

CLIFTON SANITATION DISTRICT

Financial Statements and
Independent Auditor's Report
For the Year Ended December 31, 2016



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CLIFTON SANITATION DISTRICT

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MANAGEMENTS DISCUSSION AND ANALYSIS CLIFTON SANITATION DISTRICT FISCAL YEAR 2016

The Clifton Sanitation District (the “District”) offers the readers of the District’s financial statements this narrative overview and analysis of the District’s financial performance during the Fiscal Year ended December 31, 2016. Please read it in conjunction with the financial statements.

CONTENTS

In addition to this Management Discussion and Analysis, this annual report includes:

- * Independent Auditor’s Report
- * Financial Statements – the financial statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The audited financial statements of the district are:
 1. Statement of Net Position – The Statement of Net Position provides information about the nature and amounts of investments in resources (assets) and obligations to District’s creditors (liabilities). It also provides the basis for computing the rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.
 2. Statement of Activities – The statement that measures the results of the District’s operations over the past year and illustrates the manner in which it has funded its operations. This section will determine profitability and credit worthiness. These results are also a reflection of the economic condition of our district. If the predicted moderate growth continues, we as a District also will continue that moderate growing trend.
 3. Statement of Cash Flows – The reason for this statement is to provide information about the District’s cash receipts and payments during this reporting period. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financial activities.
- * Notes to the Financial Statements, which explain in more detail and provide support for the information in the financial statements.
- * Supplementary Information –
Budget comparison Schedule –2016

DAY-TO-DAY OPERATIONAL CONTROL OF THE DISTRICT

For operational control, the District has classified all operations into two distinct categories: Operating and Non-operating. Operating Revenues and Operating Expenses are those items that are allocated to operations and are essential elements for day-to-day operation of the District. Non-operating Revenues are received and reserved for funding Non-operating Expenses that included infrastructure improvement, capacity development, and equipment purchases.

The District operates as a self-supporting enterprise, meaning that the revenue received from wastewater treatment and other Operating revenue sources must be adequate to cover expenses of day-to-day operation of the District. Capital projects, including infrastructure, capacity development, and equipment purchases are funded using Non-operating Revenues. Primarily, Non-operating Revenues are received from the sales of new sewer service connections called Plant Investment Fees. The Operating philosophy is critically dependent upon effective rates and user fees.

The District's day-to-day operational control involves many levels of planning, forecasting and budgeting. Revenues and expenses are allocated to specific functions of the District and staff is required to comply with monthly budget and budget variance parameters. The effectiveness of this system and the development of Cost of Service based fees and rates have been instrumental in operating the District in an efficient and economical manner.

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District's finances is "Is the District as a whole better off or worse off as a result of this year's activities?" The Statement of Net Position and the following Statement of Activities are included to answer this question.

	2016	2015
CURRENT ASSETS	\$ 1,615,749	\$ 2,649,852
NON CURRENT ASSETS	35,911,807	34,976,294
TOTAL ASSETS	37,527,556	37,626,146
CURRENT LIABILITIES	860,134	930,050
NON CURRENT LIABILITIES	6,347,381	7,827,699
TOTAL LAIBILITIES	7,207,515	8,757,749
NET POSITION:		
Invested in Capital Assets	24,601,813	24,165,662
Unrestricted	5,718,228	5,632,815
NET POSITION	\$ 30,320,041	\$29,798,477

) The District funds its activities from interest earnings, new tap sales (Plant Investment Fees), and service fee charges. Plant Investment Rates were not increased in 2016 and are scheduled for review in 2017. Explanation for the adjustment for market value of the investments will be an on-going practice in meeting the requirements of the GASB Statements.

	<u>2016</u>	<u>2015</u>
Operating Revenue:		
Service Fee Charges	\$ 3,026,613	\$2,918,853
Operating Expense	<u>(3,298,974)</u>	<u>(3,438,299)</u>
Net Income / (Loss) from Operations	(272,361)	(519,446)
Net Non-Operating Revenue/(Expense)	<u>577,571</u>	<u>310,640</u>
Income before Contributions	<u>305,210</u>	<u>(208,806)</u>
Capital Contributions:		
Plant Investment Fees	183,744	282,400
System Contribution	<u>32,610</u>	<u>17,652</u>
Total Contributed Capital	<u>216,354</u>	<u>300,052</u>
Net Position Beginning	29,798,477	29,707,231
Net Position Ending	<u>30,320,041</u>	<u>29,798,477</u>
Change in Net Position	<u>\$ 521,564</u>	<u>\$ 91,246</u>

Capital Assets

At the end of 2016, the District had invested \$31,499,432 (net of \$15,111,635 in accumulated depreciation), in a broad range of infrastructure, approximately 75 miles of collection lines, maintenance and office facilities, treatment plant, vehicles and equipment as shown in the following table.

