



CLIFTON WATER DISTRICT
BASIC FINANCIAL STATEMENTS
AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2016 and 2015



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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

April 25, 2017

Board of Directors
Clifton Water District
Clifton, Colorado

We have audited the accompanying financial statements of the business-type activities and each major fund of Clifton Water District as of and for the years ended December 31, 2016 and 2015, 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

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. Those standards require that we 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Clifton Water District as of December 31, 2016 and 2015, and respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Clifton Water District
April 25, 2017
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Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Clifton Water District's basic financial statements. The budgetary comparison schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary comparison schedule is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Chadwick, Steinkirchner, Davis + Co., P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents an analysis of the District's financial performance and an overview of the District's financial activities for the fiscal year ending December 31, 2016. The financial statements are an integral part of this analysis and are included with this document.

Financial Highlights

After evaluation of the District's financial statements the following highlights have been identified.

- Total Cash Reserves increased by \$871,412, which is an 11% increase from 2015.
- The District's Total Operating Income increased by \$40,551, which is a 3% increase from 2015.
- The District's Net Position increased by \$1,987,532 from last year.
- The District's Working Capital ratio was 6.69 at the end of 2016.

Overview of the Financial Statements

This report consists of four parts; Management's Discussion and Analysis, Independent Auditor's Report and Opinion, Financial Statements and Supplementary Information. The Financial Statements include notes that explain, in detail, the information in the financial statements.

Financial Statements

Statements of Net Position

The Statements of Net Position include all District assets and liabilities and provides information pertaining to the nature of investments (assets) and obligations to creditors (liabilities). The Statements also provide the basis for determining the overall financial health of the District, including liquidity and financial flexibility.

The Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position include all of the revenues and expenses. This statement measures the success of the District's overall operation and can be used to determine if the District's user fees, rates and charges are adequate to recover expenses.

Statements of Cash Flows

The Statements of Cash Flows present information concerning the District's cash receipts and cash payments during the year. The Statements of Cash Flows report the cash receipts, cash payments and the changes in net cash from operating, investing and financing activities.

Financial Analysis of Clifton Water District

The true picture of the financial health of the District must consider operational theory and financial control that is practiced on a daily basis by the District.

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 include infrastructure improvement, capacity development and equipment purchases.

The District operates as a self-supporting enterprise, meaning that the revenue received from water sales and other Operating revenue sources must be adequate to cover the expenses of day-to-day operation of the District. Capital projects, including infrastructure, capacity development and equipment purchases are also funded using Operating Revenues with a Water Rate Structure adequate to fund a portion of the District's replacement costs for existing, aging infrastructure using annual Depreciation Expense as a guide. The Operating philosophy is critically dependent upon effective rates and user fees. Non-operating Revenues are primarily received from the sales of new water service connections called Plant Investment 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

Net Position

A condensed Statements of Net Position is included as **Table A**. The District's Net Position, the difference between assets and liabilities, is one way to measure the financial health of the District. Increases or decreases in the District's Net Position are indicators of improving or deteriorating financial health. Certain consideration must be given to non-financial factors such as changes in economic conditions, population growth and decline, zoning changes, legislative changes or policy changes.

TABLE A
Condensed Statements of Net Position

	2016	2015	Dollar Change	Total Percent Change
Current Assets	\$10,421,750	\$9,513,858	\$907,892	9.5%
Non-Current Assets	\$45,033,616	\$45,075,942	(\$42,326)	-0.1%
Total Assets	\$55,455,366	\$54,589,800	\$865,566	1.6%
Current Liabilities	\$1,556,992	\$1,918,237	(\$361,245)	-18.8%
Non-Current Liabilities	\$15,756,678	\$16,517,399	(\$760,721)	-4.6%
Total Liabilities	\$17,313,670	\$18,435,636	(\$1,121,966)	-6.1%
Invested in Capital Assets	\$27,203,342	\$26,494,947	\$708,395	2.7%
Restricted for Debt Service	\$436,000	\$436,000	\$0	0.0%
Unrestricted	\$10,502,354	\$9,223,217	\$1,279,137	13.9%
Total Net Position	\$38,141,696	\$36,154,164	\$1,987,532	5.5%

The analysis of the District's Statements of Net Position displays the changes in financial position of the District and the resulting Net Position.

