

CLIFTON SANITATION DISTRICT

Financial Statements and
Independent Auditor's Report
For the Year Ended December 31, 2022

CLIFTON SANITATION DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We 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, 2022, 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 our 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, 2022, 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

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

Our 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 our 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, We:

- 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 our 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.

We are 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 we 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. 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.

Supplementary Information

Our 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 our opinion, the budgetary comparison information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Blair and Associates, P.C.

Cedaredge, Colorado
January 27, 2023



MANAGEMENTS DISCUSSION AND ANALYSIS CLIFTON SANITATION DISTRICT FISCAL YEAR 2022

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, 2022. 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 will also 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 –2022

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 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 are required to comply with the

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.

	2022	2021
CURRENT ASSETS	\$ 3,060,923	\$ 2,891,630
NON CURRENT ASSETS	37,486,834	37,893,288
TOTAL ASSETS	40,547,757	40,784,918
CURRENT LIABILITIES	1,031,382	1,020,403
NON CURRENT LIABILITIES	2,785,952	3,416,190
TOTAL LAIBILITIES	3,817,334	4,436,593
NET POSITION:		
Invested in Capital Assets	27,991,895	28,250,350
Unrestricted	8,738,528	8,097,975
NET POSITION	\$ 36,730,423	\$ 36,348,325

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

	<u>2022</u>	<u>2021</u>
Operating Revenue:		
Service Fee Charges	\$ 3,401,289	\$ 3,228,216
Operating Expense	<u>(3,413,514)</u>	<u>(3,060,682)</u>
Net Income / (Loss) from Operations	(12,225)	167,534
Net Non-Operating Revenue/(Expense)	<u>(251,302)</u>	<u>30,836</u>
Income before Contributions	<u>(263,527)</u>	<u>198,370</u>
Capital Contributions:		
Plant Investment Fees	523,886	960,042
System Contribution	<u>121,738</u>	<u>187,161</u>
Total Contributed Capital	<u>645,624</u>	<u>1,147,203</u>
Net Position Beginning	36,348,325	35,002,752
Net Position Ending	<u>36,730,423</u>	<u>36,348,325</u>
Change in Net Position	<u>\$ 382,098</u>	<u>\$ 1,345,573</u>

Capital Assets

At the end of 2022, the District had invested \$31,408,085 (net of \$21,492,111) 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, 2021	Additions	Deletions	Balance December 31, 2022
Land	\$ 3,028,297	\$ -	\$ -	\$ 3,028,297
Land Improvements	1,729,854	-	-	1,729,854
Building & Improvements	22,851,517	24,400	-	22,875,917
System Transmission Lines	19,222,353	141,038	-	19,363,391
Office Furniture & Equipment	144,246	-	-	144,246
Equipment	<u>5,541,653</u>	<u>216,838</u>	-	<u>5,758,491</u>
Total	52,517,920	382,276	-	52,900,196
Less Accumulated Depreciation	<u>(20,236,142)</u>	<u>(1,255,969)</u>	-	<u>(21,492,111)</u>
Net Capital Assets	<u>\$ 32,281,778</u>	<u>\$ (873,693)</u>	<u>\$ -</u>	<u>\$ 31,408,085</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 2019 or 2022 budgets.

	2022 <u>Budget</u>	2022 <u>Actual</u>	2021 <u>Budget</u>	2021 <u>Actual</u>
Service Charges	\$ 3,375,722	\$ 3,401,289	\$ 3,207,038	\$ 3,228,216
Misc. Income	80,164	131,252	82,964	131,060
Plant Investment Fees	274,600	523,886	239,500	960,042
Investment Income	50,000	(341,127)	80,000	(65,500)
Grant Income	85,294	85,294	85,000	104,458
Total Revenues	<u>\$ 3,865,780</u>	<u>\$ 3,800,594</u>	<u>\$ 3,694,502</u>	<u>\$ 4,358,276</u>
Admin. Expenses	\$ 855,982	\$ 549,970	\$ 607,295	\$ 471,607
Operating Expenses	1,724,112	1,617,677	1,694,168	1,377,041
Capital Outlay	704,000	257,562	628,000	895,718
Debt Service	735,663	731,857	734,101	600,238
Total Expenses	<u>\$ 4,019,757</u>	<u>\$ 3,157,066</u>	<u>\$ 3,663,564</u>	<u>\$ 3,344,604</u>

BUDGETARY HIGHLIGHTS

2022 Actual Expenses vs. Budget were a \$862,691 favorable variance, primarily caused by deferred capital projects and a deferred rate study.

2022 Actual Revenues vs. Budget were a \$65,186 unfavorable variance, primarily due to market value loss on investments in 2022.