	Balance December 31, 2015	Reclass & Additions	Reclass & Deletions	Balance December 31, 2016
Land	\$ 3,028,297	\$ -	\$ -	\$ 3,028,297
Land Improvements	1,763,310	-	-	1,763,310
Building & Improvements	22,045,753	84,109	-	22,129,862
System Transmission Lines	13,385,302	1,165,485	-	14,550,787
Office Furniture & Equipment	191,840	3,393	-	195,233
Equipment	4,867,456	76,122	-	4,943,578
Total	<u>45,281,958</u>	1,329,109	-	46,611,067
Less Accumulated Depreciation	<u>(13,678,449)</u>	<u>(1,433,186)</u>	-	<u>(15,111,635)</u>
Net Capital Assets	<u>\$ 31,603,509</u>	<u>\$(104,077)</u>	\$ -	<u>\$ 31,499,432</u>

The District's sewer system is a combination of the infrastructure contribution of developers, and the District's on-going capital projects.

BUDGETARY HIGHLIGHTS

As required by State Law, the District adopts a budget and appropriates funds for the following year by December 15th of each year. If an amendment is necessary, the Board will approve a supplemental appropriation at a public hearing and file it with the State of Colorado. Budget to actual statements are included as Supplemental Information in the audited financial statements. There were no supplemental appropriations made to the 2015 or 2016 budgets.

	2016 <u>Budget</u>	2016 <u>Actual</u>	2015 <u>Budget</u>	2015 <u>Actual</u>
Service Charges	\$ 2,972,710	\$ 3,026,613	\$ 2,895,584	\$ 2,918,853
Misc. Income	100,860	115,798	107,220	163,181
Plant Investment Fees	147,300	183,744	114,150	300,052
Investment Income	38,000	50,858	45,000	36,023
Grant Income	330,000	691,388	572,000	388,037
Total Revenues	<u>\$ 3,588,870</u>	<u>\$ 4,068,401</u>	<u>\$ 3,733,954</u>	<u>\$ 3,806,146</u>
Admin. Expenses	\$ 761,513	\$ 523,844	\$ 556,609	\$ 450,440
Operating Expenses	1,503,332	1,349,456	1,446,419	1,331,116
Capital Outlay	1,383,431	1,296,500	2,605,542	1,820,377
Debt Service	802,300	780,589	802,437	799,924
Total Expenses	<u>\$ 4,450,576</u>	<u>\$ 3,950,389</u>	<u>\$ 5,411,007</u>	<u>\$ 4,401,857</u>

BUDGETARY HIGHLIGHTS

2016 Actual Expenses vs. Budget were \$500,187 favorable variance
 2016 Actual Revenues vs. Budget were \$479,531 favorable variance

2015 Actual Expenses vs. Budget were \$1,009,150 favorable variance
 2015 Actual Revenues vs. Budget were \$72,192 favorable variance

The actual tap fee revenue received in 2016 was more than budgeted due primarily to an improved building economy.

Miscellaneous revenues include offsite wastewater hauling from oil and gas man camps and gravel mining royalties. Both revenue sources are subject to economic conditions and may not be realized. Contingency plans are in place to defer or eliminate capital projects if not realized.

CAPITAL ASSETS AND DEBT ACTIVITIES

During 2016, the District expended \$1,329,109 for capital related expenses and to complete capital improvements for treatment and infrastructure projects. The following are some of the major improvements that were added or are in progress for the system in 2016.

Capital Outlays

During 2016, \$69,205 was spent on building and building improvements.

The District equipment upgrades for 2016 (\$76,122) included the purchase of a man lift, a truck mounted crane and various lifting cranes and pumps for the treatment facility.

The commercial segment of the Clifton community was upgraded to replace an aging section of the collection system. The project replaced and upgraded approximately 5,000 feet of pipe in the amount of \$1,132,875.