Total Net Position increased by \$1,987,532 for an ending total of \$38,141,696. This marks the third consecutive year the District has experienced an increase of over 4% in Total Net Position. This increase is due in large part to the District paying down debt; both Current and Non-Current Liabilities decreased from the previous year.

Total Assets increased by \$865,566 from 2015.

- The increase in Total Assets occurred primarily in cash and investment accounts. The District being able to increase cash reserves points to success at setting a water rate structure that can cover day-to-day operating expenses and also fund capital replacement costs for existing, aging infrastructure.

Total Liabilities decreased by \$1,121,966 from 2015.

- The decrease in Total Liabilities is due to paying off expenses incurred for the Emergency Generator project at the end of 2015 and to making scheduled debt service payments.

Net Investment in Capital Assets increased by \$708,395 from 2015.

- The increase is due to the final capitalization of MF/UF Project expenditures. Although the District began producing water using the MF/UF Project in May 2015, Final Completion of the project did not occur until 2016.

Statements of Revenues, Expenses and Change in Net Position

The Statements of Revenues, Expenses, and Changes in Net Position provide information as to the nature and the source of the changes observed in Net Position. **Table B** is a condensed version of the Statements of Revenues, Expenses and Changes in Net Position. **Table B** shows:

- A healthy increase of 3%, or \$40,551, in Operating Income over 2015.
- An increase of \$88,896 in Total Non-Operating Revenue over 2015.
- Capital Contributions of \$793,077 were reported for 2016 compared to \$567,499 in 2015. This is the third consecutive year the District has experienced an increase in Capital Contributions.

TABLE B
Condensed Statements of Revenues, Expenses and Changes in Net Position

	2016	2015	Dollar Change	Total Percent Change
Total Operating Revenues	\$6,379,739	\$6,047,396	\$332,343	5.5%
Total Operating Expenses	\$4,990,468	\$4,698,676	\$291,792	6.2%
Operating Income (Loss)	\$1,389,271	\$1,348,720	\$40,551	3.0%
Non-Operating Revenue	\$107,883	\$119,295	(\$11,412)	-9.6%
Non-Operating Expense	\$302,699	\$403,007	(\$100,308)	-24.9%
Total Non-Operating Revenue	(\$194,816)	(\$283,712)	\$88,896	31.3%
Net Income Before Contributions	\$1,194,455	\$1,065,008	\$129,447	12.2%
Capital Contributions	\$793,077	\$567,499	\$225,578	39.7%
Change in Net Position	\$1,987,532	\$1,632,507	\$355,025	21.7%
Beginning Net Position	\$36,154,164	\$34,521,657	\$1,632,507	4.7%
Ending Net Position	\$38,141,696	\$36,154,164	\$1,987,532	5.5%

A closer examination of the Condensed Statements of Revenues, Expenses and Changes in Net Position in **Table B** reveals the following:

Operating Revenue and Expense

- Operating Revenue for 2016 increased by \$332,343 from 2015. This is a direct result of the Water Rate implemented in 2016. Continuing with the philosophy that the water rate structure should fund a portion of the District's Depreciation Expense, the Board of Directors implemented a rate increase in 2016. The water rate structure is intended to fund not only Operating costs but also replacement costs for existing, aging infrastructure using Depreciation Expense as a guide.
- Operating Expense increased by \$291,792 from 2015. This is due in large part to an increase in Depreciation Expense related to the MF/UF facility, which is a non-cash expense.
- Water rates in both 2015 and 2016 took into consideration replacement costs, or depreciation, for major capital assets in addition to other Operating costs. This proactive approach, which avoids relying on Plant Investment Fees tied to new growth, has placed the District in an excellent financial position to meet its debt service requirements and also to address necessary future upgrades and replacements of existing, aging infrastructure.

Non-operating Revenue and Expense

- Non-Operating Revenue for 2016 decreased by \$11,412 from 2016. The decrease is attributable to an unrealized decrease in the value of the District's investment portfolio based on the market value of investments at the end of the 2016 Fiscal Year.
- Non-Operating Expense for 2016 decreased by \$100,308 from 2015. This is attributable to a smaller loss of \$3,302 in 2016 on the disposal of capital assets.
- Capital Contributions increased in 2016 by \$225,578. This is due to a significant increase in donated water lines from developers and governments. This marks the third consecutive year of increases in this category.