2021 Actual Expenses vs. Budget were a \$318,960 favorable variance.

2021 Actual Revenues vs. Budget were a \$663,774 favorable variance.

The actual Plant Investment fee revenue received in 2022 was more than budgeted due primarily to an improved building economy including increased commercial development.

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 2022, the District expended \$257,562 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 2022.

Capital Outlays:

During 2022, \$24,400 was spent on a clarifier tank improvement; \$213,862 was spent on equipment including a centrifuge control system upgrade, loader repair, replacement mower, and side-roll sprinkler, and \$19,300 was spent on design and bid services for a cured in place pipe (CIPP) project.

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 the consequences of non-compliance can be severe (i.e., administrative penalties, building moratoriums, etc.). Therefore, regulatory requirements are considered the highest-priority projects for the District.

The 2023 Capital Improvement Plan (CIP) includes continued collection system rehabilitation through CIPP and manhole lining, treatment plant equipment replacement/upgrade, and mobile equipment replacement. Clifton Sanitation District plans to implement these projects in 2023 to continue to protect public health and water quality and ensure sufficient wastewater capacity to meet future growth needs.

Debt Activities

Funding from revenues projected in 2023 will be sufficient to pay the scheduled debt service amounts. The District does not plan to incur new debt for 2023 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. Actual tap fee revenue in 2022 exceeded budget projections, however due to the trend of slowing tap sales later in the year the tap fee revenue budget was decreased in 2023.

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

In 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 last 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 keep 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 2023 for the 2024 to 2029 planning horizon.

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 2022, 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 2022 budget included the deferred 2021 rate increase of 3.5%. There was no rate increase in 2023, however a rate increase is expected to be proposed for 2024 by the rate study that is planned for completion in 2023. 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
May 31, 2023

CLIFTON SANITATION DISTRICT
STATEMENT OF NET POSITION
As of December 31, 2022

ASSETS

CURRENT ASSETS

Cash on hand and in banks	\$ 2,363,690
Accounts receivable-service fees-less \$0 allowance	577,910
Other receivables	2,489
Inventory (Cost)	74,357
Prepaid expenses	23,475
Accrued interest receivable	19,002
Total Current Assets	3,060,923

NONCURRENT ASSETS:

Cash -HRA	3,579
Investments	6,075,170
Capital assets	31,408,085
Total Noncurrent Assets	37,486,834

TOTAL ASSETS	\$ 40,547,757
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LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 165,919
Other current liabilities	2,831
Unearned revenue	115,546
Accrued payroll	29,871
Accrued interest payable	41,892
Accrued compensated absences	45,085
Current loans payable	630,238
Total Current Liabilities	1,031,382

LONG-TERM LIABILITIES

Loans payable less current portion	2,785,952
Total Long-term Liabilities	2,785,952
TOTAL LIABILITIES	3,817,334

NET POSITION

Invested in capital assets net of related debt	27,991,895
Unrestricted	8,738,528
NET POSITION	36,730,423

TOTAL LIABILITIES AND NET POSITION	\$ 40,547,757
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CLIFTON SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2022

OPERATING REVENUE		
Charges for services		\$ 3,401,289
 OPERATING EXPENSES		
Treatment		1,336,596
Collection		281,081
Depreciation		1,255,969
General operating expenses		539,868
Total Operating Expense		<u>3,413,514</u>
Net (Loss) From Operations		<u>(12,225)</u>
 NON-OPERATING REVENUE (EXPENSES)		
Miscellaneous income		131,253
Grant income		85,294
Investment income		(341,127)
Investment expense		(10,102)
Interest expense		(116,619)
Total Non-Operating Revenue		<u>(251,301)</u>
NET (LOSS) INCOME BEFORE CONTRIBUTIONS		<u>(263,526)</u>
 CAPITAL CONTRIBUTIONS:		
Plant investment fees		523,886
System contribution (non cash)		121,738
Total Capital Contribution		<u>645,624</u>
Change in Net Position		382,098
Total Net Position - Beginning		<u>36,348,325</u>
Total Net Position - Ending		<u>\$ 36,730,423</u>

