

CLIFTON SANITATION DISTRICT

Financial Statements and
Independent Auditor's Report
For the Year Ended December 31, 2018

CLIFTON SANITATION DISTRICT

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MANAGEMENTS DISCUSSION AND ANALYSIS CLIFTON SANITATION DISTRICT FISCAL YEAR 2018

The Clifton Sanitation District (the “District”) offers the readers of the District’s financial statements this narrative overview and analysis of the District’s financial performance during the Fiscal Year ended December 31, 2018. Please read it in conjunction with the financial statements.

CONTENTS

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

- * Independent Auditor’s Report
- * Financial Statements – the financial statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The audited financial statements of the district are:
 1. Statement of Net Position – The Statement of Net Position provides information about the nature and amounts of investments in resources (assets) and obligations to District’s creditors (liabilities). It also provides the basis for computing the rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.
 2. Statement of Activities – The statement that measures the results of the District’s operations over the past year and illustrates the manner in which it has funded its operations. This section will determine profitability and credit worthiness. These results are also a reflection of the economic condition of our district. If the predicted moderate growth continues, we as a District also will continue that moderate growing trend.
 3. Statement of Cash Flows – The reason for this statement is to provide information about the District’s cash receipts and payments during this reporting period. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financial activities.
- * Notes to the Financial Statements, which explain in more detail and provide support for the information in the financial statements.
- * Supplementary Information –
Budget comparison Schedule –2018

DAY-TO-DAY OPERATIONAL CONTROL OF THE DISTRICT

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

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

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

FINANCIAL ANALYSIS OF THE DISTRICT

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

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS	\$ 2,310,297	\$ 1,384,804
NON CURRENT ASSETS	35,698,820	36,220,820
TOTAL ASSETS	<u>38,009,117</u>	<u>37,605,624</u>
CURRENT LIABILITIES	846,409	921,518
NON CURRENT LIABILITIES	5,216,905	5,787,143
TOTAL LAIBILITIES	<u>6,063,314</u>	<u>6,708,661</u>
NET POSITION:		
Invested in Capital Assets	24,474,002	24,435,572
Unrestricted	7,471,801	6,461,391
NET POSITION	<u>\$ 31,945,803</u>	<u>\$30,896,963</u>

- The District funds its activities from interest earnings, new tap sales (Plant Investment Fees), and service fee charges. Plant Investment

	<u>2018</u>	<u>2017</u>
Operating Revenue:		
Service Fee Charges	\$ 3,056,021	\$3,033,779
Operating Expense	<u>(2,891,583)</u>	<u>(3,018,406)</u>
Net Income / (Loss) from Operations	164,438	15,373
Net Non-Operating Revenue/(Expense)	<u>258,765</u>	<u>278,645</u>
Income before Contributions	<u>423,203</u>	<u>294,018</u>
Capital Contributions:		
Plant Investment Fees	568,737	189,268
System Contribution	<u>57,600</u>	<u>93,636</u>
Total Contributed Capital	<u>626,337</u>	<u>282,904</u>
Net Position Beginning	30,896,963	30,320,041
Net Position Ending	<u>31,945,803</u>	<u>30,896,963</u>
Change in Net Position	<u>\$ 1,048,840</u>	<u>\$ 576,922</u>

Capital Assets

At the end of 2018, the District had invested \$30,261,145 (net of \$17,445,108) in accumulated depreciation), in a broad range of infrastructure, collection lines, maintenance and office facilities, treatment plant, vehicles and equipment as shown in the following table.

	Balance December 31, 2017	Reclass & Additions	Reclass & Deletions	Balance December 31, 2018
Land	\$ 3,028,297	\$ -	\$ -	\$ 3,028,297
Land Improvements	1,763,310	8,494	-	1,771,804
Building & Improvements	22,385,994	207,589	-	22,593,583
System Transmission Lines	14,665,784	266,410	-	14,932,194
Office Furniture & Equipment	195,233	-	-	195,233
Equipment	<u>5,017,138</u>	<u>61,232</u>	-	<u>5,078,370</u>
Total	47,055,756	543,725	-	47,599,481
Less Accumulated Depreciation	<u>(16,272,803)</u>	<u>(1,172,305)</u>	-	<u>(17,445,108)</u>
Construction in Process	-	106,772	-	106,772
Net Capital Assets	<u>\$ 30,782,953</u>	<u>\$ (521,808)</u>	<u>\$ -</u>	<u>\$ 30,261,145</u>

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

BUDGETARY HIGHLIGHTS

As required by State Law, the District adopts a budget and appropriates funds for the following year by December 15th of each year. If an amendment is necessary, the Board will approve a supplemental appropriation at a public hearing and file it with the State of Colorado. Budget to actual statements are included as Supplemental Information in the audited financial statements. There were no supplemental appropriations made to the 2017 or 2018 budgets.