Net Position

- The increase observed in Net Position for 2016 is \$1,987,352. This increase is attributable to a simultaneous increase in Cash and Investments and decrease in Total Liabilities.

Budgetary Highlights

The Schedule of Revenues and Expenditures Budget and Actual is included in the Supplementary Information. The Statement shows an unfavorable variance in Revenues of \$270,275 as compared to the budget, a variance of 4%. Factors contributing to the unfavorable variance are:

- \$187,481 less in water sales than budgeted, a variance of 3%.
- A decrease of \$94,300 in Plant Investment Fees from 2015.

The Statement also shows a favorable variance observed in every Expense category, resulting in an overall favorable variance of \$9,949,824 of Revenues over Expenses. Nearly 70% of the favorable variance is in the Contingency and Emergency and reserve line items. These amounts represent District reserves that were not used in 2016 to fund operations.

Some of the most noteworthy variances are:

- Capital Outlay Expense displayed a favorable variance of \$2,417,049 due mostly to the postponement of a large portion of the Effluent Pipe Manifold project to 2017 and fewer MF/UF Project expenses than anticipated.
- Wages and Benefits Expense displayed a favorable variance of \$329,334 due to a combination of:
 - The budget projects using the top of the wage scale for each District position regardless of employee position within the wage scale.
 - Employee retirement and turnover.
- Distribution Expense displayed a favorable variance of \$320,237 due to postponement of maintenance of the 3.0 MG tank and fewer repairs performed than projected from trending analysis.

Capital Assets and Debt Activities

At the conclusion of 2016 the District had expended \$1,241,101 on essential capital and infrastructure improvements. Some the other major improvements that were added to the system in 2016:

- Upgraded 6-inch waterline at the intersection of 32 Road and E Road.
- Upgraded 8-inch waterline on 34 Road from F Road to the GVIC.
- The remainder of work done on the new MF/UF Facility, which included a new HVAC system and bathroom renovation.

In 2017, the District's Non-Operating Budget includes \$2,804,740 in Capital Expenses. The 2017 Budget includes funds for the following Major Capital Improvement Projects:

- CAS Water Treatment Plant Construction Expense of \$625,000 for the following projects:
 - Replacement of south effluent pipe manifold. This project carried over from 2015.
 - Replacement of effluent variable frequency drive pump. This project was deferred in 2016.
- Distribution Construction Expense of \$1,830,000 for the following projects:
 - Highway 50 crossing
 - 34 Road (from E ¼ Road to F Road) 6-inch waterline upgrade
 - F ½ Road (from 30 ½ Road to 30 Road) waterline upgrade
 - 32 Road Corridor (from E Road to D ½ Road) waterline upgrade
 - Painting interior of 3.0 million gallon storage tank
 - Hydraulic model of distribution system

Debt Activities

The District did not take on any new debt in 2016. Additional information concerning debt is included in Note E of the Financial Statements. The District was in compliance with Loan Covenants at the end of 2016.

Economic Factors and Next Year's Budget and Rates

Many factors were considered when the District Board of Directors and Management set the 2017 Budget. The District's customer base has traditionally shown a growth of approximately 4% annually. Customer growth is projected to be less than 2% for 2017 and the 2017 Budget represents this condition along with water conservation efforts and reduction of expenses.

The District's fees and rates are routinely evaluated. A Cost of Service Rate Analysis is performed annually and water rates are adjusted accordingly each year. The Water Rate Structure is designed to adequately fund not only the day-to-day operation of the District, but also to partially fund replacement costs of major capital assets and encourage water conservation by using an inclining block structure. The District Board of Directors also instituted a System Investment Fee in 2013 to help recover replacement costs of major capital assets. This, in addition to the Water Rate Structure, has significantly improved the District's financial position.

Contacting the District's 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 the Clifton Water District, 510 34 Road, Clifton, Colorado 81520.

