



CLIFTON WATER DISTRICT
BASIC FINANCIAL STATEMENTS
AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
December 31, 2017 and 2016

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

March 30, 2018

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, 2017 and 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

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.



Clifton Water District
March 30, 2018
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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, 2017 and 2016, 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.

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, 2017. 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 \$757,154, which is an 8% increase from 2016.
- Net Position increased by \$1,975,409 from last year.
- Total Operating Revenues increased by \$191,762, which is a 3% increase from 2016.
- Total Operating Income decreased by \$147,696, which is a 10.6% decrease from 2016.
- The District's Working Capital ratio was 7.56 at the end of 2017.

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 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 that include infrastructure improvement, 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

	2017	2016	Dollar Change	Total Percent Change
Current Assets	\$11,247,785	\$10,421,750	\$826,035	7.9%
Non-Current Assets	\$45,342,569	\$45,033,616	\$308,953	0.7%
Total Assets	\$56,590,354	\$55,455,366	\$1,134,988	2.0%
Current Liabilities	\$1,487,292	\$1,556,992	(\$69,700)	-4.5%
Non-Current Liabilities	\$14,985,957	\$15,756,678	(\$770,721)	-4.9%
Total Liabilities	\$16,473,249	\$17,313,670	(\$840,421)	-4.9%
Invested in Capital Assets	\$28,273,016	\$27,203,342	\$1,069,674	3.9%
Restricted for Debt Service	\$436,000	\$436,000	\$0	0.0%
Unrestricted	\$11,408,089	\$10,502,354	\$905,735	8.6%
Total Net Position	\$40,117,105	\$38,141,696	\$1,975,409	5.2%

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 \$1,975,409 for an ending total of \$40,117,105. This marks the fourth consecutive year the District has experienced an increase of over 4% in Total Net Position. The increase is mostly due to the District paying down debt while also increasing Cash Reserves in 2017.

Total Assets increased by \$1,134,988 from 2016.

- 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 \$840,421 from 2016.

- The decrease in Total Liabilities is due to paying off expenses incurred for two construction projects at the end of 2016 and to making scheduled debt service payments.

Net Investment in Capital Assets increased by \$1,069,674 from 2016.

- The increase is due to the capitalization of the Effluent Manifold Project expenditures.

This project repaired a 27-inch main transmission pipe that failed in 2013.

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 \$191,762, in Total Operating Revenues over 2016.
- An increase of \$56,304 in Total Non-Operating Revenue over 2016.
- Capital Contributions of \$872,346 were reported for 2017 compared to \$793,077 in 2016. This is the fourth consecutive year the District has experienced an increase in Capital Contributions.

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

	2017	2016	Dollar Change	Total Percent Change
Total Operating Revenues	\$6,571,501	\$6,379,739	\$191,762	3.0%
Total Operating Expenses	\$5,329,926	\$4,990,468	\$339,458	6.8%
Operating Income (Loss)	\$1,241,575	\$1,389,271	(\$147,696)	-10.6%
Non-Operating Revenue	\$151,385	\$107,883	\$43,502	40.3%
Non-Operating Expense	\$289,897	\$302,699	(\$12,802)	-4.2%
Total Non-Operating Revenue	(\$138,512)	(\$194,816)	\$56,304	28.9%
Net Income Before Contributions	\$1,103,063	\$1,194,455	(\$91,392)	-7.7%
Capital Contributions	\$872,346	\$793,077	\$79,269	10.0%
Change in Net Position	\$1,975,409	\$1,987,532	(\$12,123)	-0.6%
Beginning Net Position	\$38,141,696	\$36,154,164	\$1,987,532	5.5%
Ending Net Position	\$40,117,105	\$38,141,696	\$1,975,409	5.2%

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 2017 increased by \$191,762 from 2016. After six years of increasing Water Rates, the District opted not to increase Water Rates again in 2017, meaning that the increase in Water Sales Revenue is due to slightly higher customer consumption in 2017 over the previous year. 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 \$339,458 from 2016. This is due in large part to an increase in Distribution Repair and Maintenance expenses for the Pre-emptive Poly Line Replacement Program. Pre-emptively replacing old, black poly service lines before they fail is more cost effective than replacing them under emergency circumstances and will result in considerable long-term cost savings for the District. Poly Line Replacement activity in 2017 was double that in 2016. Additionally, Depreciation Expense increased by nearly \$100,000 in 2017; this is a non-cash expense.

