

CLIFTON SANITATION DISTRICT

Financial Statements and
Independent Auditor's Report
For the Year Ended December 31, 2021

CLIFTON SANITATION DISTRICT

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MANAGEMENTS DISCUSSION AND ANALYSIS CLIFTON SANITATION DISTRICT FISCAL YEAR 2021

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, 2021. 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 like 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 way 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 –2021

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.

	2021	2020
CURRENT ASSETS	\$ 2,891,630	\$ 3,167,110
NON CURRENT ASSETS	37,893,288	36,841,344
TOTAL ASSETS	40,784,918	40,008,454
CURRENT LIABILITIES	1,020,403	974,274
NON CURRENT LIABILITIES	3,416,190	4,031,429
TOTAL LAIBILITIES	4,436,593	5,005,703
NET POSITION:		
Invested in Capital Assets	28,250,350	27,977,408
Unrestricted	8,097,975	7,025,344
NET POSITION	\$ 36,348,325	\$ 35,002,752

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

	2021	2020
Operating Revenue:		
Service Fee Charges	\$ 3,228,216	\$ 3,207,234
Operating Expense	<u>(3,060,682)</u>	<u>(2,963,953)</u>
Net Income / (Loss) from Operations	167,534	243,281
Net Non-Operating Revenue/(Expense)	<u>30,836</u>	<u>488,785</u>
Income before Contributions	<u>198,370</u>	<u>732,066</u>
Capital Contributions:		
Plant Investment Fees	960,042	265,710
System Contribution	<u>187,161</u>	<u>-</u>
Total Contributed Capital	<u>1,147,203</u>	<u>265,710</u>
Net Position Beginning	35,002,752	34,004,976
Net Position Ending	<u>36,348,325</u>	<u>35,002,752</u>
Change in Net Position	<u>\$ 1,345,573</u>	<u>\$ 997,776</u>

Capital Assets

At the end of 2021, the District had invested \$32,281,777 (net of \$20,236,142) 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, 2020	Reclass & Additions	Reclass & Deletions	Balance December 31, 2021
Land	\$ 3,028,297	\$ -	\$ -	\$ 3,028,297
Land Improvements	1,729,854	-	-	1,729,854
Building & Improvements	22,749,755	148,762	(47,000)	22,851,517
System Transmission Lines	18,629,323	622,013	(28,983)	19,222,353
Office Furniture & Equipment	179,372	8,532	(43,658)	144,246
Equipment	5,465,835	116,411	(40,593)	5,541,653
Total	<u>51,782,436</u>	<u>895,718</u>	<u>(160,234)</u>	<u>52,517,920</u>
Less Accumulated Depreciation	<u>(19,173,360)</u>	<u>(1,221,210)</u>	158,428	<u>(20,236,142)</u>
Construction in Process	-	-	-	-
Net Capital Assets	<u>\$ 32,609,076</u>	<u>\$ (325,492)</u>	<u>\$ (1,806)</u>	<u>\$ 32,281,778</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 is included as Supplemental Information in the audited financial statements. There were no supplemental appropriations made to the 2020 or 2021 budgets.

	2021 Budget	2021 Actual	2020 Budget	2020 Actual
Service Charges	\$ 3,207,038	\$ 3,228,216	\$ 3,148,020	\$ 3,207,234
Misc. Income	82,964	131,060	93,164	91,227
Plant Investment Fees	239,500	960,042	229,300	265,710
Investment Income	80,000	(65,500)	75,000	150,882
Grant Income	85,000	104,458	-	398,149
Total Revenues	<u>\$ 3,694,502</u>	<u>\$ 4,358,276</u>	<u>\$ 3,545,484</u>	<u>\$ 4,113,202</u>
Admin. Expenses	\$ 607,295	\$ 471,607	\$ 633,809	\$ 520,120
Operating Expenses	1,694,167	1,377,041	1,729,152	1,254,538
Capital Outlay	628,000	708,557	1,450,000	1,381,762
Debt Service	734,101	730,244	731,526	727,784
Total Expenses	<u>\$ 3,663,563</u>	<u>\$ 3,287,449</u>	<u>\$ 4,544,487</u>	<u>\$ 3,884,204</u>

BUDGETARY HIGHLIGHTS

2021 Actual Expenses vs. Budget were a \$376,114 favorable variance.
 2021 Actual Revenues vs. Budget were a \$663,774 favorable variance, primarily due to plant investment fees for residential and commercial development exceeding projections for 2021.