Clifton Water District

STATEMENTS OF NET POSITION

December 31,

ASSETS		2016	2015
Current assets			
Cash and investments		\$ 9,166,223	\$ 8,294,811
Customer accounts receivable, less allowance of \$-0-		642,587	617,680
Sanitation District's accounts receivable		280,604	272,481
Inventory		332,336	328,886
	Total current assets	<u>10,421,750</u>	<u>9,513,858</u>
Noncurrent assets			
Restricted cash and investments		436,000	436,000
Grand Valley Irrigation Co. stock		894,858	894,858
Capital assets		43,702,758	43,745,084
	Total noncurrent assets	<u>45,033,616</u>	<u>45,075,942</u>
	Total assets	<u>55,455,366</u>	<u>54,589,800</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses		166,645	569,903
Due to Sanitation District		549,542	520,209
Compensated absences payable		98,067	95,387
Current portion of long-term debt		742,738	732,738
	Total current liabilities	<u>1,556,992</u>	<u>1,918,237</u>
Noncurrent liabilities			
Long-term debt, less current		<u>15,756,678</u>	<u>16,517,399</u>
	Total liabilities	<u>17,313,670</u>	<u>18,435,636</u>
NET POSITION			
Net investment in capital assets		27,203,342	26,494,947
Restricted for debt service		436,000	436,000
Unrestricted		10,502,354	9,223,217
	Total net position	<u>\$ 38,141,696</u>	<u>\$ 36,154,164</u>

The accompanying notes are an integral part of these statements.

Clifton Water District

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years ended December 31,

	2016	2015
Operating revenues		
Water sales	\$ 5,707,856	\$ 5,387,836
System investment fees	418,354	415,634
Penalties and turn fees	198,850	179,697
Tap installation and main line extension fees	5,374	12,500
Administration fees, Sanitation District	37,604	37,274
Miscellaneous operating income	11,701	14,455
Total operating revenues	<u>6,379,739</u>	<u>6,047,396</u>
Operating expenses		
Source of supply	26,228	20,924
Water treatment	1,399,747	1,311,319
Transmission and distribution	900,109	917,130
Depreciation expense	1,690,841	1,540,082
General and administrative	973,543	909,221
Total operating expenses	<u>4,990,468</u>	<u>4,698,676</u>
Operating income (loss)	1,389,271	1,348,720
Nonoperating revenues (expenses)		
Investment income	40,200	51,965
Interest expense	(299,397)	(278,787)
Lease income	10,368	9,504
Availability of service	54,798	52,774
Gain (loss) on disposal of capital assets	(3,302)	(124,220)
Miscellaneous income	2,517	5,052
	<u>(194,816)</u>	<u>(283,712)</u>
Net income (loss) before contributions	1,194,455	1,065,008
Capital contributions	<u>793,077</u>	<u>567,499</u>
Change in net position	1,987,532	1,632,507
Net position at beginning of year	<u>36,154,164</u>	<u>34,521,657</u>
Net position at end of year	<u>\$ 38,141,696</u>	<u>\$ 36,154,164</u>

The accompanying notes are an integral part of these statements.

STATEMENTS OF CASH FLOWS

Clifton Water

STATEMENTS OF

	Years ended	
	2016	2015
Cash flows from operating activities		
Cash received from customers	\$ 6,335,008	\$ 6,008,306
Cash payments to suppliers	(2,030,743)	(1,001,888)
Cash payments to employees	(1,643,579)	(1,724,617)
Other cash receipts	11,701	14,455
Net cash provided by (used in) operating activities	2,672,387	3,296,256
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(1,177,940)	(11,584,278)
Principal payments on notes and bonds	(732,738)	(717,550)
Interest payments on notes and bonds	(317,380)	(296,770)
Lease payments and miscellaneous income	12,885	14,556
Availability of service charges	54,798	52,774
Plant investment fees collected	318,200	499,100
Proceeds from sale of capital assets	1,000	-
Proceeds from note payable	-	9,436,367
Net cash provided by (used in) capital and related financing activities	(1,841,175)	(2,595,801)
Cash flows from investing activities		
Purchase of investments	(2,460,181)	(2,994,695)
Proceeds from maturities or sales of investments	493,738	3,976,624
Income received on investments	61,947	57,822
Net cash provided by (used in) investing activities	(1,904,496)	1,039,751
Increase (decrease) in cash and cash equivalents	(1,073,284)	1,740,206
Cash and cash equivalents at the beginning of the year	5,742,074	4,001,868
Cash and cash equivalents at the end of the year	<u>\$ 4,668,790</u>	<u>\$ 5,742,074</u>
Reconciliation of cash and cash equivalents to cash and investments:		
Cash and cash equivalents	\$ 4,668,790	\$ 5,742,074
Other investment securities	4,933,433	2,988,737
	<u>\$ 9,602,223</u>	<u>\$ 8,730,811</u>

The accompanying notes are an integral part of these statements.