In 2015, the District initiated the design and construction of Anaerobic Selector Basins for Enhanced Biological Phosphorus Removal (EBPR) and chemical addition system for the treatment facilities. The Anaerobic Basins and chemical addition system are necessary to control the growth of filamentous microorganisms, correct deficiencies in the original plant design and will provide the additional treatment process needed to achieve compliance with new water quality regulations for phosphorus affecting future discharge permits from the Clifton Regional Wastewater Treatment Facility (CRWWTF). The project was completed in 2016 and the remaining expenses totaled \$50,907.

The District's wastewater systems are operated in accordance with a host of federal, state and local public health and environmental regulations and standards. These mandates continue to evolve and become more stringent. Regulatory projects are typically mandated and consequences of non-compliance can be severe (i.e., administrative penalties, building moratoriums, etc.). Therefore, regulatory requirements are considered highest-priority projects for the District.

The 2017 Capital Improvement Plan (CIP) outlines a small number of projects, programs, and policies for Clifton Sanitation District to implement in 2017 to continue to protect public health and water quality and ensure sufficient wastewater capacity to meet future growth needs.

Fund balances are projected to increase by \$138,894 in 2017 as the District is preparing for capital projects that will begin in 2018. The 2017 budget reflects \$301,064 in capital related projects.

Debt Activities

Adequate funding from revenues projected in 2017 will be sufficient to pay the scheduled debt service amounts. The District does not plan to incur new debt for 2017 or to finance capital projects. Note 8 in the Notes to the Financial Statements provide the details of the District's long term indebtedness.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Clifton Sanitation District is located on the Western Slope of Colorado, between Grand Junction and Palisade and provides sanitary sewer service to an estimated 21,000 residents and the Community of Whitewater.

The number of taps sold by the District is tightly correlated to the boom and bust cycle of western Colorado's economy. The cyclical nature of western Colorado's economy makes it difficult for the District to plan for future service needs. Boom years can result in growth too rapid for the District to keep pace while bust years prevent the District from collecting enough revenue to maintain existing infrastructure.

The monthly sewer service charges are based upon the cost to collect, treat and dispose of wastewater from one single-family unit. The charges comprise the funds for operations, maintenance and debt service.

In 2016, the District authorized Farnsworth Consulting Group to update the previous Master Plan completed in 2008, develop an asset management needs assessment and update the last rate study completed in 2011. The Master Plan update evaluates the current 2017 collection system and provides the District with an up to date capital improvement plan for future improvement recommendations based on dwelling unit increases and system capacity projections.

Asset management consists of systematic and coordinated activities and practices through which the District optimally manages its physical assets and the performance and expenditure over their lifecycle. The goal of asset management is to ensure that the District has sufficient information to make value-based decisions related to operating, maintaining, repairing, rehabilitating and replacing assets.

The last rate study was completed in December 2011 by Red Oak Consulting. The updated study will reflect the current financial position of the District and the need to have a fee system to provide the capital for future projects and on-going operation of the District. The study will recommend any fee changes necessary to maintain the District in a strong financial position. The rate study will include a comprehensive cash flow and financial analysis, cost of service analysis, examination of the financial status and policies, and propose rate and fee schedule adjustments.

The District has an Intergovernmental Agreement, (IGA) with the Whitewater Public Improvement District, (WWPID) to treat the sanitary sewer from the Whitewater community. The District has been treating wastewater from the WWPID affective

December 2012. In addition to the Whitewater Community, The District will be providing service to the properties adjacent to the sewer main between the WWPID and the District treatment facility. This may result in a modest growth in tap sales in 2017 and subsequent years.

User fees, growth, and increasing water quality standards being implemented by the Colorado Department of Public Health & Environment (CDPHE) are contributing factors that will be evaluated before a final budget is adopted for the next year's budget.

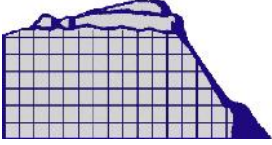
The 2017 budget reflected no increases in overall monthly service fees. It is the District's intent to update the financial analysis annually to recognize changes in customer billing data, operating expenditures and capital improvement needs. Future rate increases will likely be necessary to ensure that adequate reserves are in place to address any operating deficit as well as the necessary funds to address infrastructure rehabilitation and replacement.

CONTACTING THE DISTRICT MANAGER

This financial report is designed to provide our citizens, customers, investors, and creditors with the general overview of the District's finances and demonstrate the District's accountability for the money it receives. If you have any questions concerning this report or need additional information please contact the Manager of Clifton Sanitation District 3217 D Road, Clifton, Colorado 81520.