	2018 Budget	2018 Actual	2017 Budget	2017 Actual
Service Charges	\$ 2,994,933	\$ 3,056,021	\$ 2,993,850	\$ 3,033,779
Misc. Income	97,052	261,317	89,360	230,531
Plant Investment Fees	163,050	568,737	160,550	189,268
Investment Income	42,000	81,621	38,000	52,162
Grant Income	30,000	94,175	110,000	183,919
Total Revenues	\$ 3,327,035	\$ 4,061,871	\$ 3,391,760	\$ 3,689,659
Admin. Expenses	\$ 590,386	\$ 488,014	\$ 676,789	\$ 563,714
Operating Expenses	1,512,701	1,240,611	1,540,112	1,301,950
Capital Outlay	468,127	592,897	301,065	289,708
Debt Service	732,626	729,939	734,901	729,779
Total Expenses	\$ 3,303,840	\$ 3,051,461	\$ 3,252,867	\$ 2,885,151

BUDGETARY HIGHLIGHTS

2018 Actual Expenses vs. Budget were \$252,373 favorable variance
 2018 Actual Revenues vs. Budget were \$734,836 favorable variance

2017 Actual Expenses vs. Budget were \$367,716 favorable variance
 2017 Actual Revenues vs. Budget were \$297,899 favorable variance

The actual tap fee revenue received in 2018 was more than budgeted due primarily to an improved building economy.

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

CAPITAL ASSETS AND DEBT ACTIVITIES

During 2018, the District expended \$592,897 for capital related expenses and to complete capital improvements for treatment and infrastructure projects. The following are some of the major improvements that were added or are in progress for the system in 2018.

Capital Outlays:

During 2018, \$207,589 was spent on various buildings; \$61,232 was spent on equipment; \$373,182 was spent on line construction and \$57,600 was a new subdivision accepted into the District.

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

The 2018 Capital Improvement Plan (CIP) outlines a small number of projects, programs, and policies for Clifton Sanitation District to implement in 2018 to continue to protect public health and water quality and ensure sufficient wastewater capacity to meet future growth needs.

Debt Activities

Adequate funding from revenues projected in 2018 will be sufficient to pay the scheduled debt service amounts. The District does not plan to incur new debt for 2018 or to finance capital projects. Note 8 in the Notes to the Financial Statements provide the details of the District's long-term indebtedness.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

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

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

In 2018, the District authorized Farnsworth Consulting Group to update the previous Master Plan completed in 2008, develop an asset management needs assessment, and update the last rate study completed in 2011. The Master Plan update evaluates the current 2018-collection system and provides the District with an up to date capital improvement plan for future improvement recommendations based on dwelling unit increases and system capacity projections.

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

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

The District has an Intergovernmental Agreement, (IGA) with the Whitewater Public Improvement District, (WWPID) to treat the sanitary sewer from the Whitewater community. The District has been treating wastewater from the WWPID affective December 2012. In addition to the Whitewater Community, The District will be providing service to the properties adjacent to the sewer main between the WWPID and the District treatment facility. This may result in a modest growth in tap sales in 2018 and subsequent years.

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

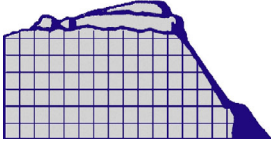
The 2019 budget reflected a 3.5% adjustment to monthly service fees. It is the District's intent to update the financial analysis annually to recognize changes in customer billing data, operating expenditures and capital improvement needs. Future rate increases will likely be necessary to ensure that adequate reserves are in place to address any operating deficit as well as the necessary funds to address infrastructure rehabilitation and replacement.