District

CASH FLOWS

December 31,

	<u>2016</u>	<u>2015</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ 1,389,271	\$ 1,348,720
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	1,690,841	1,540,082
Change in assets and liabilities		
(Increase) decrease in accounts receivable	(33,030)	(24,635)
(Increase) decrease in inventory	(3,450)	(68,174)
Increase (decrease) in accounts payable and accrued expenses	(403,258)	497,823
Increase (decrease) in due to Sanitation District	29,333	(488)
Increase (decrease) in compensated absences payable	2,680	2,928
Total adjustments	<u>1,283,116</u>	<u>1,947,536</u>
Net cash provided by (used in) operating activities	<u>\$ 2,672,387</u>	<u>\$ 3,296,256</u>
Noncash investing and capital and related financing activities		
Unrealized gain (loss) on investments	\$ (21,747)	\$ (5,857)
Lines contributed by developers and governments	474,877	68,399
Amortization of premium on debt	(17,983)	(17,983)
Book value of disposed capital assets	(4,302)	(124,220)

Clifton Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. History and Activity

Clifton Water District was organized to provide domestic water service to the community of Clifton and surrounding farm lands. The District is a governmental subdivision of the State of Colorado organized with all the powers of a public or quasi-municipal corporation. The Order and Decree of the District Court in and for Mesa County creating the District was entered on March 5, 1951. The District is governed by a Board of Directors consisting of five members. The members must be qualified electors of the District and are elected to staggered four year terms of office at successive biennial elections.

2. Reporting Entity

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

3. 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 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 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.

4. 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 nonoperating revenues and expenses.

When the District has the option to use either restricted or unrestricted net position to finance a program it is the District's policy to first apply restricted resources.

Clifton Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. Government-wide Net Position

- *Net investment in capital assets* – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- *Restricted net position* – consist of assets that are restricted by the District's creditors (for example, through debt covenants), by enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors (those who may donate to the District).
- *Unrestricted*—all other net position is reported in this category.

6. Budgets and Budgetary Accounting

The annual budget is prepared and approved by the Board of Directors in accordance with the State of Colorado *Financial Management Manual* and in accordance with Colorado Revised Statutes. 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 District appropriates, and may not exceed appropriations, at a total fund level. Appropriations for the year ended December 31, 2016 and 2015 were \$15,740,620 and \$26,861,281, respectively.

The budget basis of accounting used by the District differs from the generally accepted accounting principles (GAAP) basis in that outlays for acquisition of capital assets, outlays for debt retirement, and purchases of GVIC shares are included as expenditures and proceeds from debt issuance is included as other financing sources. Plant and system investment fees are included as revenues.

7. Cash and Cash Equivalents

For purposes of the statements of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

8. Investments

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles and GASB Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Clifton Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

9. Customer Accounts Receivable

The District considers customer accounts receivable to be fully collectible. The District is empowered to place a lien on real property in the case of nonpayment. Accordingly, no allowance for doubtful accounts is required.

10. Inventory

The inventory held by the District is recorded at cost using the first-in, first-out method. The inventory is used for repair and replacement of the system.

11. Capital Assets

Capital assets (property, plant and equipment) are recorded at cost, or in the case of donations, at their estimated fair value on the date donated. Cost includes the capitalization of materials and direct labor for additions made by District personnel. The District's capitalization level is \$1,000 for capital assets.

Maintenance, repairs and renewals that neither materially add to the value of the asset nor appreciably prolong its life are charged to expense as incurred. Gains or losses on disposition of property and equipment are included in income.

Depreciation is computed using the straight-line method over estimated useful lives, as follows:

	<u>Estimated Lives</u>
Buildings and plant	10 to 50 years
Equipment	3 to 30 years
Water delivery system	10 to 50 years

Plans and designs are recorded as intangible assets and are amortized over 5 years.

12. Risk Management

The District purchases general liability and property insurance through commercial insurers to provide coverage of all losses, claims and judgments.

