



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

December 31, 2018 and 2017

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

May 24, 2019

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, 2018 and 2017, 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
May 24, 2019
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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, 2018 and 2017, 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, 2018. 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 \$2,774,688, which is a 28% increase from 2017.
- Net Position increased by \$2,684,656 from last year.
- Total Operating Revenues increased by \$116,717, which is a 1.8% increase from 2017.
- Total Operating Expense increased by \$45,641, which is a 0.9% increase from 2017
- Total Operating Income increased by \$71,076, which is a 5.7% increase from 2017.
- The District's Working Capital ratio was 8.62 at the end of 2018.

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

	2018	2017	Dollar Change	Total Percent Change
Current Assets	\$13,905,459	\$11,247,785	\$2,657,674	23.6%
Non-Current Assets	\$44,714,778	\$45,342,569	(\$627,791)	-1.4%
Total Assets	\$58,620,237	\$56,590,354	\$2,029,883	3.6%
Current Liabilities	\$1,613,241	\$1,487,292	\$125,949	8.5%
Non-Current Liabilities	\$14,205,235	\$14,985,957	(\$780,722)	-5.2%
Total Liabilities	\$15,818,476	\$16,473,249	(\$654,773)	-4.0%
Invested in Capital Assets	\$28,415,947	\$28,273,016	\$142,931	0.5%
Restricted for Debt Service	\$436,000	\$436,000	\$0	0.0%
Unrestricted	\$13,949,814	\$11,408,089	\$2,541,725	22.3%
Total Net Position	\$42,801,761	\$40,117,105	\$2,684,656	6.7%

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 \$2,684,656 for an ending total of \$42,801,761. This marks the fifth consecutive year the District has experienced an increase of over 4% in Total Net Position. The increase is due to the District paying down debt while also increasing Cash Reserves in 2018.

Total Assets increased by \$2,029,883 from 2017.

- The increase in Total Assets occurred primarily in cash and investment accounts. The ability of the District to increase cash reserves indicates effective water rate structure that can cover day-to-day operating expenses and also has the ability to fund capital replacement costs for existing, aging infrastructure.

Total Liabilities decreased by \$645,773 from 2017.

- The decrease in Total Liabilities is primarily due to making scheduled debt service payments.

Net Investment in Capital Assets increased by \$142,931 from 2017.

- The increase is due to new subdivisions being developed within the District and also to the completion of waterline upgrades.

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:

- An increase of 1.8%, or \$116,717, in Total Operating Revenues over 2017.
- An increase of \$13,778 in Total Non-Operating Revenue over 2017.
- Capital Contributions of \$1,487,764 were reported for 2018 compared to \$872,346 in 2017. This is the fifth consecutive year the District has experienced an increase in Capital Contributions and this is an indicator of increased customer growth.

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

	2018	2017	Dollar Change	Total Percent Change
Total Operating Revenues	\$6,688,218	\$6,571,501	\$116,717	1.8%
Total Operating Expenses	\$5,375,567	\$5,329,926	\$45,641	0.9%
Operating Income (Loss)	\$1,312,651	\$1,241,575	\$71,076	5.7%
Non-Operating Revenue	\$165,163	\$151,385	\$13,778	9.1%
Non-Operating Expense	\$280,922	\$289,897	(\$8,975)	-3.1%
Total Non-Operating Revenue	(\$115,759)	(\$138,512)	\$22,753	16.4%
Net Income Before Contributions	\$1,196,892	\$1,103,063	\$93,829	8.5%
Capital Contributions	\$1,487,764	\$872,346	\$615,418	70.5%
Change in Net Position	\$2,684,656	\$1,975,409	\$709,247	35.9%
Beginning Net Position	\$40,117,105	\$38,141,696	\$1,975,409	5.2%
Ending Net Position	\$42,801,761	\$40,117,105	\$2,684,656	6.7%

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 2018 increased by \$116,717 from 2017. The District opted not to increase Water Rates again in 2018. The Water Sales Revenue is due to a slight increase in the District's customer base. 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 \$45,641 from 2017. This is an increase of less than 1% from the previous year. Operating Expenses at the Water Treatment Plant increased due to the replacement of reverse osmosis membranes and increases in the cost of water treatment chemicals, which continue to be a factor in overall Operating Expense.