2020 Actual Expenses vs. Budget were a \$660,283 favorable variance.
 2020 Actual Revenues vs. Budget were a \$567,718 favorable variance.

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 2021, the District expended \$895,718 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 2021.

Capital Outlays:

During 2021, \$148,762 was spent on improvements to buildings; \$434,852 was spent on sanitary sewer rehabilitation as well as construction projects including sewer line replacements on E Road, 31 Road, and \$124,943 was spent on various equipment.

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 2022 Capital Improvement Plan (CIP) includes continued collection system rehabilitation, treatment plant equipment replacement/upgrade, and mobile equipment replacement. Clifton Sanitation District plans to implement the aforementioned projects in 2022 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 2022 will be sufficient to pay the scheduled debt service amounts. The District does not plan to incur new debt for 2022 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. Despite the fact that 2021 Actual tap fee revenue exceeded budgeted tap fee revenue, the 2022 budget

does not reflect an equivalent increase in budgeted tap fee revenue as it appears the large growth seen in 2021 is not indicative of a long-term trend change.

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

In 2017, 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 evaluated the collection system and provided 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 prior rate study in December 2011. The updated study completed by Farnsworth Consulting /group evaluated 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 recommended fee changes necessary to maintain the District in a strong financial position. The rate study included a comprehensive cash flow and financial analysis, cost of service analysis, examination of the financial status and policies, and proposed rate and fee schedule adjustments. The District anticipates completion of a rate study in 2022.

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. Only minor growth took place along this corridor in 2021, however, it is anticipated this will be a growth area for the District in upcoming 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.

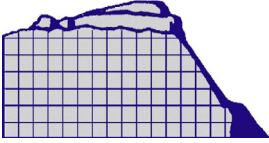
The 2021 budget reflected no rate adjustment to monthly service fees. The rate schedule had proposed a rate increase of 3.5% in 2021, however due to current local economic conditions because of the novel coronavirus outbreak a rate increase was stayed for 2021. This delayed rate increase will be incorporated into the 2022 proposed budget. 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.

Eli Jennings
District Manager
January 28, 2022



Paul D. Miller CPA, LLC.

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Clifton Sanitation District
Clifton, CO 81520

Report on the Audit of the Financial Statements

Opinions

I have audited the financial statements of the business-type activities, the aggregate remaining fund information of the Clifton Sanitation District (District), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the district's basic financial statements as listed in the table of contents.

In my opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the aggregate remaining fund information of the District, as of December 31, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

I conducted my audit in accordance with auditing standards generally accepted in the United States of America (GAAS). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the district and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the district's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, I:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 district's internal control. Accordingly, no such opinion is expressed. evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

Auditor Reporting Requirements and Other Communication Considerations

- conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the district's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that I identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the district's basic financial statements. The budgetary comparison information is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 my opinion, the budgetary comparison information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Paul D. Miller, CPA, LLC

Grand Junction, Colorado

January 28, 2022

CLIFTON SANITATION DISTRICT
STATEMENT OF NET POSITION
As of December 31, 2021

ASSETS

CURRENT ASSETS

Cash on hand and in banks	\$ 2,206,829
Accounts receivable-service fees-less \$0 allowance	535,593
Other receivables	2,225
Inventory (Cost)	108,180
Prepaid expenses	26,023
Accrued interest receivable	12,779
Total Current Assets	2,891,629

NONCURRENT ASSETS:

Cash -HRA	2,070
Investments	5,609,441
Capital assets	32,281,778
Total Noncurrent Assets	37,893,289

TOTAL ASSETS	\$ 40,784,918
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LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 128,011
Other current liabilities	2,405
Unearned revenue	174,412
Accrued payroll	25,361
Accrued interest payable	45,864
Accrued compensated absences	29,112
Current loans payable	615,238
Total Current Liabilities	1,020,403