Non-operating Revenue and Expense

- Non-Operating Revenue for 2017 increased by \$43,502 from 2016. The increase is primarily attributable to a higher amount of interest earned on District investments. More interest revenue was earned in 2017 due to a higher balance of investments and increasing interest rates.
- Non-Operating Expense for 2017 decreased by \$12,802 from 2016. This is due to a lower amount of interest due on outstanding debt in 2017 than in 2016.
- Capital Contributions increased by \$79,269 in 2017. This is due to a significant increase in Plant Investment Fees collected from the sale of water taps. This marks the fourth consecutive year of increases in this category.

Net Position

- The increase observed in Net Position for 2017 is \$1,975,409. 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 a favorable variance in nearly every Revenue category, resulting in an overall favorable variance of \$469,303 as compared to the budget, a variance of 6.9%. Factors contributing to the favorable variance are:

- \$240,392 more in water sales than budgeted, a favorable variance of 4.2%.
- A significant increase in Plant Investment Fees of \$173,150 from 2016, a favorable variance of 45%.

The Statement also shows a favorable variance observed in nearly every Expense category, resulting in an overall favorable variance of \$10,538,866 of Revenues over Expenses. Over 75% of the favorable variance is in the Contingency and Emergency and reserve line items. These amounts represent District reserves that were not used in 2017 to fund operations.

Some of the most noteworthy variances are:

- Capital Outlay Expense displayed a favorable variance of \$1,702,702 due to the carryover of the following Distribution construction projects which were started in 2017 but will be completed in 2018:
 - 34 Road – E ¼ Road to F Road
 - F ½ Road – 30 ½ Road to 30 Road
 - Booshway/Midlands Extension

Additionally, two projects were postponed:

- Hydraulic Model of Distribution System
 - Painting Three Million Gallon Water Tank
- Wages and Benefits Expense displayed a favorable variance of \$514,780 due to a combination of:
 - The budget projection using the top of the wage scale for each District position regardless of employee position within the wage scale.
 - Budgeted positions that remain unfilled.

Capital Assets and Debt Activities

At the conclusion of 2017 the District had expended \$1,832,274 on essential capital and infrastructure improvements. Some of the major improvements that were added to the system in 2017:

- Replace 27-inch effluent manifold transmission line at Water Treatment Plant
- Upgraded 16-inch water main crossing Highway 50
- Upgraded 6-inch waterline on F ½ Road running from 30 ½ Road to Allegheny

In 2018, the District's Non-Operating Budget includes \$3,452,650 in Capital Expenses. The 2018 Budget includes funds for the following Major Capital Improvement Projects:

- CAS Water Treatment Plant Construction Expense of \$1,835,000 for the following projects:
 - Effluent pumping and Motor Control Center improvements
 - Water Treatment Plant SCADA control system integration
 - Facility access improvements
- Distribution Construction Expense of \$942,000 for the following projects:
 - Desert Road Pump Station upgrades
 - Painting interior of 3.0 million gallon storage tank
 - Booshway/Midlands waterline extension
 - Peachtree Phase I waterline extension
 - 32 Road Corridor (from E Road to D ½ Road) waterline upgrade design
 - 31 Road from F Road to F ½ Road Phase I design

Debt Activities

The District did not take on any new debt in 2017. 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 2017.

Economic Factors and Next Year's Budget and Rates

Many factors were considered when the District Board of Directors and Management set the 2018 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 2018 and the 2018 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, 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,

	2017	2016
ASSETS		
Current assets		
Cash and investments	\$ 9,923,377	\$ 9,166,223
Customer accounts receivable, less allowance of \$-0-	721,266	642,587
Sanitation District's accounts receivable	309,819	280,604
Inventory	293,323	332,336
Total current assets	11,247,785	10,421,750
Noncurrent assets		
Restricted cash and investments	436,000	436,000
Grand Valley Irrigation Co. stock	894,858	894,858
Capital assets	44,011,711	43,702,758
Total noncurrent assets	45,342,569	45,033,616
Total assets	56,590,354	55,455,366
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	118,014	166,645
Due to Sanitation District	534,269	549,542
Compensated absences payable	82,271	98,067
Current portion of long-term debt	752,738	742,738
Total current liabilities	1,487,292	1,556,992
Noncurrent liabilities		
Long-term debt, less current	14,985,957	15,756,678
Total liabilities	16,473,249	17,313,670
NET POSITION		
Net investment in capital assets	28,273,016	27,203,342
Restricted for debt service	436,000	436,000
Unrestricted	11,408,089	10,502,354
Total net position	\$ 40,117,105	\$ 38,141,696