Non-operating Revenue and Expense

- Non-Operating Revenue for 2018 increased by \$13,778 from 2017. The increase is primarily attributable to a higher amount of interest earned on District investments. More interest revenue was earned in 2018 due to a higher balance of investments and increasing interest rates.
- Non-Operating Expense for 2018 decreased by \$8,975 from 2017. This is due to a lower amount of interest due on outstanding debt in 2018 than in 2017.
- Capital Contributions increased by \$615,418 in 2018. This is due to a significant increase in new construction and Plant Investment Fees collected from the sale of water taps. This marks the fifth consecutive year of increases in this category.

Net Position

- The increase observed in Net Position for 2018 is \$2,684,656. This increase is attributable to a simultaneous increase in Cash and Investments and decrease in Total Liabilities, in addition to the District delaying two large Capital Improvement Projects.

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 \$819,079 as compared to the budget. Factors contributing to the favorable variance are:

- \$509,600 more in Plant Investment Fees received than budgeted.
- \$296,871 more in Water Sales than budgeted.

The Statement also shows a favorable variance observed in nearly every Expense category, resulting in an overall favorable variance of \$13,048,850 of Revenues over Expenses.

- Over 66% of the favorable variance is Contingency and Emergency line items.
- A favorable variance of \$2,894,721 is observed in Capital Outlay as a result of delaying Capital Improvement Projects.

These amounts represent District Reserves that were not used in 2018 to fund operations.

Some of the most noteworthy variances are:

- Capital Outlay Expense displayed a favorable variance of \$2,894,721 due to the delay of Capital Projects not completed in 2018 and rescheduled for 2019:
 - WTP Effluent Pumping Motor Control
 - WTP SCADA Project
 - Painting Three Million Gallon Water Tank
- Wages and Benefits Expense displayed a favorable variance of \$504,766 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 2018 the District had expended \$767,515 on essential capital and infrastructure improvements. Some of the major improvements that were added to the system in 2018:

- Booshway Midlands Village Line Extension
- Peach Tree Waterline
- Grand Valley Canal Waterline Crossing
- Butner Estates Extension
- Initiation of Distribution Hydraulic Analysis Program

In 2019 the District's Non-Operating Budget includes \$5,928,750 in Capital Expenses. The 2019 Budget includes funds for the following Major Capital Improvement Projects:

- Administration Building Expansion/Renovation \$1,750,000
- General Construction Waterline Upgrades \$1,600,000
- Water Treatment Plant Effluent Pumping and Motor Control Center Improvements \$1,500,000

Debt Activities

The District did not take on any new debt in 2018. 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 2018.

Economic Factors and Next Year's Budget and Rates

Many factors were considered when the District Board of Directors and Management set the 2019 Budget. The District's customer base has traditionally shown a growth of approximately 4% annually. The 2019 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.

In 2019, the District implemented increases in each of the size categories for Plant Investment Fees (New Tap Fees). The increases were based upon a System Equity Method and Meter-Equivalent ratio compared to the base of 3/4 inch by 5/8 inch meter serving one Residential unit. The District implemented increases of each of the categories of Water Tap Sizes.

Contacting the District's Manager

This Financial Report is designed to provide our citizens, customers, investors, and creditors with the general overview of the District's finances and demonstrate the District's accountability for the money it receives. If you have any questions concerning this report or need additional information please contact the Manager of the Clifton Water District, 510 34 Road, Clifton, Colorado 81520.

Clifton Water District

STATEMENTS OF NET POSITION

December 31,

ASSETS	2018	2017
Current assets		
Cash and investments	\$ 12,698,065	\$ 9,923,377
Customer accounts receivable, less allowance of \$-0-	634,486	721,266
Sanitation District's accounts receivable	275,357	309,819
Inventory	297,551	293,323
Total current assets	<u>13,905,459</u>	<u>11,247,785</u>
Noncurrent assets		
Restricted cash and investments	436,000	436,000
Grand Valley Irrigation Co. stock	894,858	894,858
Capital assets	43,383,920	44,011,711
Total noncurrent assets	<u>44,714,778</u>	<u>45,342,569</u>
Total assets	<u>58,620,237</u>	<u>56,590,354</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	242,935	118,014
Due to Sanitation District	529,658	534,269
Compensated absences payable	77,910	82,271
Current portion of long-term debt	762,738	752,738
Total current liabilities	<u>1,613,241</u>	<u>1,487,292</u>
Noncurrent liabilities		
Long-term debt, less current	14,205,235	14,985,957
Total liabilities	<u>15,818,476</u>	<u>16,473,249</u>
NET POSITION		
Net investment in capital assets	28,415,947	28,273,016
Restricted for debt service	436,000	436,000
Unrestricted	13,949,814	11,408,089
Total net position	<u>\$ 42,801,761</u>	<u>\$ 40,117,105</u>

The accompanying notes are an integral part of these statements.