Brian Woods

Brian Woods,
District Manager
March 20, 2017



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Clifton Sanitation District
Clifton, Colorado

I have audited the accompanying financial statements of the business-type activities of Clifton Sanitation District as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditor's 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Clifton Sanitation District, as of December 31, 2016, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages i-viii 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Clifton Sanitation District's financial statements taken as a whole. The budgetary comparison information on page 14-15 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepared the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Paul D. Miller, CPA, LLC

Grand Junction, CO
February 3, 2017

CLIFTON SANITATION DISTRICT
STATEMENT OF NET POSITION
As of December 31, 2016

ASSETS

CURRENT ASSETS

Cash on hand and in banks	\$ 977,549
Accounts receivable-service fees-less \$0 allowance	549,546
Other receivables	40,581
Inventory (Cost)	19,247
Prepaid expenses	18,452
Accrued interest receivable	10,374
Total Current Assets	1,615,749

NONCURRENT ASSETS:

Cash -HRA	3,039
Investments	4,409,336
Capital assets	31,499,432
Total Noncurrent Assets	35,911,807

TOTAL ASSETS	\$ 37,527,556
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LIABILITIES

CURRENT LIABILITIES

Accounts payable	101,337
Other current liabilities	5,118
Unearned gravel revenue	102,116
Accrued payroll	11,685
Accrued interest payable	62,406
Accrued compensated absences	27,234
Current loans payable	550,238
Total Current Liabilities	860,134

LONG-TERM LIABILITIES

Loans payable less current portion	6,347,381
Total Long-term Liabilities	6,347,381
TOTAL LIABILITIES	7,207,515

NET POSITION

Invested in capital assets net of related debt	24,601,813
Unrestricted	5,718,228
NET POSITION	\$ 30,320,041

TOTAL LIABILITIES AND NET POSITION	\$ 37,527,556
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The accompanying notes are an integral part of this statement

CLIFTON SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2016

OPERATING REVENUE		
Charges for services		\$ 3,026,613
OPERATING EXPENSES		
Treatment		1,108,399
Collection		241,057
Depreciation		1,433,186
General operating expenses		516,332
Total Operating Expense		<u>3,298,974</u>
Net (Loss) From Operations		<u>(272,361)</u>
NON-OPERATING REVENUE (EXPENSES)		
Miscellaneous income		83,188
Grant income		691,388
Investment income		50,858
Investment expense		(7,512)
Interest expense		(240,351)
Total Non-Operating Revenue		<u>577,571</u>
NET (LOSS) INCOME BEFORE CONTRIBUTIONS		<u>305,210</u>
CAPITAL CONTRIBUTIONS:		
Plant investment fees		183,744
System contribution (non cash)		32,610
Total Capital Contribution		<u>216,354</u>
Change in Net Position		521,564
Total Net Position - Beginning		<u>29,798,477</u>
Total Net Position - Ending		<u><u>\$ 30,320,041</u></u>

The accompanying notes are an integral part of this statement

CLIFTON SANITATION DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2016

INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	
CASH FLOW FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 2,997,791
Other cash receipts	760,991
Cash payments to and on behalf of employees	(933,393)
Cash payments to suppliers	(1,779,588)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,045,801
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition & construction of capital assets	(762,227)
(Increase) Decrease in restricted cash	852
Payment of loans	(540,238)
Plant investment fees	183,744
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,117,869)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	54,498
Investment fees	(7,512)
Net change in investments	(1,040,452)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(993,466)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(1,065,534)
CASH - Beginning of year	2,043,083
CASH - End of year	\$ 977,549
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income (Loss)	\$ (272,361)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation	1,433,186
Change in assets and liabilities	
(Increase) decrease in accounts receivable	(67,368)
(Increase) decrease in inventory	(19,247)
(Increase) decrease in prepaid expenses	19,679
(Increase) decrease in interest receivable	(3,994)
Increase (decrease) in accounts payable	(70,177)
Increase (decrease) in compensated absences payable	(5,335)
Increase (decrease) in unearned revenue	24,931
Increase (decrease) in accrued payroll	2,667
Increase (decrease) in other current payables	3,820
Total adjustments	1,318,162
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,045,801
NON-CASH INVESTING, CAPITAL, AND RELATED FINANCING ACTIVITIES:	
Market value change	\$ 7,634
Acceptance of Subdivisions	\$ 32,610

The accompanying notes are an integral part of this statement

CLIFTON SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

HISTORY AND ACTIVITY

The Clifton Sanitation District operates as a Special District formed by an election in 1967. The District was organized under the provisions of the Colorado Revised Statutes, 1963 Chapter 89, Article 5, as amended. The purpose of the District is to operate and maintain the sanitary sewer system of the District.