The accompanying notes are an integral part of this statement

CLIFTON SANITATION DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2022

INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	
CASH FLOW FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 3,361,197
Other cash receipts	214,058
Cash payments to and on behalf of employees	(1,043,638)
Cash payments to suppliers	(1,303,563)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,228,054
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition & construction of capital assets	(257,562)
(Increase) Decrease in restricted cash	1,509
Payment of loans	(615,238)
Plant investment fees	523,886
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(347,405)
CASH FLOWS FROM INVESTING ACTIVITIES	
Net Investment income (Net of Investment expense of \$10,102)	57,683
Net sale (purchase) of investments	(781,471)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(723,788)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	156,861
CASH - Beginning of year	2,206,829
CASH - End of year	\$ 2,363,690
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income (Loss)	\$ (12,225)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation	1,255,969
Change in assets and liabilities	
(Increase) decrease in accounts receivable	29,050
(Increase) decrease in inventory	33,823
(Increase) decrease in prepaid expenses	2,548
(Increase) decrease in interest receivable	(6,223)
Increase (decrease) in accounts payable	37,910
Increase (decrease) in compensated absences payable	15,973
Increase (decrease) in unearned revenue	(58,866)
Increase (decrease) in accrued payroll	4,510
Increase (decrease) in accrued interest	(3,972)
Increase (decrease) in other current payables	471
Total adjustments	1,311,193
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,298,968
NON-CASH INVESTING, CAPITAL, AND RELATED FINANCING ACTIVITIES:	
Market value change	\$ 408,912
Acceptance of Subdivisions	\$ 121,738
Interest expense	\$ 116,619
Capital assets purchased by accounts payable	\$ 81,972

The accompanying notes are an integral part of this statement

CLIFTON SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

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.

MEASUREMENT FOCUS AND BASIS OF 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.

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.

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.”

CLIFTON SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

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.

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.

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 \$5,000 or more and have a two-year life or longer.

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, 2022.

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.

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, 2022

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 – 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.

NOTE 3 – 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 2022 were \$45,085.

NOTE 4 – CAPITAL ASSETS

	Balance December 31, 2021	Additions	Deletions	Balance December 31, 2022
Land	\$ 3,028,297	\$ -	\$ -	\$ 3,028,297
Land Improvements	1,729,854	-	-	1,729,854
Building & Improvements	22,851,517	24,400	-	22,875,917
System Transmission Lines	19,222,353	141,038	-	19,363,391
Office Furniture & Equipment	144,246	-	-	144,246
Equipment	5,541,653	216,838	-	5,758,491
Total	<u>52,517,920</u>	<u>382,276</u>	<u>-</u>	<u>52,900,196</u>
Less Accumulated Depreciation	<u>(20,236,142)</u>	<u>(1,255,969)</u>	<u>-</u>	<u>(21,492,111)</u>
Net Capital Assets	<u>\$ 32,281,778</u>	<u>\$ (873,693)</u>	<u>\$ -</u>	<u>\$ 31,408,085</u>

NOTE 5 – 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, 2022

NOTE 5 – CASH AND DEPOSITS-CONTINUED

Cash and Investments consisted of the following:

Uninsured	\$ 292
Deposits: Insured	
Checking, Money markets, CD's	750,000
Deposits: Collateralized	<u>1,616,977</u>
Total Deposits	<u>2,367,269</u>
Investments	
U.S. Treasury NT. (Level 2)	3,351,820
Federal Home Loan	1,363,438
Federal National Mortgage (Level 2) (Rated by Moody's Aaa and S&P AAA)	<u>1,359,911</u>
Total Investments	<u>6,075,170</u>
Totals	<u>\$ 8,442,439</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 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 District's investments on December 31, 2022, 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 \$500,000 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 \$1,616,977 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 6 – 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 subject to pension withholding for the year ending December 31, 2022, was \$673,650. The contribution for 2022 was \$40,419 for the employer and \$40,419 by the employee. The Employer could authorize benefit terms as well as amend those terms.

The District also offers its employees the ability to contribute to a Deferred Compensation Plan (457) if they so choose. On December 31, 2022, 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, 2022

NOTE 7 – CHANGE IN CAPITAL CONTRIBUTIONS (UNRESTRICTED NET POSITION)

A summary of the changes in the contributed capital accounts for the years ended December 31, 2022 is as follows:

Tap fees	\$ 523,886
Donated sewer lines by developers	<u>121,738</u>
	<u>\$ 645,624</u>

NOTE 8 – MEDICAL REIMBURSEMENT PLAN (HRA)

In 2011, the District established an HRA plan to cover employees’ deductible. For 2022, 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 9 – LOANS 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:

	2023	\$ 95,238
	2024	95,238
	2025	95,238
	2026	95,238
	2027	<u>95,239</u>
		476,191
Less Current		<u>(95,238)</u>
Total		<u>\$ 380,953</u>
Beginning Balance 1/1/2022	\$	571,429
Payment 2022		<u>95,238</u>
Ending Balance 12/31/2022	\$	<u>476,191</u>

CLIFTON SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

NOTE 9 – LOANS PAYABLE-CONTINUED

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 1/1/22	\$ 3,460,000
2022 payments	<u>520,000</u>
Ending Balance 12/31/22	<u>\$ 2,940,000</u>