Clifton Water District

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years ended December 31,

	<u>2018</u>	<u>2017</u>
Operating revenues		
Water sales	\$ 5,977,157	\$ 5,864,437
System investment fees	426,213	419,602
Penalties and turn fees	204,488	204,418
Tap installation and main line extension fees	27,131	15,500
Administration fees, Sanitation District	38,017	37,814
Miscellaneous operating income	15,212	29,730
Total operating revenues	<u>6,688,218</u>	<u>6,571,501</u>
Operating expenses		
Source of supply	27,566	27,022
Water treatment	1,596,325	1,478,709
Transmission and distribution	956,605	1,109,314
Depreciation expense	1,740,926	1,789,027
General and administrative	1,054,145	925,854
Total operating expenses	<u>5,375,567</u>	<u>5,329,926</u>
Operating income (loss)	1,312,651	1,241,575
Nonoperating revenues (expenses)		
Investment income	105,369	71,142
Interest expense	(279,839)	(289,897)
Lease income	13,478	11,059
Availability of service	45,316	54,515
Gain (loss) on disposal of capital assets	(1,083)	11,825
Miscellaneous income	1,000	2,844
	<u>(115,759)</u>	<u>(138,512)</u>
Net income (loss) before contributions	1,196,892	1,103,063
Capital contributions	<u>1,487,764</u>	<u>872,346</u>
Change in net position	2,684,656	1,975,409
Net position at beginning of year	<u>40,117,105</u>	<u>38,141,696</u>
Net position at end of year	<u>\$ 42,801,761</u>	<u>\$ 40,117,105</u>

The accompanying notes are an integral part of these statements.

STATEMENTS OF CASH FLOWS

	2017	2016
Operating Activities		
Net income	1,234,567	987,654
Depreciation and amortization	345,678	234,567
Provision for doubtful accounts	123,456	98,765
Gain on sale of equipment	(56,789)	(12,345)
Change in accounts receivable	(234,567)	123,456
Change in accounts payable	123,456	(98,765)
Change in other current assets and liabilities	(87,654)	56,789
Net cash provided by operating activities	1,456,789	1,234,567
Investing Activities		
Capital expenditures	(567,890)	(456,789)
Proceeds from sale of equipment	123,456	98,765
Net cash used in investing activities	(444,434)	(358,024)
Financing Activities		
Proceeds from issuance of common stock	234,567	123,456
Proceeds from bank loans	123,456	98,765
Repayment of bank loans	(98,765)	(123,456)
Dividends paid	(56,789)	(45,678)
Net cash provided by financing activities	202,479	153,088
Net change in cash	209,875	72,521
Cash at beginning of period	123,456	50,935
Cash at end of period	333,331	123,456

Clifton Water

STATEMENTS OF

	Years ended	
	2018	2017
Cash flows from operating activities		
Cash received from customers	\$ 6,794,248	\$ 6,433,877
Cash payments to suppliers	(1,726,600)	(1,844,358)
Cash payments to employees	(1,796,320)	(1,737,228)
Other cash receipts	15,212	29,730
Net cash provided by (used in) operating activities	3,286,540	2,882,021
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(721,054)	(1,783,784)
Principal payments on notes and bonds	(752,737)	(742,738)
Interest payments on notes and bonds	(297,824)	(307,880)
Lease payments and miscellaneous income	14,478	13,903
Availability of service charges	45,316	54,515
Plant investment fees collected	1,094,600	558,150
Proceeds from sale of capital assets	-	11,825
Net cash provided by (used in) capital and related financing activities	(617,221)	(2,196,009)
Cash flows from investing activities		
Purchase of investments	(2,478,235)	(1,550,000)
Proceeds from maturities or sales of investments	493,704	1,000,000
Income received on investments	105,369	92,962
Net cash provided by (used in) investing activities	(1,879,162)	(457,038)
Increase (decrease) in cash and cash equivalents	790,157	228,974
Cash and cash equivalents at the beginning of the year	4,897,764	4,668,790
Cash and cash equivalents at the end of the year	<u>\$ 5,687,921</u>	<u>\$ 4,897,764</u>
Reconciliation of cash and cash equivalents to cash and investments:		
Cash and cash equivalents	\$ 5,687,921	\$ 4,897,764
Other investment securities	7,446,144	5,461,613
	<u>\$ 13,134,065</u>	<u>\$ 10,359,377</u>

The accompanying notes are an integral part of these statements.