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,

	<u>2017</u>	<u>2016</u>
Operating revenues		
Water sales	\$ 5,864,437	\$ 5,707,856
System investment fees	419,602	418,354
Penalties and turn fees	204,418	198,850
Tap installation and main line extension fees	15,500	5,374
Administration fees, Sanitation District	37,814	37,604
Miscellaneous operating income	29,730	11,701
Total operating revenues	<u>6,571,501</u>	<u>6,379,739</u>
Operating expenses		
Source of supply	27,022	26,228
Water treatment	1,478,709	1,399,747
Transmission and distribution	1,109,314	900,109
Depreciation expense	1,789,027	1,690,841
General and administrative	925,854	973,543
Total operating expenses	<u>5,329,926</u>	<u>4,990,468</u>
Operating income (loss)	1,241,575	1,389,271
Nonoperating revenues (expenses)		
Investment income	71,142	40,200
Interest expense	(289,897)	(299,397)
Lease income	11,059	10,368
Availability of service	54,515	54,798
Gain (loss) on disposal of capital assets	11,825	(3,302)
Miscellaneous income	2,844	2,517
	<u>(138,512)</u>	<u>(194,816)</u>
Net income (loss) before contributions	1,103,063	1,194,455
Capital contributions	<u>872,346</u>	<u>793,077</u>
Change in net position	1,975,409	1,987,532
Net position at beginning of year	<u>38,141,696</u>	<u>36,154,164</u>
Net position at end of year	<u>\$ 40,117,105</u>	<u>\$ 38,141,696</u>

The accompanying notes are an integral part of these statements.

STATEMENTS OF CASH FLOWS

Clifton Water
STATEMENTS OF

	Years ended	
	2017	2016
Cash flows from operating activities		
Cash received from customers	\$ 6,433,877	\$ 6,335,008
Cash payments to suppliers	(1,844,358)	(2,030,743)
Cash payments to employees	(1,737,228)	(1,643,579)
Other cash receipts	29,730	11,701
Net cash provided by (used in) operating activities	2,882,021	2,672,387
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(1,783,784)	(1,177,940)
Principal payments on notes and bonds	(742,738)	(732,738)
Interest payments on notes and bonds	(307,880)	(317,380)
Lease payments and miscellaneous income	13,903	12,885
Availability of service charges	54,515	54,798
Plant investment fees collected	558,150	318,200
Proceeds from sale of capital assets	11,825	1,000
Net cash provided by (used in) capital and related financing activities	(2,196,009)	(1,841,175)
Cash flows from investing activities		
Purchase of investments	(1,550,000)	(2,460,181)
Proceeds from maturities or sales of investments	1,000,000	493,738
Income received on investments	92,962	61,947
Net cash provided by (used in) investing activities	(457,038)	(1,904,496)
Increase (decrease) in cash and cash equivalents	228,974	(1,073,284)
Cash and cash equivalents at the beginning of the year	4,668,790	5,742,074
Cash and cash equivalents at the end of the year	\$ 4,897,764	\$ 4,668,790
Reconciliation of cash and cash equivalents to cash and investments:		
Cash and cash equivalents	\$ 4,897,764	\$ 4,668,790
Other investment securities	5,461,613	4,933,433
	\$ 10,359,377	\$ 9,602,223

The accompanying notes are an integral part of these statements.