LONG-TERM LIABILITIES

Loans payable less current portion	3,416,190
Total Long-term Liabilities	3,416,190
TOTAL LIABILITIES	4,436,593

NET POSITION

Invested in capital assets net of related debt	28,250,350
Unrestricted	8,097,975
NET POSITION	36,348,325

TOTAL LIABILITIES AND NET POSITION	\$ 40,784,918
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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, 2021

OPERATING REVENUE	
Charges for services	\$ 3,228,216
OPERATING EXPENSES	
Treatment	1,152,088
Collection	224,953
Depreciation	1,221,210
General operating expenses	462,431
Total Operating Expense	<u>3,060,682</u>
Net (Loss) From Operations	<u>167,534</u>
NON-OPERATING REVENUE (EXPENSES)	
Miscellaneous income	131,060
Grant income	104,458
Investment income	(65,500)
Investment expense	(9,176)
Interest expense	(130,006)
Total Non-Operating Revenue	<u>30,836</u>
NET (LOSS) INCOME BEFORE CONTRIBUTIONS	<u>198,370</u>
CAPITAL CONTRIBUTIONS:	
Plant investment fees	960,042
System contribution (non cash)	187,161
Total Capital Contribution	<u>1,147,203</u>
Change in Net Position	1,345,573
Total Net Position - Beginning	<u>35,002,752</u>
Total Net Position - Ending	<u>\$ 36,348,325</u>

The accompanying notes are an integral part of this statement

CLIFTON SANITATION DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2021

INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	
CASH FLOW FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 3,262,190
Other cash receipts	240,356
Cash payments to and on behalf of employees	(882,896)
Cash payments to suppliers	(1,282,362)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,337,288
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition & construction of capital assets	(708,557)
(Increase) Decrease in restricted cash	(1,728)
Payment of loans	(600,239)
Plant investment fees	960,042
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(350,482)
CASH FLOWS FROM INVESTING ACTIVITIES	
Net Investment income (Net of Investment expense of \$9,176)	44,381
Withdrawal from investment	-
Net sale (purchase) of investments	(1,313,432)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(1,269,051)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(282,245)
CASH - Beginning of year	2,489,074
CASH - End of year	\$ 2,206,829
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income (Loss)	\$ 167,534
Adjustment to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation	1,221,210
Loss on Disposal of Fixed Assets	1,806
Change in assets and liabilities	
(Increase) decrease in accounts receivable	(38,812)
(Increase) decrease in inventory	(34,509)
(Increase) decrease in prepaid expenses	(7,673)
(Increase) decrease in interest receivable	(3,396)
Increase (decrease) in accounts payable	(70,876)
Increase (decrease) in compensated absences payable	(3,086)
Increase (decrease) in unearned revenue	107,233
Increase (decrease) in accrued payroll	3,099
Increase (decrease) in accrued interest	(3,856)
Increase (decrease) in other current payables	(1,385)
Total adjustments	1,169,755
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,337,289
NON-CASH INVESTING, CAPITAL, AND RELATED FINANCING ACTIVITIES:	
Market value change	\$ 119,057
Acceptance of Subdivisions	\$ 187,161
Interest expense	\$ 130,006
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, 2021

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, 2021

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, 2021

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 2021 were \$29,112.

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 on December 31, 2021.

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 2019 to 2021. 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, 2021

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 2021:

	Balance December 31, 2020	Reclass & Additions	Reclass & Deletions	Balance December 31, 2021
Land	\$ 3,028,297	\$ -	\$ -	\$ 3,028,297
Land Improvements	1,729,854	-	-	1,729,854
Building & Improvements	22,749,755	148,762	(47,000)	22,851,517
System Transmission Lines	18,629,323	622,013	(28,983)	19,222,353
Office Furniture & Equipment	179,372	8,532	(43,658)	144,246
Equipment	5,465,834	116,411	(40,592)	5,541,653
Total	51,782,435	895,718	(160,233)	52,517,920
Less Accumulated Depreciation	(19,173,360)	(1,221,210)	158,428	(20,236,142)
Construction in Process	-	-	-	-
Net Capital Assets	<u>\$ 32,609,075</u>	<u>\$ (325,492)</u>	<u>\$ (1,805)</u>	<u>\$ 32,281,778</u>