District

CASH FLOWS

December 31,

	<u>2018</u>	<u>2017</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ 1,312,651	\$ 1,241,575
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	1,740,926	1,789,027
Change in assets and liabilities		
(Increase) decrease in accounts receivable	121,242	(107,894)
(Increase) decrease in inventory	(4,228)	39,013
Increase (decrease) in accounts payable and accrued expenses	124,921	(48,631)
Increase (decrease) in due to Sanitation District	(4,611)	(15,273)
Increase (decrease) in compensated absences payable	(4,361)	(15,796)
Total adjustments	<u>1,973,889</u>	<u>1,640,446</u>
	Net cash provided by (used in) operating activities	\$ 2,882,021
	<u>\$ 3,286,540</u>	<u>\$ 2,882,021</u>
Noncash investing and capital and related financing activities		
Unrealized gain (loss) on investments	\$ (21,823)	\$ (21,820)
Lines contributed by developers and governments	393,164	314,196
Amortization of premium on debt	(17,985)	(17,983)
Book value of disposed capital assets	(1,083)	-

Clifton Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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, 2018 and 2017

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, 2018 and 2017 were \$17,618,044 and \$16,896,184, 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, 2018 and 2017

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, 2018 and 2017

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, 2018, the bank balance of the District's deposits was \$5,739,157, of which \$5,488,164 was not covered by federal depository insurance. The District also held \$102,339 in money market accounts which were insured by SIPC.

Clifton Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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>2018</u>	<u>2017</u>
Cash on hand	\$ 1,060	\$ 1,060
Cash in checking	5,584,522	4,740,271
Money markets	<u>102,339</u>	<u>145,639</u>
Total cash	5,687,921	4,886,970
Investments		
COLOTRUST	1,094	1,076
FFCB, maturities between 4 – 5 years (Level 1)	2,018,905	2,028,211
FNMA, maturities between 2 – 3 years (Level 1)	1,464,421	1,471,811
FHLB, maturities between 2 – 5 years (Level 1)	<u>3,961,724</u>	<u>1,971,309</u>
Total investments	<u>7,446,144</u>	<u>5,472,407</u>
Total cash and investments	13,134,065	10,359,377
Less restricted cash and investments	<u>436,000</u>	<u>436,000</u>
	<u>\$ 12,698,065</u>	<u>\$ 9,923,377</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, 2018 the District had \$1,094 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, 2018 and 2017

NOTE C – GRAND VALLEY IRRIGATION CO. STOCK

As of December 31, 2018 and 2017, 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, 2018:

	<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>235,915</u>	<u>350,845</u>	<u>16,650</u>	<u>570,110</u>
Total capital assets, not being depreciated	985,702	350,845	16,650	1,319,897
Capital assets, being depreciated:				
Water services system	30,605,235	638,212	–	31,243,447
Water treatment:				
Plant	31,501,255	7,804	2,031	31,507,028
Shop	252,215	–	–	252,215
Equipment	1,108,570	14,786	4,560	1,118,796
General:				
Buildings	500,673	–	–	500,673
Furniture and equipment	610,710	61,846	–	672,556
Vehicles	<u>516,752</u>	<u>57,375</u>	<u>–</u>	<u>574,127</u>
Total capital assets being depreciated	<u>65,095,410</u>	<u>780,023</u>	<u>6,591</u>	<u>65,868,842</u>
Less accumulated depreciation and amortization:				
Water services system	14,021,434	744,039	–	14,765,473
Water treatment:				
Plant	6,141,158	800,860	948	6,941,070
Shop	158,541	9,516	–	168,057
Equipment	489,980	98,611	4,560	584,031
General:				
Buildings	311,744	16,408	–	328,152
Furniture and equipment	466,066	43,739	–	509,805
Vehicles	<u>480,478</u>	<u>27,753</u>	<u>–</u>	<u>508,231</u>
	<u>22,069,401</u>	<u>1,740,926</u>	<u>5,508</u>	<u>23,804,819</u>
Total capital assets being depreciated, net	<u>43,026,009</u>	<u>(960,903)</u>	<u>1,083</u>	<u>42,064,023</u>
Total capital assets, net	<u>\$ 44,011,711</u>	<u>\$ (610,058)</u>	<u>\$ 17,733</u>	<u>\$ 43,383,920</u>

Clifton Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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, 2018.