Clifton Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

13. Compensated Absences

The District pays full-time employees with at least six months of continuous employment for accumulated annual leave upon termination. Annual leave benefits can accumulate to a maximum of 300 hours. In addition, full-time employees with six months of continuous employment can also accrued up to a maximum of 96 hours of sick leave that is paid out at 25% of the employee's hourly base rate upon termination. Non-exempt employees may also earn comp time up to a maximum of 7 hours. The District pays out any comp time accrued and unused on December 31 of each year.

14. Availability of Service Charges

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

15. Bond Premium

The bond premium is reported in the balance sheet as a direct addition to the face amount of the bonds payable. Amortization of the premium, which is being calculated on the straight-line basis, which approximates the interest method, is reported as a reduction of interest expense over the 10 year life of the bonds.

16. Use of Estimates

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

NOTE B – CASH AND INVESTMENTS

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories; eligibility is determined by state regulators. 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. Collateral in the pool is considered to be equal to depository insurance pursuant to definitions listed in GASB Statement No. 40. At December 31, 2016, the bank balance of the District's deposits was \$4,970,478, of which \$4,719,454 was not covered by federal depository insurance. The District also held \$121,361 in money market accounts which were insured by SIPC.

Clifton Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE B – CASH AND INVESTMENTS – CONTINUED

Cash and investments carrying amount value, including level under the GASB 72 fair value hierarchy, where applicable, is as follows:

	<u>2016</u>	<u>2015</u>
Cash on hand	\$ 1,060	\$ 1,060
Cash in checking	4,535,583	4,686,453
Money markets	<u>121,361</u>	<u>1,076,772</u>
Total cash	4,658,004	5,764,285
 Investments		
COLOTRUST (Level 2)	1,067	1,064
FFCB, maturities between 2 – 3 years (Level 1)	996,170	991,635
FNMA, maturities between 4 – 5 years (Level 1)	1,970,243	494,378
FHLB, maturities between 3 – 4 years (Level 1)	<u>1,976,739</u>	<u>1,479,449</u>
Total investments	<u>4,944,219</u>	<u>2,966,526</u>
Total cash and investments	9,602,223	8,730,811
Less restricted cash and investments	<u>436,000</u>	<u>436,000</u>
	<u>\$ 9,166,223</u>	<u>\$ 8,294,811</u>

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

On December 31, 2016 the District had \$1,067 of deposits in the Colorado Government Liquid Asset Trust (COLOTRUST), an investment vehicle established for local government entities in Colorado to pool surplus funds. COLOTRUST operates similarly to a money market fund and each share is equal in value to \$1.00. Investments of COLOTRUST consist of U.S. Treasury bills, notes and note strips and repurchase agreements collateralized by U.S. Treasury securities. A designated custodial bank provides safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal functions of COLOTRUST. Substantially all securities owned by COLOTRUST are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by COLOTRUST. These pools are not required to and are not registered with the SEC. COLOTRUST's two funds are rated AAAM by Standard and Poor's, Fitch's and Moody's rating services.

Clifton Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE C – GRAND VALLEY IRRIGATION CO. STOCK

As of December 31, 2016 and 2015, the District owns 1,845 shares of Grand Valley Irrigation Co. stock which is recorded at the price paid when purchased. This is considered an interest in a source of supply and not an investment.

NOTE D – CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2016:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 749,787	\$ –	\$ –	\$ 749,787
Construction in progress	<u>3,497,422</u>	<u>457,918</u>	<u>3,244,774</u>	<u>710,566</u>
Total capital assets, not being depreciated	4,247,209	457,918	3,244,774	1,460,353
Capital assets, being depreciated:				
Water services system	28,596,938	978,789	–	29,575,727
Water treatment:				
Plant	27,334,836	2,803,263	28,784	30,109,315
Shop	252,215	–	–	252,215
Equipment	867,154	576,845	344,369	1,099,630
General:				
Buildings	500,673	–	–	500,673
Furniture and equipment	508,006	50,777	8,590	550,193
Vehicles	<u>565,379</u>	<u>29,999</u>	<u>19,000</u>	<u>576,378</u>
Total capital assets being depreciated	<u>58,625,201</u>	<u>4,439,673</u>	<u>400,743</u>	<u>62,664,131</u>
Less accumulated depreciation and amortization:				
Water services system	12,502,567	746,037	–	13,248,604
Water treatment:				
Plant	4,652,557	729,644	28,784	5,353,417
Shop	139,329	9,696	–	149,025
Equipment	736,836	73,448	340,067	470,217
General:				
Buildings	276,847	17,597	–	294,444
Furniture and equipment	385,473	44,817	8,590	421,700
Vehicles	<u>433,717</u>	<u>69,602</u>	<u>19,000</u>	<u>484,319</u>
	<u>19,127,326</u>	<u>1,690,841</u>	<u>396,441</u>	<u>20,421,726</u>
Total capital assets being depreciated, net	<u>39,497,875</u>	<u>2,748,832</u>	<u>4,302</u>	<u>42,242,405</u>
Total capital assets, net	<u>\$ 43,745,084</u>	<u>\$ 3,206,750</u>	<u>\$ 3,249,076</u>	<u>\$ 43,702,758</u>