District

CASH FLOWS

December 31,

	<u>2017</u>	<u>2016</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ 1,241,575	\$ 1,389,271
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	1,789,027	1,690,841
Change in assets and liabilities		
(Increase) decrease in accounts receivable	(107,894)	(33,030)
(Increase) decrease in inventory	39,013	(3,450)
Increase (decrease) in accounts payable and accrued expenses	(48,631)	(403,258)
Increase (decrease) in due to Sanitation District	(15,273)	29,333
Increase (decrease) in compensated absences payable	(15,796)	2,680
Total adjustments	<u>1,640,446</u>	<u>1,283,116</u>
	Net cash provided by (used in) operating activities	
	<u>\$ 2,882,021</u>	<u>\$ 2,672,387</u>
Noncash investing and capital and related financing activities		
Unrealized gain (loss) on investments	\$ (21,820)	\$ (21,747)
Lines contributed by developers and governments	314,196	474,877
Amortization of premium on debt	(17,983)	(17,983)
Book value of disposed capital assets	-	(4,302)

Clifton Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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, 2017 and 2016

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, 2017 and 2016 were \$16,896,184 and \$15,740,620, 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, 2017 and 2016

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, 2017 and 2016

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, 2017, the bank balance of the District's deposits was \$4,812,500, of which \$4,561,476 was not covered by federal depository insurance. The District also held \$145,639 in money market accounts which were insured by SIPC.

Clifton Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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>2017</u>	<u>2016</u>
Cash on hand	\$ 1,060	\$ 1,060
Cash in checking	4,740,271	4,535,583
Money markets	<u>145,639</u>	<u>121,361</u>
Total cash	4,886,970	4,658,004
 Investments		
COLOTRUST	1,076	1,067
FFCB, maturities between 2 – 3 years (Level 1)	2,028,211	996,170
FNMA, maturities between 4 – 5 years (Level 1)	1,471,811	1,970,243
FHLB, maturities between 3 – 4 years (Level 1)	<u>1,971,309</u>	<u>1,976,739</u>
Total investments	<u>5,472,407</u>	<u>4,944,219</u>
Total cash and investments	10,359,377	9,602,223
Less restricted cash and investments	<u>436,000</u>	<u>436,000</u>
	<u>\$ 9,923,377</u>	<u>\$ 9,166,223</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, 2017 the District had \$1,076 of deposits in the Colorado Government Liquid Asset Trust (COLOTRUST), an investment vehicle established for local government entities in Colorado to pool surplus funds. 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. COLOTRUST operates like a 2a-7 external investment pool and investments in the pool are valued at \$1 net asset value (NAV) per share. The underlying investments held by Colostrust are valued at fair value.

Clifton Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE C – GRAND VALLEY IRRIGATION CO. STOCK

As of December 31, 2017 and 2016, 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, 2017:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 749,787	\$ –	\$ –	\$ 749,787
Construction in progress	<u>710,566</u>	<u>30,147</u>	<u>504,798</u>	<u>235,915</u>
Total capital assets, not being depreciated	1,460,353	30,147	504,798	985,702
Capital assets, being depreciated:				
Water services system	29,575,727	1,029,508	–	30,605,235
Water treatment:				
Plant	30,109,315	1,391,940	–	31,501,255
Shop	252,215	–	–	252,215
Equipment	1,099,630	84,260	75,320	1,108,570
General:				
Buildings	500,673	–	–	500,673
Furniture and equipment	550,193	66,923	6,406	610,710
Vehicles	<u>576,378</u>	<u>–</u>	<u>59,626</u>	<u>516,752</u>
Total capital assets being depreciated	<u>62,664,131</u>	<u>2,572,631</u>	<u>141,352</u>	<u>65,095,410</u>
Less accumulated depreciation and amortization:				
Water services system	13,248,604	772,830	–	14,021,434
Water treatment:				
Plant	5,353,417	787,741	–	6,141,158
Shop	149,025	9,516	–	158,541
Equipment	470,217	95,083	75,320	489,980
General:				
Buildings	294,444	17,300	–	311,744
Furniture and equipment	421,700	50,772	6,406	466,066
Vehicles	<u>484,319</u>	<u>55,785</u>	<u>59,626</u>	<u>480,478</u>
	<u>20,421,726</u>	<u>1,789,027</u>	<u>141,352</u>	<u>22,069,401</u>
Total capital assets being depreciated, net	<u>42,242,405</u>	<u>783,604</u>	<u>–</u>	<u>43,026,009</u>
Total capital assets, net	<u>\$ 43,702,758</u>	<u>\$ 813,751</u>	<u>\$ 504,798</u>	<u>\$ 44,011,711</u>

Clifton Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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, 2017.

