CLIFTON SANITATION DISTRICT

Financial Statements and
Independent Auditor's Report
For the Year Ended December 31, 2025

CLIFTON SANITATION DISTRICT

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Clifton Sanitation District
Clifton, CO 81620

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, 2025, 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 of the District, as of December 31, 2025, 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.

- 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 is 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.

Blair and Associates, P.C.

Cedaredge, Colorado
January 30, 2026

MANAGEMENTS DISCUSSION AND ANALYSIS
CLIFTON SANITATION DISTRICT
FISCAL YEAR 2025

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 ending December 31, 2025. 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 on 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 – 2025

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.

	2025	2024
CURRENT ASSETS	$ 3,424,137	$ 2,673,304
NON CURRENT ASSETS	39,059,553	38,064,429
TOTAL ASSETS	42,483,690	40,737,733
CURRENT LIABILITIES	1,274,720	1,036,463
NON CURRENT LIABILITIES	3,203,581	1,745,714
TOTAL LAIBILITIES	4,478,301	2,782,177
NET POSITION:		
Invested in Capital Assets	30,768,145	28,378,327
Unrestricted	8,511,964	9,577,229
NET POSITION	$ 39,280,109	$ 37,955,556

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

	2025	2024
Operating Revenue:		
Service Fee Charges	$ 3,731,587	$ 3,558,902
Operating Expense	(3,762,890)	(3,731,472)
Net Income / (Loss) from Operations	(31,303)	(172,570)
Net Non-Operating Revenue/(Expense)	990,548	286,303
Income before Contributions	959,245	113,733
Capital Contributions:		
Plant Investment Fees	365,310	255,425
System Contribution	-	143,408
Total Contributed Capital	365,310	398,833
Net Position Beginning	37,955,556	37,442,990
Net Position Ending	39,280,111	37,955,556
Change in Net Position	$ 1,324,555	$ 512,566

Capital Assets

At the end of 2025, the District had invested $33,132,223 (net of $24,544,749, in accumulated depreciation), in a broad range of infrastructure, collection lines, maintenance and treatment plant, vehicles and equipment as shown in the following table.

	Balance December 31, 2024	Additions	Deletions	Balance December 31, 2025
Land	$ 3,028,297	$ -	$ -	$ 3,028,297
Land Improvements	1,920,806	1,942,362	-	3,863,168
Building & Improvements	23,215,262	722,261	-	23,937,523
System Transmission Lines	20,178,069	363,345	-	20,541,414
Office Furniture & Equipment	115,688	-	-	115,688
Equipment	6,040,175	880,563	(729,856)	6,190,882
Total	54,498,297	3,908,531	(729,856)	57,676,972
Less Accumulated Depreciation	(23,984,256)	(1,286,039)	725,546	(24,544,749)
Net Capital Assets	$ 30,514,041	$ 2,622,492	$ (4,310)	$ 33,132,223

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

BUDGETARY HIGHLIGHTS

As required by State Law, the District adopts a budget and appropriates funds for the following year by December 15th of each year. If an amendment is necessary, the Board will approve a supplemental appropriation at a public hearing and file it with the State of Colorado. Budget to actual statements are included as Supplemental Information in the audited financial statements. There were no supplemental appropriations made to the 2024 or 2025 budgets.

	2025 Budget	2025 Actual	2024 Budget	2024 Actual
Service Charges	$ 3,780,723	$ 3,731,587	$ 3,534,350	$ 3,558,902
Misc. Income	33,971	39,970	31,805	45,700
Plant Investment Fees	214,700	365,310	214,700	255,425
Investment Income	49,500	426,054	60,000	316,142
Grant Income	2,000,000	633,757	-	-
Total Revenues	$ 6,078,894	$ 5,196,678	$ 3,840,855	$ 4,176,169
Admin. Expenses	$ 733,202	$ 641,760	$ 718,117	$ 654,752
Operating Expenses	2,073,791	1,835,092	1,977,997	1,801,617
Capital Outlay	7,431,000	3,928,003	4,995,000	838,940
Debt Service	907,519	774,470	728,638	725,776
Total Expenses	$ 11,145,512	$ 7,179,325	$ 8,419,752	$ 4,021,085

BUDGETARY HIGHLIGHTS

2025 Actual Expenses vs. Budget were $3,966,187 favorable variance, primarily caused by the District's Treatment Plant and Battery Storage project not being fully completed in 2025 as originally planned. The remaining work for this project is budgeted for completion in 2026.