Clifton Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE E – LONG-TERM DEBT

On October 1, 2013, the District issued \$4,360,000 in water revenue refunding bonds with interest rates ranging between 2.0% and 4.0%. The bonds were issued with interest due semiannually on June 1 and December 1 of each year, commencing December 1, 2013. Principal payments are due each December 1. The bonds mature in various amounts through December 1, 2023. The bonds are collateralized by the Net Pledged Revenues of the District as defined in the agreement. The District was in compliance with all significant financial requirements as of December 31, 2016.

The District entered into a loan agreement for \$13,948,507 with an interest rate of 1.19% with the Colorado Water Resources and Power Development Authority (CWRPDA) dated May 1, 2014. The agreement calls for the CWRPDA to issue bonds with the proceeds to be used to finance a loan to the District and several other entities. Loan funds are to be used for the Clifton Water District Microfiltration Ultrafiltration Water Treatment Plant project. The note is collateralized by the net revenue of the District as defined in the agreement. The District is in compliance with all significant financial requirements as of December 31, 2016. The payments are due in semi-annual installments beginning August 2014 through August 2035. Payment amounts range from \$71,125 to \$527,133.

The following is a summary of long-term debt transactions of the District for the years ended December 31, 2016 and 2015:

	Balance January 1, 2016	Issues	Reductions	Balance December 31, 2016
2014 Note Payable	\$ 13,624,267	\$ -	\$ 322,738	\$ 13,301,529
2013 Water Revenue Refunding Bonds	3,485,000	-	410,000	3,075,000
2013 Bond Premium	140,870	-	17,983	122,887
	<u>\$ 17,250,137</u>	<u>\$ -</u>	<u>\$ 750,721</u>	<u>\$ 16,499,416</u>
	Balance January 1, 2015	Issues	Reductions	Balance December 31, 2015
2014 Note Payable	\$ 13,936,817	\$ -	\$ 312,550	\$ 13,624,267
2013 Water Revenue Refunding Bonds	3,890,000	-	405,000	3,485,000
2013 Bond Premium	158,853	-	17,983	140,870
	<u>\$ 17,985,670</u>	<u>\$ -</u>	<u>\$ 735,533</u>	<u>\$ 17,250,137</u>

Clifton Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE E – LONG-TERM DEBT – CONTINUED

	<u>2016</u>	<u>2015</u>
Long-term debt, face amount	\$ 16,376,530	\$17,109,267
Add premium	<u>122,886</u>	<u>140,870</u>
	16,499,416	17,250,137
Less current portion	<u>742,738</u>	<u>732,738</u>
	<u>\$ 15,756,678</u>	<u>\$16,517,399</u>

The annual aggregate maturities for the years subsequent to December 31, 2016 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 742,738	\$ 307,879	\$ 1,050,617
2018	752,738	297,529	1,050,267
2019	762,738	286,979	1,049,717
2020	769,026	275,130	1,044,156
2021	782,738	263,055	1,045,793
2022-2026	4,187,685	1,061,470	5,249,155
2027-2031	4,425,602	891,922	5,317,524
2032-2035	<u>3,953,265</u>	<u>237,424</u>	<u>4,190,689</u>
	16,376,530	3,621,388	19,997,918
Premium	<u>122,886</u>	-	<u>122,886</u>
	<u>\$ 16,499,416</u>	<u>\$ 3,621,388</u>	<u>\$ 20,120,804</u>