Year	Principal	Interest	Total
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
	2,940,000	188,715	3,128,715
Less Current	(535,000)	(102,387)	(637,387)
Long-term Portion	\$ 2,405,000	\$ 86,328	\$ 2,491,328

	Balance January 1, 2022	Additions	Reductions	Balance December 31, 2022	Due within one year
Loans payable					
Loan payable-WPCRF	\$ 571,429	\$ -	\$ (95,238)	\$ 476,191	\$ 95,238
Loan payable-CWRPDA	<u>3,460,000</u>	<u>-</u>	<u>(520,000)</u>	<u>2,940,000</u>	<u>535,000</u>
Total	<u>\$ 4,031,429</u>	<u>\$ -</u>	<u>\$ (615,238)</u>	<u>\$ 3,416,191</u>	<u>\$ 630,238</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, (\$1,078,770), Emergency Capital Reserves of approximately 1% of the value of the system \$500,000; debt service reserves are one year of debt service, (\$630,238). The District believes that it meets this requirement.

CLIFTON SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

NOTE 11 – 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, 2022:

<u>Description</u>	<u>Investment in Securities</u>
Level 1: Quoted prices:	\$ -
Level 2: Other significant observable inputs:	6,075,170
Level 3: Significant unobservable inputs	<u>-</u>
Total fair value	<u>\$6,075,170</u>

NOTE 12 –CORONAVIRUS PANDEMIC, RISK MANAGEMENT AND SUBSEQUENT EVENTS

CORONAVIRUS PANDEMIC

For 2023, the District’s operations will continue as normal. Management will continue to monitor the state and local standards and adjust operations accordingly.

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 2022. Settlements have not exceeded coverage in any of the past four years.

SUBSEQUENT EVENTS

Management has reviewed subsequent events through the date of the audit report. There were no additional subsequent events that were identified that require disclosure.

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, 2022

	Actual	Budget	Variance Favorable (Unfavorable)
REVENUES			
Service Charges	\$ 3,401,289	\$ 3,375,772	\$ 25,517
Miscellaneous income	131,253	80,164	51,089
Plant investment fee	523,886	274,600	249,286
Grant income	85,294	85,294	-
Investment income	(341,127)	50,000	(391,127)
Total Revenue	3,800,595	3,865,830	(65,235)
EXPENSES:			
Treatment:			
Salaries	577,119	736,519	159,400
Employee benefits	176,561	-	(176,561)
Chemicals	57,174	46,908	(10,266)
Utilities	194,827	157,640	(37,187)
Insurance-Treatment	22,973	22,040	(933)
Repairs & maintenance	196,944	289,986	93,042
Fuel	9,583	8,500	(1,083)
Lab and other tests	28,341	38,350	10,009
Vehicle expense	17,258	-	(17,258)
Other	55,816	67,433	11,617
Total Treatment Expenses	1,336,596	1,367,376	30,780
Collection:			
Salaries	43,938	84,834	40,896
Employee benefits	23,781	-	(23,781)
Insurance	11,487	11,020	(467)
Repairs & maintenance	45,649	98,409	52,760
Computer & Internet support	2,795	3,473	678
Line maintenance	134,502	131,000	(3,502)
Traffic control	18,929	28,000	9,071
Total Collection Expense	281,081	356,736	75,655
General & Administrative:			
Salaries	171,933	248,986	77,053
Employee benefits	65,315	-	(65,315)
Communication	16,314	-	(16,314)
Insurance and bonds	3,829	3,673	(156)
Professional fees	120,824	324,794	203,970
Directors' fees and expense	9,537	10,800	1,263
Miscellaneous	12,609	-	(12,609)
Vehicle expense	1,535	2,675	1,140
Permits and fees	16,182	21,916	5,734
Occasional labor	16,121	-	(16,121)
Safety expense	26,819	33,000	6,181
Advertising	5,372	13,540	8,168
Office supplies and postage	72,477	84,734	12,257
Mesa County Treasurer's Fees	1,001	1,744	743
Contingency	-	100,000	100,000
Investment expense	10,102	10,120	18
Total General & Administrative Expense	549,970	855,982	306,012
Total Expenses	2,167,647	2,580,094	412,447
Capital outlays	257,562	704,000	446,438
Debt service:			
Principal	615,238	615,238	-
Interest	116,619	120,425	3,806
	3,157,066	4,019,757	862,691
EXCESS REVENUES OVER (UNDER) EXPENSES	643,529	\$ (153,927)	\$ 797,456
Adjustments to budgetary basis:			
Capital outlay	257,562		
System contribution	121,738		
Depreciation	(1,255,969)		
Debt service	615,238		
CHANGE IN NET POSITION	\$ 382,098		