2025 Actual Revenues vs. Budget were $882,216 unfavorable variance, primarily due to not receiving the full grant amount budged in 2025 due to the above referenced deferred capital project.

2024 Actual Expenses vs. Budget were a $4,398,667 favorable variance.
2024 Actual Revenues vs. Budget were a $335,314 favorable variance.

The actual Plant Investment fee revenue received in 2025 was more than budgeted due primarily to an improved building economy including increased commercial development.

CAPITAL ASSETS AND DEBT ACTIVITIES

During 2025, the District expended $3,928,003 on 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 2025. Collection system infrastructure projects included manhole structure replacements and cured in place pipelining to rehabilitate several thousand feet of sanitary sewer mainlines. Equipment included purchase of a Jet/Vac Truck, and several projects to upgrade treatment plant facilities including installation of an oxidation ditch mixer at the south end of each basin and completion of the screw lift pump replacement project to develop a new influent pump station.

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 2026 Capital Improvement Plan (CIP) includes continued collection system rehabilitation through CIPP and manhole lining, treatment plant equipment replacement/upgrade, and mobile equipment replacement. In addition, the District is planning to finish a large capital project that started in 2025 to include photovoltaic (PV) panels and a battery energy storage system (BESS) at the treatment facility to offset power costs and to provide added resiliency. Clifton Sanitation District plans to implement these projects in 2026 to continue to protect public health, water quality, and ensure sufficient wastewater capacity to meet future growth needs.

Debt Activities

Funding from revenues projected in 2026 will be sufficient to pay the scheduled debt service amounts. The District incurred new debt in 2025 strictly for the purpose of completing the above PV and BESS capital project. No other projects are anticipated to require incurring new debt. 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 2025 exceeded budget projections and with continued growth and tap sales this budget was increased in 2026.

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.

The District's most recent rate study was completed in 2025 by Raftelis Financial Consultants, Inc. resulting in a rate schedule for the 2025 to 2029 planning horizon. The updated study 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 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 since 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 2025; 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 District completed a 4.0% sewer service rate increase in 2025 and included in the 2026 budget a 3.0% rate increase for residential users with a lower percentage calculated for commercial users to balance the cost of service between these classes as determined by the rate study completed in 2025. 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.

CONTACTING THE DISTRICT MANAGER

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the District's finances and to 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 at 970-434-7422 or 3217 D Road, Clifton, Colorado 81520.

Eli Jennings
District Manager
January 30, 2026

CLIFTON SANITATION DISTRICT
STATEMENT OF NET POSITION
As of December 31, 2025

ASSETS		
CURRENT ASSETS		
Cash on hand and in banks	$	589,841
Accounts receivable-service fees-less $0 allowance		610,024
Investments COLOTRUST		1,932,492
Other receivables		350
Inventory (Cost)		63,444
Prepaid expenses		181,582
Due from State		1,987,960
Accrued interest receivable		46,403
Total Current Assets		5,412,096
NONCURRENT ASSETS:		
Cash -HRA		3,420
Investments		5,648,889
Lease receivable		275,021
Capital assets		33,132,223
Total Noncurrent Assets		39,059,553
TOTAL ASSETS	$	44,471,649
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$	385,316
Other current liabilities		9,448
Unearned revenue		100,000
Accrued interest payable		19,713
Accrued compensated absences		50,005
Current loans payable		842,370
Total Current Liabilities		1,406,852
LONG-TERM LIABILITIES		
Loans payable less current portion		3,509,668
Total Long-term Liabilities		3,509,668
TOTAL LIABILITIES		4,916,520
DEFERRED INFLOWS		
Lease revenue		275,021
NET POSITION		
Invested in capital assets net of related debt		28,780,185
Unrestricted		10,499,923
NET POSITION		39,280,108
TOTAL LIABILITIES AND NET POSITION	$	44,471,649