NOTE F – RESTRICTED NET POSITION

	<u>2016</u>	<u>2015</u>
Reserve requirement	\$ 436,000	\$ 436,000
Total - Restricted Net Position	<u>\$ 436,000</u>	<u>\$ 436,000</u>

NOTE G – CAPITAL CONTRIBUTIONS

Capital contributions consist of the following:

	<u>2016</u>	<u>2015</u>
Plant investment fees	\$ 318,200	\$ 499,100
Donated water lines from developers and governments	<u>474,877</u>	<u>68,399</u>
	<u>\$ 793,077</u>	<u>\$ 567,499</u>

Clifton Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE H – RETIREMENT PLANS

Defined Contribution Plans

The District provides retirement benefits for all of its qualified employees through the Colorado County Officials and Employees Retirement Association (CCOERA). The plan is a defined contribution plan created in accordance with Internal Revenue Code Section 401(a). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are able to participate with one-half (1/2) year of service. Under the plan, the District is required to contribute 3% of each participant's total compensation. The District's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years continuous service. Forfeitures due to termination of an employee who is not fully vested are used to reduce the District's current period contribution requirement. All employees participating in the former plan at the start of the new plan received past service credit for all periods of employment.

For the CCOERA plan the District's total payroll for 2016 and 2015 was \$1,215,379 and \$1,227,180, respectively. The District's covered payroll for 2016 and 2015 was \$1,179,908 and \$1,201,598 and the District made the required 3% contribution for 2016 and 2015 of \$31,989 and \$35,438, respectively. Employee contributions to this plan in 2016 and 2015 were \$31,989 and \$35,438, respectively.

Section 457 Plan

The District participates in a deferred compensation plan in accordance with Internal Revenue Service Code Section 457 through CCOERA. All District employees are eligible to make contributions to the plan for up to \$18,000 for 2016 of eligible gross wages.

NOTE I – 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 is in compliance with the requirements of the amendment as they have interpreted it.

SUPPLEMENTARY INFORMATION

Clifton Water District
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
Year ended December 31, 2016

	Original and Final Budget 2016	Actual 2016	Variance Favorable (Unfavorable)	Actual 2015
Revenues				
Water sales	\$ 5,895,337	\$ 5,707,856	\$ (187,481)	\$ 5,387,836
Plant investment fees	412,500	318,200	(94,300)	499,100
System investment fees	415,380	418,354	2,974	415,634
Admin fees, Sanitation District	37,240	37,604	364	37,274
Investment income	57,720	40,200	(17,520)	51,965
Penalties and turn fees	174,270	198,850	24,580	179,697
Tap installation fees	1,600	-	(1,600)	-
Availability of service	46,380	54,798	8,418	52,774
Miscellaneous income	12,000	19,592	7,592	32,008
Gain/ (loss) on disposal of assets	10,000	(3,302)	(13,302)	(124,220)
Lease income	10,368	10,368	-	9,504
	<u>7,072,795</u>	<u>6,802,520</u>	<u>(270,275)</u>	<u>6,541,572</u>
Expenses				
Assessment of water shares and purchases	26,228	26,228	-	20,924
Capital outlay	3,658,150	1,241,101	2,417,049	11,598,188
Wages and benefits	1,988,675	1,659,341	329,334	1,728,804
GVIC shares	10,000	-	10,000	-
Distribution expense	710,419	390,182	320,237	389,998
Charles A. Strain WTP operating expenses	851,924	819,482	32,442	712,872
Office expenses	381,032	352,052	28,980	302,878
Interest expense	317,380	299,397	17,983	278,787
Bond and note principal	732,738	732,738	-	717,549
Contingency	6,252,750	-	6,252,750	-
Emergency and reserve	811,324	-	811,324	-
	<u>15,740,620</u>	<u>5,520,521</u>	<u>10,220,099</u>	<u>15,750,000</u>
EXCESS OF REVENUE OVER (UNDER) EXPENSES	<u>\$ (8,667,825)</u>	1,281,999	<u>\$ 9,949,824</u>	<u>\$ (9,208,428)</u>
Adjustment to budgetary basis:				
Depreciation expense		(1,690,841)		
Plant investment fees		(318,200)		
Capital outlay (capitalized)		1,188,759		
Bond and note principal payment		732,738		
Net income (loss) before contributions		<u>\$ 1,194,455</u>		