A Revenue Bond Resolution accomplished initial financing for the construction of the sewer facilities in 1968, whereby the District authorized the issuance of general obligation bonds in the principal amount of \$471,190. In addition to the financing arranged through the Farmers Home Administration of the United States Department of Agriculture, an initial development grant was made to the District in the amount of \$222,200 that helped defray development costs. In consideration for the grant from the Farmers Home Administration, the District has agreed to comply with certain terms and conditions as set forth in the Association Sewer System Grant Agreement dated February 21, 1968.

The accounting policies of the Clifton Sanitation District conform to generally accepted accounting principles. The following is a summary of such significant policies.

REPORTING ENTITY

Clifton Sanitation District is the primary government operating as a sanitation enterprise fund. The District has no component units.

BASIS OF PRESENTATION – FUND ACCOUNTING

The operations of the District are accounted for as an enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (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 had 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 purpose.

BASIS OF ACCOUNTING

The District uses the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CLIFTON SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

BASIS OF ACCOUNTING-CONTINUED

It requires the classification of net position into three components- invested in capital assets, net of related debt, restricted, and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt – This consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This consists of constraints placed on net position use through external restrictions imposed by creditors (such as through debt covenants,), grantors, contributors, or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This consists of net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

CAPITAL ASSETS

The fund of the District is accounted for on a cost of service or “capital maintenance” measurement focus. This means that all assets and all liabilities associated with the activity of the District are included on the balance sheet. Equipment and property are recorded at cost. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Accumulated depreciation is reported on the balance sheet. Depreciation is provided over estimated useful lives of 5-50 years, using the straight-line method. Maintenance and repairs are charged to expense as incurred, while significant betterments and replacements are recorded as increases to equipment. As assets are retired or disposed of, the cost and associated accumulated depreciation are removed from the accounts, and gains or losses on these sales or disposals are included in income. It is the District’s policy to capitalized assets that cost \$1,500 or more and have a two year life or longer.

BUDGET BASIS OF ACCOUNTING

The annual budget is prepared and approved by the board of directors in accordance with the State of Colorado Financial Management Manual. The budget is submitted to Mesa County and the District adopts an appropriation resolution for the next fiscal year before December 31. The Board of Directors may amend the appropriation resolution at any time during the year if warranted by circumstances.

The budget basis of accounting differs from the generally accepted accounting principles (GAAP) basis in the contributed capital is included in revenue, outlays for acquisition of fixed assets are included as expenses.

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 District believes it complies with the requirements of the law because it does not collect any taxes or other public funds and is, therefore, exempt from the provisions of the law. However, the District has made certain interpretations of the law’s language in order to determine its compliance.

CLIFTON SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

COMPENSATED ABSENCES

Eligible employees may accrue sick leave but are not paid upon leaving employment. All eligible employees are entitled to vacation based upon their years of service, but in no case may they accrue more than 42 days of vacation time. Total accrued compensated absences for 2016 were \$27,234.

BUDGETARY BASIS OF ACCOUNTING

The annual budget is prepared and approved by the Board of Directors in accordance with the State of Colorado Financial Management Manual. The budget is submitted to Mesa County and the District adopts an appropriation resolution for the next fiscal year before December 31. The Board of Directors may amend the appropriation resolution at any time during the year if warranted by circumstances.

The budget basis of accounting differs from the generally accepted accounting principles (GAAP) basis in that contributed capital (plant investment fees) is included as revenue, outlays for debt retirement and acquisition of fixed assets are included as expenses.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

All taxes and service fees become a lien on property if not paid. However, due to the cost of filing liens and the time involved, the District elects to write off small balances from time to time. All service fees were considered collectible at December 31, 2016.

USE OF ESTIMATES

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

AVAILABILITY OF SERVICE CHARGES

As required by Colorado statute, the use of availability of services charges is restricted to meeting current debt service requirements.