CONTACTING THE DISTRICT MANAGER

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

Brian Woods

Brian Woods,
District Manager
March 20, 2018



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Clifton Sanitation District
Clifton, Colorado

I have audited the accompanying financial statements of the business-type activities of Clifton Sanitation District as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Clifton Sanitation District, as of December 31, 2018, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

Paul D. Miller, CPA, LLC

Grand Junction, CO
February 1, 2019

CLIFTON SANITATION DISTRICT
STATEMENT OF NET POSITION
As of December 31, 2018

ASSETS

CURRENT ASSETS

Cash on hand and in banks	\$ 1,630,480
Accounts receivable-service fees-less \$0 allowance	530,727
Other receivables	30,564
Inventory (Cost)	49,311
Prepaid expenses	45,727
Accrued interest receivable	23,488
Total Current Assets	2,310,297

NONCURRENT ASSETS:

Cash -HRA	1,439
Investments	5,436,236
Capital assets	30,261,145
Total Noncurrent Assets	35,698,820

TOTAL ASSETS	\$ 38,009,117
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LIABILITIES

CURRENT LIABILITIES

Accounts payable	100,229
Other current liabilities	2,142
Unearned gravel revenue	71,032
Accrued payroll	13,861
Accrued interest payable	57,090
Accrued compensated absences	31,817
Current loans payable	570,238
Total Current Liabilities	846,409

LONG-TERM LIABILITIES

Loans payable less current portion	5,216,905
Total Long-term Liabilities	5,216,905
TOTAL LIABILITIES	6,063,314

NET POSITION

Invested in capital assets net of related debt	24,474,002
Unrestricted	7,471,801
NET POSITION	\$ 31,945,803

TOTAL LIABILITIES AND NET POSITION	\$ 38,009,117
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The accompanying notes are an integral part of this statement

CLIFTON SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2018

OPERATING REVENUE		
Charges for services		\$ 3,056,021
OPERATING EXPENSES		
Treatment		1,067,367
Collection		173,244
Depreciation		1,172,305
General operating expenses		478,667
Total Operating Expense		<u>2,891,583</u>
Net (Loss) From Operations		<u>164,438</u>
NON-OPERATING REVENUE (EXPENSES)		
Miscellaneous income		261,317
Grant income		94,175
Investment income		81,621
Investment expense		(9,347)
Interest expense		(169,701)
Total Non-Operating Revenue		<u>258,065</u>
NET (LOSS) INCOME BEFORE CONTRIBUTIONS		<u>422,503</u>
CAPITAL CONTRIBUTIONS:		
Plant investment fees		568,737
System contribution (non cash)		57,600
Total Capital Contribution		<u>626,337</u>
Change in Net Position		1,048,840
Total Net Position - Beginning		<u>30,896,963</u>
Total Net Position - Ending		<u>\$ 31,945,803</u>

The accompanying notes are an integral part of this statement

CLIFTON SANITATION DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2018

INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	
CASH FLOW FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 3,059,567
Other cash receipts	384,313
Cash payments to and on behalf of employees	(752,211)
Cash payments to suppliers	(1,446,146)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,245,523
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition & construction of capital assets	(413,111)
(Increase) Decrease in restricted cash	(289)
Payment of loans	(560,238)
Plant investment fees	568,737
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(404,901)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	87,626
Investment fees	(9,347)
Net change in investments	481
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	78,760
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	919,382
CASH - Beginning of year	711,098
CASH - End of year	\$ 1,630,480
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income (Loss)	\$ 164,438
Adjustment to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation	1,172,305
Change in assets and liabilities	
(Increase) decrease in accounts receivable	64,234
(Increase) decrease in inventory	(34,958)
(Increase) decrease in prepaid expenses	(29,108)
(Increase) decrease in interest receivable	(6,279)
Increase (decrease) in accounts payable	(57,706)
Increase (decrease) in compensated absences payable	8,022
Increase (decrease) in unearned revenue	(32,566)
Increase (decrease) in accrued payroll	1,434
Increase (decrease) in other current payables	(4,293)
Total adjustments	1,081,085
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,245,523
NON-CASH INVESTING, CAPITAL, AND RELATED FINANCING ACTIVITIES:	
Market value change	\$ 24,829
Acceptance of Subdivisions	\$ 57,600
Interest expense	\$ 167,014
Capital assets purchased by accounts payable	\$ -

The accompanying notes are an integral part of this statement

CLIFTON SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

HISTORY AND ACTIVITY

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

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

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

REPORTING ENTITY

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

BASIS OF PRESENTATION – FUND ACCOUNTING

The operations of the District are accounted for as an enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body had decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose.