NOTE 3 – CASH AND DEPOSITS

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories; state regulators determine eligibility. Amounts on deposit more than 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, 2021

NOTE 3 – CASH AND DEPOSITS-CONTINUED

	<u>2021</u>
Cash and investments consisted of the following:	
Uninsured	\$ 83
Deposits: Insured	
Checking, Money markets, CD's	363,631
Deposits: Collateralized	<u>1,845,185</u>
TOTAL DEPOSITS	<u>2,208,899</u>
Investments	
U.S. Treasury NT. (Level 2)	2,178,164
Federal National Mortgage (Level 2)	<u>3,431,277</u>
(Rated by Moody's Aaa & S&P AAA)	
TOTAL INVESTMENTS	<u>5,609,441</u>
TOTAL	<u>\$ 7,818,340</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 on December 31, 2021 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 total deposit shown above \$113,631 is insured and collateralized through a private insurance carrier retained by Charles Schwab on behalf of Clifton Sanitation District. and \$250,000 is insured by a bank and \$1,845,185 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 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 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, 2021 was \$584,547. The contribution for 2021 was \$35,073 for the employer and \$35,073 by the employee. The Employer could authorize benefit terms as well as amend those terms.

The District also offers it employees the ability to contribute to a Deferred Compensation Plan (457) if they so choose. On December 31, 2021, one employee is contributing to the plan. The District does not match the contributions to this plan.

CLIFTON SANITATION DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2021

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, 2021 is as follows:

Tap fees	\$ 960,042
Donated sewer lines by developers	187,161
	<u>\$ 1,147,203</u>

NOTE 6 – MEDICAL REIMBURSEMENT PLAN (HRA)

In 2011, the District established an HRA plan to cover employees' deductible. For 2021, 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 except for 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:

2022	\$ 95,238
2023	95,238
2024	95,238
2025	95,238
2026	95,238
2027	95,239
	<u>571,429</u>
Less Current	<u>(95,238)</u>
Total	<u>\$ 476,191</u>

CLIFTON SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

NOTE 8 – LOANS/BONDS PAYABLE-CONTINUED

Beginning Balance 1/1/2021	\$ 571,428
Payment 2021	<u>95,238</u>
Ending Balance 12/31/2021	<u>\$ 476,190</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 1/1/20	\$3,965,000
2021 payments	<u>520,000</u>
Ending Balance 12/31/20	<u>\$ 2,940,000</u>

Year	Principal	Interest	Total
2022	\$ 520,000	\$ 120,425	\$ 640,425
2023	535,000	102,387	637,387
2024	555,000	83,864	638,864
2025	570,000	68,099	638,099
2026	615,000	(18,964)	596,036
2027	665,000	(46,671)	618,329
	3,460,000	309,140	3,769,140
Less Current	(520,000)	(120,425)	(640,425)
Long-term Portion	\$ 2,940,000	\$ 188,715	\$ 3,128,715

Total Debt Summary:

Year	Principal	Interest	Total
2022	\$ 615,238	\$ 120,425	\$ 735,663
2023	630,238	102,387	732,625
2024	650,238	83,864	734,102
2025	665,238	68,100	733,338
2026	710,238	20,463	730,701
2027	760,238	(26,184)	734,054
	4,031,428	369,055	4,400,483
Less Current	(615,238)	(120,425)	(735,663)
Long-term Portion	\$ 3,416,190	\$ 248,630	\$ 3,664,820

CLIFTON SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

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 3 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, 2021:

<u>Description</u>	<u>Investment in Securities</u>
Level 1: Quoted prices:	\$ -
Level 2: Other significant observable inputs:	5,609,441
Level 3: Significant unobservable inputs	<u>-</u>
Total fair value	<u>\$5,609,441</u>

NOTE 10 – REQUIRED RESERVES

As required by the Colorado Water Resources & Power Development Authority, Clifton Sanitation District must have reserve cash that can meet the required O & M as stipulated in the 2006 Note agreement. For the 2022 budget, the District manages the reserve fund to include operating reserves utilizing six months of operating expenses, (\$1,000,000), Emergency Capital Reserves of approximately 1% of the value of the system \$500,000; debt service reserves are one year of debt service, (\$704,975). The District believes that it meets this requirement.