SUBSEQUENT EVENTS

Management has reviewed subsequent events through the date of the audit report.

RISK MANAGEMENT

Clifton Sanitation District is, as are most governmental entities, exposed to a variety of risks that result in losses. These risks include possible loss from acts of God, injury to employees, or breach of contract. Clifton Sanitation District has financed losses that may arise from these and other events by purchasing commercial insurance. There were no reductions in coverage from 2015 to 2016. Settlements have not exceeded coverage in any of the past four years.

ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

In general, payables and accrued liabilities are paid in a timely manner and in full from current financial resources and are reported as current obligations for the fund. Long-term bond obligations are accrued as a long-term liability on the financial statements.

CLIFTON SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

RESTRICTED ASSETS/RESERVATIONS OF NET POSITION

Assets are reported as restricted when limitation on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Reservations of net position arise from certain Board designations of net position, as well as the aforementioned constraints. It is the District's policy to use restricted funds first, for expenditures which both restricted and unrestricted funds are available.

NOTE 2 – CAPITAL ASSETS

A summary of changes in fixed assets follows:

	For 2016:			
	Balance December 31, 2015	Reclass & Additions	Reclass & Deletions	Balance December 31, 2016
Land	\$ 3,028,297	\$ -	\$ -	\$ 3,028,297
Land Improvements	1,763,310	-	-	1,763,310
Building & Improvements	22,045,753	84,109	-	22,129,862
System Transmission Lines	13,385,302	1,165,485	-	14,550,787
Office Furniture & Equipment	191,840	3,393	-	195,233
Equipment	4,867,456	76,122	-	4,943,578
Total	<u>45,281,958</u>	<u>1,329,109</u>	<u>-</u>	<u>46,611,067</u>
Less Accumulated Depreciation	<u>(13,678,449)</u>	<u>(1,433,186)</u>	<u>-</u>	<u>(15,111,635)</u>
Net Capital Assets	<u>\$ 31,603,509</u>	<u>\$ (104,077)</u>	<u>\$ -</u>	<u>\$ 31,499,432</u>

NOTE 3 – CASH AND DEPOSITS

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories; state regulators determine eligibility. 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 at least equal to the aggregate uninsured deposits.

CLIFTON SANITATION DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2016

NOTE 3 – CASH AND DEPOSITS-CONTINUED

	<u>2016</u>
Cash and investments consisted of the following:	
Uninsured	\$ 346
Deposits: Insured	
Checking, Money markets, CD's	250,000
Deposits: Collateralized	<u>730,788</u>
TOTAL DEPOSITS	<u>981,134</u>
Investments	
Federal Farm Credit Bank	996,170
Fannie Mae	498,353
Federal National Mortgage	1,430,021
Federal Home Loan Bank notes	<u>1,484,792</u>
(Rated by Moody's Aaa & S&P AAA)	
TOTAL INVESTMENTS	<u>4,409,336</u>
TOTAL	<u>\$ 5,390,470</u>

Colorado Statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest. Authorized investments include obligation of the United States and certain U.S. government agency securities; certain international agency securities; general obligation and revenue bonds of U.S. local Colorado Statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest. Authorized investments include obligation of the United States and certain U.S. government agency securities; certain international agency securities; general obligation and revenue bonds of the U.S. local government entities; bankers' acceptance of certain banks; commercial paper; local government investment pools; written repurchase agreements collateralized by certain authorized securities; certain money market funds, and guaranteed contracts.

The Districts investments at December 31, 2016 are registered in the District's name, and are categorized above to give an indication of the level of risk assumed by the District at year-end.

Of the insured money in the money market shown above, \$69,072 is insured through a private insurance carrier retained by Charles Schwab on behalf of Clifton Sanitation District. and \$250,000 is collateralized under P.D.P.A.

The District considers cash in the bank, cash on hand, and investment with original maturities of three months or less as cash and cash equivalents.

NOTE 4 – PENSION PLAN

The District provides pension benefits for all of its full-time employees through a defined contribution plan that was adopted by resolution April 4, 1994. The plan adopted is part of the Colorado County Officials and Employee Retirement Association. The contribution rate is equal to 6% of eligible employees' compensation from the District and 6% rate for the employee. The District's total payroll for the year ending December 31, 2016 was \$638,488. The contribution for 2016 was \$36,424 for the employer and \$36,424 by the employee.