INVESTMENTS

Investments, consisting of funds invested in a local government investment pool (Note 9), are measured at fair value in accordance with GASB Statement 72, Fair Value Measurement and Application.

BASIS OF ACCOUNTING

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

CLIFTON SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

BASIS OF ACCOUNTING-CONTINUED

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

- Invested in capital assets, net of related debt – This consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – This consists of constraints placed on net position use through external restrictions imposed by creditors (such as through debt covenants,), grantors, contributors, or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This consists of net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

CAPITAL ASSETS

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

BUDGET BASIS OF ACCOUNTING

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

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

TAX, SPENDING AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The amendment is complex and subject to judicial interpretation. The District believes it complies with the requirements of the law because it does not collect any taxes or other public funds and is, therefore, exempt from the provisions of the law. However, the District has made certain interpretations of the law’s language in order to determine its compliance.

CLIFTON SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

COMPENSATED ABSENCES

Eligible employees may accrue sick leave but are not paid upon leaving employment. All eligible employees are entitled to vacation based upon their years of service, but in no case may they accrue more than 42 days of vacation time. Total accrued compensated absences for 2018 were \$31,817.

BUDGETARY BASIS OF ACCOUNTING

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

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS

All taxes and service fees become a lien on property if not paid. However, due to the cost of filing liens and the time involved, the District elects to write off small balances from time to time. All service fees were considered collectible at December 31, 2018.

USE OF ESTIMATES

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

AVAILABILITY OF SERVICE CHARGES

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

SUBSEQUENT EVENTS

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

RISK MANAGEMENT

Clifton Sanitation District is, as are most governmental entities, exposed to a variety of risks that result in losses. These risks include possible loss from acts of God, injury to employees, or breach of contract. Clifton Sanitation District has financed losses that may arise from these and other events by purchasing commercial insurance. There were no reductions in coverage from 2017 to 2018. Settlements have not exceeded coverage in any of the past four years.

ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

CLIFTON SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

RESTRICTED ASSETS/RESERVATIONS OF NET POSITION

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

NOTE 2 – CAPITAL ASSETS

A summary of changes in fixed assets follows:

For 2018:

	Balance December 31, 2017	Reclass & Additions	Reclass & Deletions	Balance December 31, 2018
Land	\$ 3,028,297	\$ -	\$ -	\$ 3,028,297
Land Improvements	1,763,310	8,494	-	1,771,804
Building & Improvements	22,385,994	207,589	-	22,593,583
System Transmission Lines	14,665,784	266,410	-	14,932,194
Office Furniture & Equipment	195,233	-	-	195,233
Equipment	5,017,138	61,232	-	5,078,370
Total	47,055,756	543,725	-	47,599,481
Less Accumulated Depreciation	(16,272,803)	(1,172,305)	-	(17,445,108)
Construction in Process	-	106,772	-	106,772
Net Capital Assets	\$ 30,782,953	\$ (521,808)	\$ -	\$ 30,261,145

NOTE 3 – CASH AND DEPOSITS

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories; state regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to the aggregate uninsured deposits.

CLIFTON SANITATION DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2018

NOTE 3 – CASH AND DEPOSITS-CONTINUED

	<u>2018</u>
Cash and investments consisted of the following:	
Uninsured	\$ 380
Deposits: Insured	
Checking, Money markets, CD's	394,418
Deposits: Collateralized	<u>1,237,121</u>
TOTAL DEPOSITS	<u>1,631,919</u>
Investments	
Federal Farm Credit Bank (Level 2)	1,767,244
Federal National Mortgage (Level 2)	927,237
Federal Home Loan Bank notes (Level 2)	<u>2,741,755</u>
(Rated by Moody's Aaa & S&P AAA)	
TOTAL INVESTMENTS	<u>5,436,236</u>
TOTAL	<u>\$ 7,068,155</u>

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

The Districts investments at December 31, 2018 are registered in the District's name, and are categorized above to give an indication of the level of risk assumed by the District at year-end.

Of the insured money in the money market shown above, \$144,418 is insured through a private insurance carrier retained by Charles Schwab on behalf of Clifton Sanitation District. and \$250,000 is collateralized under P.D.P.A.

