditor sends valuation certified tax rate and levy worksheets to each taxing district	Jun. 8
Taxing district must adopt a proposed tax rate, certify the rate and levy, and submit it to the county auditor	Before Jun. 22
Taxing district adopts a final tax rate if there is no increase in the certified tax rate	Jun. 22
Due date for property taxes	Nov. 30
Taxing district adopts the final budget prior to beginning of the ensuing year	
Copy of the budget is submitted to the state auditor within 30 days of its adoption	

**INDEPENDENT AUDITOR'S REPORT**  
**STATE OF UTAH LEGAL COMPLIANCE**

To the Board of Trustees  
Central Davis Sewer District

We have audited the accompanying financial statements of the business-type activities of Central Davis Sewer District, for the year ended December 31, 2010 and have issued our report thereon dated March 9, 2011. Our audit included testwork on the District's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt	Truth in Taxation & Property Tax Limitations
Cash Management	Purchasing Requirements
Budgetary Compliance	Other General Compliance Issues
Impact Fees	General Compliance Special Districts
Utah Retirement System	

The District did not receive any major or non-major State grants during the year ended December 31, 2010.

The management of Central Davis Sewer District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

Our audit does not provide a legal determination on the District's compliance with these requirements.

The results of our audit procedures disclosed no instances of noncompliance with requirements referred to above.

In our opinion, Central Davis Sewer District, complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2010.

March 9, 2011  
Page 2

This report is intended solely for the information and use of management of the District and the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record and its distribution is not limited.

Wood Richards & Associates

March 9, 2011

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees  
Central Davis Sewer District

We have audited the financial statements of the business-type activities of Central Davis Sewer District as of and for the year ended December 31, 2010, which collectively comprise Central Davis Sewer District's basic financial statements and have issued our report thereon dated March 9, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Central Davis Sewer District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Central Davis Sewer District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Central Davis Sewer District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Central Davis Sewer District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wood Richards & Associates

Ogden, UT  
March 9, 2011