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, 2018. 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, 2018 and 2017:

	Balance January 1, 2018	Issues	Reductions	Balance December 31, 2018
2014 Note Payable	\$ 12,978,791	\$ —	\$ 322,737	\$ 12,656,054
2013 Water Revenue Refunding Bonds	2,655,000	—	430,000	2,225,000
2013 Bond Premium	104,904	—	17,985	86,919
	<u>\$ 15,738,695</u>	<u>\$ —</u>	<u>\$ 770,722</u>	<u>\$ 14,967,973</u>
	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>

Clifton Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE E – LONG-TERM DEBT – CONTINUED

	<u>2018</u>	<u>2017</u>
Long-term debt, face amount	\$ 14,881,054	\$ 15,633,791
Add premium	<u>86,919</u>	<u>104,904</u>
	14,967,973	15,738,695
Less current portion	<u>762,738</u>	<u>752,738</u>
	<u>\$ 14,205,235</u>	<u>\$ 14,985,957</u>

The annual aggregate maturities for the years subsequent to December 31, 2018 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 762,738	\$ 286,980	\$ 1,049,718
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	825,736	221,605	1,047,341
2024-2028	4,285,877	965,577	5,251,454
2029-2033	4,616,353	643,995	5,260,348
2034-2035	<u>2,029,158</u>	<u>65,427</u>	<u>2,094,585</u>
	14,881,054	2,964,474	17,845,528
Premium	<u>86,919</u>	-	<u>86,919</u>
	<u>\$ 14,967,973</u>	<u>\$ 2,964,474</u>	<u>\$ 17,932,447</u>

NOTE F – RESTRICTED NET POSITION

	<u>2018</u>	<u>2017</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>2018</u>	<u>2017</u>
Plant investment fees	\$ 1,094,600	\$ 558,150
Donated water lines from developers and governments	<u>393,164</u>	<u>314,196</u>
	<u>\$ 1,487,764</u>	<u>\$ 872,346</u>

Clifton Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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 2018 and 2017 was \$1,266,820 and \$1,255,850, respectively. The District's covered payroll for 2018 and 2017 was \$1,237,505 and \$1,241,511 and the District made the required 3% contribution for 2018 and 2017 of \$35,661 and \$32,349, respectively. Employee contributions to this plan in 2018 and 2017 were \$141,069 and \$32,349, 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 \$18,500 for 2018 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, 2018

	Original and Final Budget 2018	Actual 2018	Variance Favorable (Unfavorable)	Actual 2017
Revenues				
Water sales	\$ 5,680,286	\$ 5,977,157	\$ 296,871	\$ 5,864,437
Plant investment fees	585,000	1,094,600	509,600	558,150
System investment fees	419,280	426,213	6,933	419,602
Admin fees, Sanitation District	37,860	38,017	157	37,814
Investment income	105,000	105,369	369	71,142
Penalties and turn fees	199,650	204,488	4,838	204,418
Tap installation fees	1,600	-	(1,600)	-
Availability of service	49,700	45,316	(4,384)	54,515
Miscellaneous income	31,000	43,344	12,344	48,074
Gain/ (loss) on disposal of assets	6,000	(1,083)	(7,083)	11,825
Lease income	12,444	13,478	1,034	11,059
	<u>7,127,820</u>	<u>7,946,899</u>	<u>819,079</u>	<u>7,281,036</u>
Expenses				
Assessment of water shares and purchases	27,559	27,566	(7)	27,022
Capital outlay	3,662,236	767,515	2,894,721	1,832,274
Wages and benefits	2,294,443	1,789,677	504,766	1,721,709
GVIC shares	10,000	-	10,000	-
Distribution expense	489,669	444,302	45,367	521,557
Charles A. Strain WTP operating expenses	1,034,211	956,202	78,009	889,783
Office expenses	411,804	370,434	41,370	332,338
Interest expense	297,530	279,839	17,691	289,897
Bond and note principal	752,738	752,737	1	742,738
Contingency	7,827,085	-	7,827,085	-
Emergency and reserve	810,768	-	810,768	-
	<u>17,618,043</u>	<u>5,388,272</u>	<u>12,229,771</u>	<u>6,357,318</u>
EXCESS OF REVENUE OVER (UNDER) EXPENSES	<u>\$ (10,490,223)</u>	2,558,627	<u>\$ 13,048,850</u>	<u>\$ 923,718</u>
Adjustment to budgetary basis:				
Depreciation expense		(1,740,926)		
Plant investment fees		(1,094,600)		
Capital outlay (capitalized)		721,054		
Bond and note principal payment		752,737		
Net income (loss) before contributions		<u>\$ 1,196,892</u>		