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, 2025

OPERATING REVENUE	
Charges for services	$ 3,731,587
OPERATING EXPENSES	
Treatment	1,407,396
Collection	427,696
Depreciation	1,286,039
General operating expenses	641,761
Total Operating Expense	3,762,892
Net (Loss) From Operations	(31,305)
NON-OPERATING REVENUE (EXPENSES)	
Miscellaneous income	39,970
Grant income	633,757
Investment income	426,054
Interest expense	(109,233)
Total Non-Operating Revenue	990,548
NET (LOSS) INCOME BEFORE CONTRIBUTIONS	959,243
CAPITAL CONTRIBUTIONS:	
Plant investment fees	365,310
System contribution (non cash)	-
Total Capital Contribution	365,310
Change in Net Position	1,324,553
Total Net Position - Beginning	37,955,556
Total Net Position - Ending	$ 39,280,109

The accompanying notes are an integral part of this statement

CLIFTON SANITATION DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2025

INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	
CASH FLOW FROM OPERATING ACTIVITIES	
Cash received from customers	$ 3,748,415
Cash payments to and on behalf of employees	(1,267,229)
Cash payments to suppliers	(1,098,012)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,383,174
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition & construction of capital assets	(3,908,531)
Loss on sale of assets	4,310
(Increase) Decrease in restricted cash	(878)
Grant proceeds	633,757
Principal payments on lease receivable	216
Increase (decrease) in accrued interest	(9,769)
Other cash receipts	39,970
Proceeds from loan	3,000,000
Payment of loans	(783,676)
(Increase) decrease in loan due from State	(1,987,960)
Plant investment fees	365,310
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(2,647,251)
CASH FLOWS FROM INVESTING ACTIVITIES	
Net Investment income	316,821
(Increase) decrease in interest receivable	(2,836)
Net sale (purchase) of investments	836,491
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	1,150,476
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(113,601)
CASH - Beginning of year	703,442
CASH - End of year	$ 589,841

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income (Loss)	$ (31,305)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation	1,286,039
Change in assets and liabilities	
(Increase) decrease in accounts receivable	17,044
(Increase) decrease in prepaid expenses	(91,412)
Increase (decrease) in accounts payable	241,939
Increase (decrease) in compensated absences payable	(1,131)
Increase (decrease) in unearned revenue	(216)
Increase (decrease) in accrued payroll	(32,174)
Increase (decrease) in other current payables	(5,611)
Total adjustments	1,414,478
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 1,383,174
NON-CASH INVESTING, CAPITAL, AND RELATED FINANCING ACTIVITIES:	
Market value change	$ 136,972
Acceptance of Subdivisions	$ -
Interest expense	$ 109,233

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."

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 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 expenses 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 the income. It is the District’s policy to capitalize 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, 2025.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

RESTRICTED ASSETS/RESERVATIONS OF NET POSITION

Assets are reported as restricted when limitation on their use changes 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 2025 were $50,005.

NOTE 4 – CAPITAL ASSETS

	Balance December 31, 2024	Additions	Deletions	Balance December 31, 2025
Land	$ 3,028,297	$ -	$ -	$ 3,028,297
Land Improvements	1,920,806	1,942,362	-	3,863,168
Building & Improvements	23,215,262	722,261	-	23,937,523
System Transmission Lines	20,178,069	363,345	-	20,541,414
Office Furniture & Equipment	115,688	-	-	115,688
Equipment	6,040,175	880,563	(729,856)	6,190,882
Total	54,498,297	3,908,531	(729,856)	57,676,972
Less Accumulated Depreciation	(23,984,256)	(1,286,039)	725,546	(24,544,749)
Net Capital Assets	$ 30,514,041	$ 2,622,492	$ (4,310)	$ 33,132,223

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.