CLIFTON SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

NOTE 11 – NOVEL CORONAVIRUS PANDEMIC AND IMPACT ON THE DISTRICT

The District's revenue was not impacted materially by the novel coronavirus pandemic in 2021. The District was considered a critical government service as defined in the Governor's Public Health Order 20-24, so services were not interrupted during the 2021 year. The only revenue stream that was affected was, late fees and shut offs were not allowed to be billed from January 2021 through May 2021.

For 2022, the District that operations will continue normally. Management will continue to monitor the state and local standards and adjust operations accordingly.

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, 2021

	Actual	Budget	Variance Favorable (Unfavorable)
REVENUES			
Service Charges	\$ 3,228,216	\$ 3,207,038	\$ 21,178
Miscellaneous income	131,060	82,964	48,096
Plant investment fee	960,042	239,500	720,542
Grant income	104,458	85,000	19,458
Investment income	(65,500)	80,000	(145,500)
Total Revenue	<u>4,358,276</u>	<u>3,694,502</u>	<u>663,774</u>
EXPENSES:			
Treatment:			
Salaries	464,500	756,652	292,152
Employee benefits	175,405	-	(175,405)
Chemicals	46,615	43,400	(3,215)
Utilities	156,587	147,417	(9,170)
Insurance-Treatment	22,594	20,407	(2,187)
Repairs & maintenance	210,877	305,204	94,327
Fuel	11,288	11,500	212
Lab and other tests	25,318	33,044	7,726
Vehicle expense	9,277	-	(9,277)
Other	29,627	51,719	22,092
Total Treatment Expenses	<u>1,152,088</u>	<u>1,369,344</u>	<u>217,256</u>
Collection:			
Salaries	37,301	74,274	36,973
Employee benefits	15,403	-	(15,403)
Repairs & maintenance	25,740	96,121	70,381
Computer & Internet support	3,880	3,393	(487)
Line maintenance	123,852	123,036	(816)
Traffic control	18,777	28,000	9,223
Total Collection Expense	<u>224,953</u>	<u>324,824</u>	<u>99,871</u>
General & Administrative:			
Salaries	159,802	253,564	93,762
Employee benefits	68,474	-	(68,474)
Communication	15,051	-	(15,051)
Insurance and bonds	4,231	3,401	(830)
Professional fees	44,116	76,600	32,484
Directors' fees and expense	7,829	10,800	2,971
Miscellaneous	13,163	-	(13,163)
Vehicle expense	745	2,675	1,930
Training & education	4,728	-	(4,728)
Permits and fees	14,923	27,583	12,660
Occasional labor	19,253	-	(19,253)
Safety expense	15,379	33,000	17,621
Advertising	6,973	9,540	2,567
Office supplies and postage	79,500	80,407	907
Mesa County Treasurer's Fees	8,264	-	(8,264)
Contingency	-	100,000	100,000
Investment expense	9,176	9,724	548
Total General & Administrative Expense	<u>471,607</u>	<u>607,295</u>	<u>135,688</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, 2021

	<u>Actual</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
Total Expenses-carried forward	\$ 1,848,648	\$ 2,301,462	\$ 452,814
Capital outlays	708,557	628,000	(80,557)
Debt service:			
Principal	600,238	600,238	-
Interest	130,006	133,863	3,857
	<u>3,287,449</u>	<u>3,663,563</u>	<u>376,114</u>
EXCESS REVENUES OVER (UNDER) EXPENSES	1,070,827	<u>\$ 30,939</u>	<u>\$ 1,039,888</u>
Adjustments to budgetary basis:			
Capital outlay	708,557		
System contribution	187,161		
Depreciation	(1,221,210)		
Debt service	600,238		
CHANGE IN NET POSITION	<u>\$ 1,345,573</u>		