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

NOTE 4 – PENSION PLAN

The District provides pension benefits for all of its full-time employees through a defined contribution plan that was adopted by resolution April 4, 1994. The plan adopted is part of the Colorado County Officials and Employee Retirement Association. The contribution rate is equal to 6% of eligible employees' compensation from the District and 6% rate for the employee. The District's total payroll for the year ending December 31, 2018 was \$587,782. The contribution for 2018 was \$29,643 for the employer and \$29,643 by the employee.

The District also offers it employees the ability to contribute to a Deferred Compensation Plan (457) if they so choose. At December 31, 2018, two employees are contributing to the plan. The District does not match the contributions to this plan.

CLIFTON SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

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

A summary of the changes in the contributed capital accounts for the years ended December 31, 2018 is as follows:

Tap fees	\$ 568,737
Donated sewer lines by developers	<u>57,600</u>
	<u>\$ 626,337</u>

NOTE 6 – MEDICAL REIMBURSEMENT PLAN (HRA)

In 2011, the District established an HRA plan to cover employees' deductible. For 2018, the Board has approved a \$1,040 per month for participant, spouse and/or qualified dependents.. The aggregate maximum qualified benefit amount to be available for all plan years combined is \$12,480. The HRA dollars must first be applied to the District's group health insurance premiums for spousal or dependent coverage. Any remaining dollars can be used for IRS Code 213 (d) expenses with the exception of individual insurance premiums. The funds remain the District's when employee leave or are terminated and the annual funding is to be determined by the Board and is not an automatic event.

NOTE 7 – LOANS/BONDS PAYABLE

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

2019	\$ 95,238
2020	95,238
2021	95,238
2022	95,238
2023	95,238
2024-2027	<u>380,953</u>
	857,143
Less Current	<u>(95,238)</u>
Total	<u><u>\$ 761,905</u></u>

CLIFTON SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 8 – LOANS/BONDS PAYABLE-CONTINUED

Beginning Balance 1/1/2018	\$ 952,381
Payment 2018	<u>95,238</u>
Ending Balance 12/31/2018	<u>\$ 857,143</u>

In 2015, District refinanced a loan from the Colorado Water Resources & Power Development Authority (CWRPDA). The total of the loan was \$9,800,000. At the time of refinancing, the loan balance was \$6,295,000. The remaining life of the note is 10 years, at an interest rate of 3.64%. Payments are made in February and August of each year. The funds were used for the construction of a new treatment plant. Following is the amortization of payment of these funds.

Beginning Balance 1/1/18	\$ 5,395,000
2018 payments	<u>465,000</u>
Ending Balance 12/31/18	<u>\$ 4,930,000</u>

Year	Principal	Interest	Total
2019	\$ 475,000	\$ 163,212	\$ 638,212
2020	490,000	146,288	636,288
2021	505,000	133,862	638,862
2022	520,000	120,425	640,425
2023	535,000	102,387	637,387
2024-2027	<u>2,405,000</u>	<u>146,242</u>	<u>2,551,242</u>
	4,930,000	812,416	5,742,416
Less Current	<u>(475,000)</u>	<u>(163,212)</u>	<u>(638,212)</u>
Long-term Portion	<u>\$ 4,455,000</u>	<u>\$ 649,204</u>	<u>\$ 5,104,204</u>

Total Debt Summary:

Year	Principal	Interest	Total
2019	\$ 570,238	\$ 163,212	\$ 733,450
2020	585,238	146,288	731,526
2021	600,238	133,862	734,100
2022	615,238	120,425	735,663
2023	630,238	102,387	732,625
2024-2027	<u>2,785,953</u>	<u>146,241</u>	<u>2,932,194</u>
	5,787,143	812,415	6,599,558
Less Current	<u>(570,238)</u>	<u>(163,212)</u>	<u>(733,450)</u>
Long-term Portion	<u>\$ 5,216,905</u>	<u>\$ 649,203</u>	<u>\$ 5,866,108</u>

CLIFTON SANITATION DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2018

NOTE 9 – SUMMARY OF FAIR VALUE EXPOSURE

The District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 input are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 2 inputs are significant unobservable inputs.