NOTE 5 – CASH AND DEPOSITS-CONTINUED

Cash and Investments consisted of the following:

Uninsured	$ 453
Deposits: Insured	
Checking, Money markets, CD's	318,588
Deposits: Collateralized	274,221
Total Deposits	593,262
Investments	
ColoTrust	1,932,492
U.S. Treasury NT. (Level 2)	5,648,888
(Rated by Moody's Aaa and S&P AAA)	
Total Investments	7,581,380
Totals	$ 8,174,642

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, 2025, 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 $68,588 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 $274,221 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, 2025, was $742,848. The contribution for 2025 was $44,571 for the employer and $44,571 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 choose. On December 31, 2025, two employees are contributing to the plan. The District does not match the contributions to this plan.

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, 2025 is as follows:

Tap fees	$ 365,310
Donated sewer lines by developers	-
	$ 365,310

NOTE 8 – MEDICAL REIMBURSEMENT PLAN (HRA)

In 2011, the District established an HRA plan to cover employees' deductibles. For 2025, the Board has approved $1,170 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 employees 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 for each loan payment date. Below is the amortization of the total $2,000,000:

2026	$ 95,238
2027	95,238
	190,476
Less Current	(95,238)
Total	$ 95,238

Beginning Balance 1/1/2025	$ 285,714
Payment 2025	95,238
Ending Balance 12/31/2025	$ 190,476

NOTE 9 – LOANS PAYABLE-CONTINUED

In 2015, the 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 1/1/25	$ 1,850,000
2025 payments	570,000
Ending Balance 12/31/25	$ 1,280,000

Year	Principal	Interest	Total
2026	$ 615,000	$ 20,462	$ 635,462
2027	665,000	(26,184)	638,816
	1,280,000	(5,722)	1,274,278
Less Current	(615,000)	(20,462)	(635,462)
Long-term Portion	$ 665,000	$ (26,184)	$ 638,816

In 2025, the District received a $3,000,000 loan for their Solar Project. As of December 31, 2025, only $1,012,040 has been drawn. The interest rate is 1.5% and matures in 20 years. The loan was funded by the Waer Pollution Control Revolving Fund. Below is the debt service on the loan.

	Principal	Interest	Total
2026	$ 132,132	$ 42,730	$ 174,862
2027	134,122	40,740	174,862
2028	136,141	38,721	174,862
2029	138,191	36,671	174,862
2030	140,272	34,590	174,862
2031-2035	733,681	140,630	874,311
2036-2040	790,602	83,709	874,311
2041-2044	676,421	23,028	699,449
	2,881,562	440,819	3,322,381
Less Current	(132,132)	(42,730)	(174,862)
	$ 2,749,430	$ 398,089	$ 3,147,519

	Balance January 1, 2025	Additions	Reductions	Balance December 31, 2025	Due within one year
Loans payable					
Loan payable-WPCRF	$ 285,714	$ -	$ (95,238)	$ 190,476	$ 95,238
Loan payable-WPCRF		1,012,039	(118,437)	893,602	132,132
Loan payable-CWRPDA	1,850,000	-	(570,000)	1,280,000	615,000
Total	$ 2,135,714	$ 1,012,039	$ (783,675)	$ 2,364,078	$ 842,370

NOTE 10 – REQUIRED RESERVES

As required by the Colorado Water Resources & Power Development Authority, Clifton Sanitation District must have reserved cash that can meet the required O & M as stipulated in the 2006 Note agreement. For the 2025 budget, the District manages the reserve funds to include operating reserves utilizing six months of operating expenses, ($1,389,935), Emergency Capital Reserves of approximately 1% of the value of the system $500,000; debt service reserves are one year of debt service, ($907,519). The District believes that it meets this requirement.

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, 2025:

Description	Investment in Securities
Level 1: Quoted prices:	$ -
Level 2: Other significant observable inputs:	5,648,888
Level 3: Significant unobservable inputs	-
Total fair value	$5,648,888

NOTE 12 - LEASES

The District has entered into agreements with CommNet for the use of land to for a cell tower. The terms of this agreement include a monthly payment of $692. This lease has a term of 14 years, with a 20-year renewal. The lease agreement provides for a 3% increase beginning with the June payment each year.

The District implemented GASBS No. 87 for the year ended December 31, 2025. In addition, the lease receivable was discounted to a net present value on December 31, 2025, using a 3.0% interest rate.