The District also offers it employees the ability to contribute to a Deferred Compensation Plan (457) if they so choose. At December 31, 2016, two employees are contributing to the plan. The District does not match the contributions to this plan.

CLIFTON SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 5 – CHANGE IN CAPITAL CONTRIBUTIONS (UNRESTRICTED NET POSITION)

A summary of the changes in the contributed capital accounts for the years ended December 31, 2016 is as follows:

Tap fees	\$ 183,744
Donated sewer lines by developers	<u>32,610</u>
	<u>\$ 216,354</u>

NOTE 6 – MEDICAL REIMBURSEMENT PLAN (HRA)

In 2011, the District established an HRA plan to cover employees' deductible. For 2016, the Board has approved a \$4,000 amount to be deposited into the HRA account for each employee. The maximum accrual that can be held for each employee is \$8,000. The funds remain the District's when employees leave or are terminated and the annual funding is to be determined by the Board and is not an automatic event.

NOTE 7 – LOANS/BONDS PAYABLE

During 2006, the District incurred debt from two different instruments. The following is a summary of that debt.

Water Pollution Control Revolving Fund (WPCRF). This loan for \$2,000,000 is part of a total package that deals with the dissolution of Clifton Sanitation District # 1, (not related) the assumption of the District's # 1 area by Clifton Sanitation District. These funds were used for the plant investment portion of the District new plant, and the remaining \$500,000 was used for the closing down of the District's # 1 lagoons and final business. The \$2,000,000 carries no interest and is payable over twenty years. The first payment will be made May and November of each year beginning May 1, 2007. The payments will be \$47,619 each loan payment date. Below is the amortization of the total \$2,000,000:

2017	\$ 95,238
2018	95,238
2019	95,238
2020	95,238
2021	95,238
2022-2027	<u>571,429</u>
	1,047,619
Less Current	<u>(95,238)</u>
Total	<u><u>\$ 952,381</u></u>

CLIFTON SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 8 – LOANS/BONDS PAYABLE-CONTINUED

Beginning Balance 1/1/2016	\$ 1,238,095
Payment 2016	<u>95,238</u>
Ending Balance 12/31/2016	<u>\$ 1,047,619</u>

During 2006, the District also received a loan from the Colorado Water Resources & Power Development Authority (CWRPDA). This entity issued Clean Water Revenue Bonds Series A and correspondingly loaned the funds to the District. The total of the loan is \$9,800,000, and is payable over twenty years at an interest rate of 3.64%. Payment is made February and August of each year. The funds were used for the construction of a new treatment plant. Following is the amortization of payment of these funds.

Beginning Balance 1/1/16	\$ 6,295,000
2016 payments	<u>455,000</u>
Ending Balance 12/31/16	<u>\$ 5,850,000</u>

Year	Principal	Interest	Total
2017	\$ 455,000	\$ 184,664	\$ 639,664
2018	465,000	172,388	637,388
2019	475,000	163,212	638,212
2020	490,000	146,288	636,288
2021	505,000	133,862	638,862
2022-2026	2,795,000	395,239	3,190,239
2027	665,000	(26,184)	638,816
	<u>5,850,000</u>	<u>1,169,469</u>	<u>7,019,469</u>
Less Current	(455,000)	(184,664)	(639,664)
Long-term Portion	<u>\$ 5,395,000</u>	<u>\$ 984,805</u>	<u>\$ 6,379,805</u>

Total Debt Summary:

Year	Principal	Interest	Total
2017	\$ 550,238	\$ 184,634	\$ 734,872
2018	560,238	172,388	732,626
2019	570,238	163,212	733,450
2020	585,238	146,288	731,526
2021	600,238	133,862	734,100
2022-2026	3,271,190	395,239	3,666,429
2027	760,238	(26,184)	734,054
	<u>6,897,618</u>	<u>1,169,439</u>	<u>8,067,057</u>
Less Current	(550,238)	(184,634)	(734,872)
Long-term Portion	<u>\$ 6,347,380</u>	<u>\$ 984,805</u>	<u>\$ 7,332,185</u>

CLIFTON SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 9 – SUMMARY OF FAIR VALUE EXPOSURE

In September 2006, the FASB issued ASC 820-10 and subsections, Fair Value Measurement—effective for fiscal years beginning after November 15, 2007. ASC 820-10 clarifies the definition of fair value for financial reporting, establishing a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable. The District has adopted ASC 820-10 and subsections for its financial assets and liabilities measured on a recurring and nonrecurring basis.