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

The following table provides fair value measurement information for financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2018:

<u>Description</u>	<u>Investment in Securities</u>
Level 1: Quoted prices:	\$ -
Level 2: Other significant observable inputs:	5,436,236
Level 3: Significant unobservable inputs	<u>-</u>
Total fair value	<u>\$5,436,236</u>

NOTE 10 – LEASE

The District leases a copier. The terms of the lease are as follows: 60 months at 210.53 per month. The copier is on an operating lease, as the District will turn the copier over at the end of the lease term. Following is the yearly lease amt.

2019	\$ 2,526
2020	2,526
2021	<u>1,263</u>
Total	<u>\$ 6,315</u>

NOTE 11 – REQUIRED RESERVES

As required by the Colorado Water Resources & Power Development Authority, Clifton Sanitation District must have reserve cash that is can meet the required O & M as stipulated in the 2006 Note agreement. For the 2019 budget, the District manages the reserve fund to include operating reserves utilizing six months of operating expenses, (\$1,100,000), Emergency Capital Reserves of approximately 1% of the value of the system \$500,000; debt service reserves are one year of debt service, (\$733,451). The District believes that it meets this requirement.

SUPPLEMENTAL INFORMATION

CLIFTON SANITATION DISTRICT
SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL (NON-GAAP BASIS)
For the Years Ended December 31, 2018

	Actual	Budget	Variance Favorable (Unfavorable)
REVENUES			
Service Charges	\$ 3,056,021	\$ 2,994,933	\$ 61,088
Miscellaneous income	261,317	97,052	164,265
Plant investment fee	568,737	163,050	405,687
Grant income	94,175	30,000	64,175
Investment income	81,621	42,000	39,621
Total Revenue	<u>4,061,871</u>	<u>3,327,035</u>	<u>734,836</u>
EXPENSES:			
Treatment:			
Salaries	409,052	466,810	57,758
Employee benefits	156,530	217,258	60,728
Chemicals	37,198	36,564	(634)
Utilities	156,460	172,150	15,690
Insurance-Treatment	18,704	18,900	196
Repairs & maintenance	177,588	211,186	33,598
Fuel	12,854	9,800	(3,054)
Lab and other tests	28,594	29,280	686
Vehicle expense	38,270	28,365	(9,905)
Other	32,117	41,644	9,527
Total Treatment Expenses	<u>1,067,367</u>	<u>1,231,957</u>	<u>164,590</u>
Collection:			
Salaries	4,906	36,715	31,809
Employee benefits	1,136	16,144	15,008
Repairs & maintenance	29,292	93,435	64,143
Computer & Internet support	4,631	2,610	(2,021)
Line maintenance	113,144	113,300	156
Traffic control	20,135	18,540	(1,595)
Total Collection Expense	<u>173,244</u>	<u>280,744</u>	<u>107,500</u>
General & Administrative:			
Salaries	173,824	155,187	(18,637)
Employee benefits	67,442	69,738	2,296
Communication	12,278	13,092	814
Insurance and bonds	8,013	8,100	87
Professional fees	46,847	57,500	10,653
Directors' fees and expense	6,319	8,000	1,681
Miscellaneous	7,620	100,000	92,380
Vehicle expense	2,117	2,141	24
Training & education	4,692	19,200	14,508
Permits and fees	15,004	20,160	5,156
Occasional labor	36,473	35,120	(1,353)
Safety expense	15,775	10,600	(5,175)
Advertising	7,631	1,540	(6,091)
Office supplies and postage	74,632	81,608	6,976
Investment expense	9,347	8,400	(947)
Total General & Administrative Expense	<u>488,014</u>	<u>590,386</u>	<u>102,372</u>

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

	Actual	Budget	Variance Favorable (Unfavorable)
Total Expenses-carried forward	\$ 1,728,625	\$ 2,103,087	\$ 374,462
Capital outlays	592,897	468,127	(124,770)
Debt service:			
Principal	560,238	560,238	-
Interest	169,701	172,388	2,687
	3,051,461	3,303,840	252,379
EXCESS REVENUES OVER (UNDER) EXPENSES	1,010,410	\$ 23,195	\$ 987,215
Adjustments to budgetary basis:			
Capital outlay	592,897		
System contribution	57,600		
Depreciation	(1,172,305)		
Debt service	560,238		
CHANGE IN NET POSITION	\$ 1,048,840		