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 were 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, 2017. 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, 2017 and 2016:

	Balance January 1, 2017	Issues	Reductions	Balance December 31, 2017
2014 Note Payable	\$ 13,301,529	\$ —	\$ 322,738	\$ 12,978,791
2013 Water Revenue Refunding Bonds	3,075,000	—	420,000	2,655,000
2013 Bond Premium	122,887	—	17,983	104,904
	<u>\$ 16,499,416</u>	<u>\$ —</u>	<u>\$ 760,721</u>	<u>\$ 15,738,695</u>
	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>

Clifton Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE E – LONG-TERM DEBT – CONTINUED

	<u>2017</u>	<u>2016</u>
Long-term debt, face amount	\$ 15,633,792	\$16,376,530
Add premium	<u>104,903</u>	<u>122,886</u>
	15,738,695	16,499,416
Less current portion	<u>752,738</u>	<u>742,738</u>
	<u>\$ 14,985,957</u>	<u>\$15,756,678</u>

The annual aggregate maturities for the years subsequent to December 31, 2017 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	809,428	242,705	1,052,133
2023-2027	4,243,080	1,005,977	5,249,057
2028-2032	4,511,697	746,287	5,257,984
2033-2035	<u>3,002,347</u>	<u>144,340</u>	<u>3,146,687</u>
	15,633,792	3,262,002	18,895,794
Premium	<u>104,903</u>	-	<u>104,903</u>
	<u>\$ 15,738,695</u>	<u>\$ 3,262,002</u>	<u>\$ 19,000,697</u>

NOTE F – RESTRICTED NET POSITION

	<u>2017</u>	<u>2016</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>2017</u>	<u>2016</u>
Plant investment fees	\$ 558,150	\$ 318,200
Donated water lines from developers and governments	<u>314,196</u>	<u>474,877</u>
	<u>\$ 872,346</u>	<u>\$ 793,077</u>

Clifton Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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 2017 and 2016 was \$1,255,850 and \$1,215,379, respectively. The District's covered payroll for 2017 and 2016 was \$1,241,511 and \$1,179,908 and the District made the required 3% contribution for 2017 and 2016 of \$32,349 and \$31,989, respectively. Employee contributions to this plan in 2017 and 2016 were \$32,349 and \$31,989, 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 2017 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, 2017

	Original and Final Budget 2017	Actual 2017	Variance Favorable (Unfavorable)	Actual 2016
Revenues				
Water sales	\$ 5,624,045	\$ 5,864,437	\$ 240,392	\$ 5,707,856
Plant investment fees	385,000	558,150	173,150	318,200
System investment fees	417,180	419,602	2,422	418,354
Admin fees, Sanitation District	37,620	37,814	194	37,604
Investment income	71,000	71,142	142	40,200
Penalties and turn fees	191,220	204,418	13,198	198,850
Tap installation fees	1,600	-	(1,600)	-
Availability of service	49,700	54,515	4,815	54,798
Miscellaneous income	19,000	48,074	29,074	19,592
Gain/ (loss) on disposal of assets	5,000	11,825	6,825	(3,302)
Lease income	10,368	11,059	691	10,368
	<u>6,811,733</u>	<u>7,281,036</u>	<u>469,303</u>	<u>6,802,520</u>
Expenses				
Assessment of water shares and purchases	26,911	27,022	(111)	26,228
Capital outlay	3,534,976	1,832,274	1,702,702	1,241,101
Wages and benefits	2,236,489	1,721,709	514,780	1,659,341
GVIC shares	10,000	-	10,000	-
Distribution expense Charles A. Strain WTP	582,743	521,557	61,186	390,182
operating expenses	902,791	889,783	13,008	819,482
Office expenses	399,554	332,338	67,216	352,052
Interest expense	307,880	289,897	17,983	299,397
Bond and note principal	742,738	742,738	-	732,738
Contingency	7,369,256	-	7,369,256	-
Emergency and reserve	782,846	-	782,846	-
	<u>16,896,184</u>	<u>6,357,318</u>	<u>10,538,866</u>	<u>5,520,521</u>
EXCESS OF REVENUE OVER (UNDER) EXPENSES	<u>\$ (10,084,451)</u>	<u>923,718</u>	<u>\$ 11,008,169</u>	<u>\$ 1,281,999</u>
Adjustment to budgetary basis:				
Depreciation expense		(1,789,027)		
Plant investment fees		(558,150)		
Capital outlay (capitalized)		1,783,784		
Bond and note principal payment		742,738		
Net income (loss) before contributions		<u>\$ 1,103,063</u>		