ACS 802-10 defines fair value as the amounts that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants, i.e. an exit price. To estimate an exit price, a three-tier hierarchy is used to prioritize the inputs:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spreads, credit risk, etc.).

Level 3: Significant unobservable inputs (including the Organization’s own assumptions in determining the fair value of investments).

The inputs and methodology used for valuing the Organization’s financial assets and liabilities are not indicators of the risk associated with those instruments.

The following table provides fair value measurement information for financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2016:

<u>Description</u>	<u>Investment in Securities</u>
Level 1: Quoted prices:	\$ 4,409,336
Level 2: Other significant observable inputs:	-
Level 3: Significant unobservable inputs	-
Total fair value	<u>\$4,409,336</u>

The following methods and assumptions were used to estimate the fair values of the assets and liabilities in the table above:

Level 1: Fair Value Measurements

Investment in Securities: The fair value of the District’s investments in marketable equity is based on quoted market prices.

SUPPLEMENTAL INFORMATION

CLIFTON SANITATION DISTRICT
SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL (NON-GAAP BASIS)
For the Years Ended December 31, 2016

	Actual	Budget	Variance Favorable (Unfavorable)
REVENUES			
Service Charges	\$ 3,026,613	\$ 2,972,710	\$ 53,903
Miscellaneous income	83,188	100,860	(17,672)
Plant investment fee	183,744	147,300	36,444
Grant income	691,388	330,000	361,388
Investment income	50,858	38,000	12,858
Total Revenue	<u>4,035,791</u>	<u>3,588,870</u>	<u>446,921</u>
EXPENSES:			
Treatment:			
Salaries	450,142	480,070	29,928
Employee benefits	209,204	213,388	4,184
Chemicals	17,948	36,207	18,259
Utilities	148,494	206,400	57,906
General insurance	15,977	18,994	3,017
Repairs & maintenance	160,376	212,383	52,007
Fuel	5,517	9,000	3,483
Lab and other tests	38,869	34,478	(4,391)
Vehicle expense	27,654	-	(27,654)
Other	34,218	39,341	5,123
Total Treatment Expenses	<u>1,108,399</u>	<u>1,250,261</u>	<u>141,862</u>
Collection:			
Salaries	27,162	37,602	10,440
Employee benefits	24,359	14,964	(9,395)
Office expense	317	-	(317)
Repairs & maintenance	57,548	70,505	12,957
Computer & Internet support	1,838	6,000	4,162
Line maintenance	110,000	110,000	-
Traffic control	19,833	14,000	(5,833)
Total Collection Expense	<u>241,057</u>	<u>253,071</u>	<u>12,014</u>
General & Administrative:			
Salaries	162,625	185,155	22,530
Employee benefits	70,882	76,506	5,624
Communication	16,144	11,200	(4,944)
Insurance and bonds	23,728	9,355	(14,373)
Professional fees	88,475	203,000	114,525
Directors' fees and expense	12,252	8,000	(4,252)
Miscellaneous	4,089	103,000	98,911
Vehicle expense	3,868	4,426	558
Training & education	6,251	3,400	(2,851)
Permits and fees	14,841	14,410	(431)
Occasional labor	12,862	31,000	18,138
Safety expense	23,926	27,100	3,174
Advertising	3,695	8,240	4,545
Office supplies and postage	72,694	68,721	(3,973)
Investment expense	7,512	8,000	488
Total General & Administrative Expense	<u>523,844</u>	<u>761,513</u>	<u>237,669</u>

BUDGET AND ACTUAL (NON-GAAP BASIS)
For the Years Ended December 31, 2016

	Actual	Budget	Variance Favorable (Unfavorable)
Total Expenses-carried forward	\$ 1,873,300	\$ 2,264,845	\$ 391,545
Capital outlays	1,296,500	1,383,431	86,931
Debt service:			
Principal	540,238	540,238	-
Interest	240,351	262,062	21,711
	3,950,389	4,450,576	500,187
EXCESS REVENUES OVER (UNDER) EXPENSES	85,402	\$ (861,706)	\$ 947,108
Adjustments to budgetary basis:			
Capital outlay	1,296,500		
System contribution	32,610		
Depreciation	(1,433,186)		
Debt service	540,238		
CHANGE IN NET POSITION	\$ 521,564		