For the year ending December 31, 2025, the District received $2,716 in lease revenue, $8,255 in lease interest revenues.

Below is the amortization of the future rental income:

NOTE 12 – LEASES-continued

Year ended December 31,	Principal	Interest	Total Payment
2026	$ 544	$ 8,244	$ 8,788
2027	852	8,224	9,076
2028	1,130	8,194	9,324
2029	1,424	8,156	9,580
2030	1,784	8,109	9,893
2031-2035	14,654	39,441	54,095
2036-2040	26,290	36,462	62,752
2041-2045	41,296	31,417	72,713
2046-2050	60,429	23,872	84,301
2051-2055	84,636	13,093	97,729
2056-2057	41,982	1,338	43,320
Total	$ 275,021	$ 186,550	$ 461,571

NOTE 13 – RISK MANAGEMENT AND SUBSEQUENT EVENTS

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 2025. 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 and the following event will be effective for 2026.

In 2025, the District collected revenues exceeding 10% of allowed under TABOR for Enterprise funds. Therefore, in 2026 the District will be considered out of "Enterprise" Status and subject to the TABOR limitation, including the 3% TABOR reserve. The District believes that it will meet theses requiements.

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, 2025

	Actual	Budget	Variance Favorable (Unfavorable)
REVENUES			
Service Charges	$ 3,731,587	$ 3,780,723	$ (49,136)
Miscellaneous income	39,970	33,971	5,999
Plant investment fee	365,310	214,700	150,610
Grant income	633,757	2,000,000	(1,366,243)
Investment income	426,054	49,500	376,554
Total Revenue	5,196,678	6,078,894	(882,216)
EXPENSES:			
Treatment:			
Salaries	588,905	670,569	81,664
Employee benefits	238,153	293,632	55,479
Chemicals	60,244	63,900	3,656
Utilities	155,842	188,960	33,118
Insurance-Treatment	32,491	31,200	(1,291)
Repairs & maintenance	221,746	242,997	21,251
Fuel	8,433	9,200	767
Lab and other tests	30,414	37,875	7,461
Vehicle expense	5,462	34,900	29,438
Other	65,706	69,653	3,947
Total Treatment Expenses	1,407,396	1,642,886	235,490
Collection:			
Salaries	105,917	88,867	(17,050)
Employee benefits	60,441	37,595	(22,846)
Insurance	16,248	15,600	(648)
Repairs & maintenance	64,632	105,873	41,241
Computer & Internet support	3,065	3,971	906
Line maintenance	145,005	147,000	1,995
Traffic control	32,388	32,000	(388)
Total Collection Expense	427,696	430,905	3,209
General & Administrative:			
Salaries	179,161	194,886	15,725
Employee benefits	61,347	75,410	14,063
Communication	16,075	16,964	889
Insurance and bonds	7,895	5,200	(2,695)
Professional fees	227,735	154,500	(73,235)
Directors' fees and expense	8,030	11,000	2,970
Miscellaneous	20,633	7,000	(13,633)
Vehicle expense	792	3,250	2,458
Permits and fees	20,141	21,300	1,159
Occasional labor	-	10,000	10,000
Safety expense	16,988	27,000	10,012
Advertising	8,900	12,008	3,108
Office supplies and postage	71,483	92,318	20,835
Mesa County Treasurer's Fees	2,581	2,366	(215)
Contingency	-	100,000	100,000
Total General & Administrative Expense	641,761	733,202	91,441
Total Expenses	2,476,853	2,806,993	330,140
Capital outlays	3,928,003	7,431,000	3,502,997
Debt service:			
Principal	665,238	665,238	-
Interest	109,233	242,281	133,048
	7,179,327	11,145,512	3,966,185
EXCESS REVENUES OVER (UNDER) EXPENSES	(1,982,649)	$ (5,066,617)	$ 3,083,969
Adjustments to budgetary basis:			
Capital outlay	3,928,003		
System contribution	-		
Depreciation	(1,286,039)		
Debt service	665,238		
CHANGE IN NET POSITION	$ 1,324,553		