# CORTEZ SANITATION DISTRICT

FINANCIAL STATEMENTS
With Independent Auditors' Report

Year Ended December 31, 2025

**CORTEZ SANITATION DISTRICT**
**TABLE OF CONTENTS**
**DECEMBER 31, 2025**

Hoelting & Company, Inc.
CERTIFIED PUBLIC ACCOUNTANTS

# INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Cortez Sanitation District

## Report on the Audit of the Financial Statements

### *Opinions*

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Cortez Sanitation District, as of and for the year ended December 31, 2025 and the related notes to the financial statements, which collectively comprise Cortez Sanitation District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Cortez Sanitation 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. 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 Cortez Sanitation 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 Cortez Sanitation 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.

31 East Platte Avenue, Suite 300 • Colorado Springs, CO 80903 • (719) 630-1091 • Fax (719) 630-0522 • www.hoeltingco.com

***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 generally accepted 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 generally accepted 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 Cortez Sanitation 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 Cortez Sanitation 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 as listed in the table of contents 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 Cortez Sanitation District basic financial statements. The accompanying Supplementary Information as listed in the table of contents 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 our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Hoelting & Company Inc.

Colorado Springs, Colorado
July 8, 2026

**CORTEZ SANITATION DISTRICT**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**FOR FISCAL YEAR ENDED DECEMBER 31, 2025**

As management of Cortez Sanitation District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2025. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

## FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by $27,973,714 (*net position)*. Of this amount, $7,781,036 (*unrestricted net position*) may be used to meet the District's ongoing obligations to its citizens and creditors.

- The District's total net position increased by $700,120.

- As of the close of the current fiscal year, the District's governmental activities and business-type activities reported ending fund balance and net position of $12,155 and $27,961,559 respectively.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements. The District's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements.

### Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances as a whole, in a manner similar to a private-sector business and include two statements:

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information reporting how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods. Accrued interest payable is an example of this type of item.

Both government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District include the collection of property tax and payment of bonded debt. The business-type activities of the District include operations that are intended to recover all or a significant portion of their costs through user fees.

**Fund Financial Statements**

A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The fund financial statements provide more detailed information about the District's operations, focusing on its most significant funds, not the District as a whole. The District has two types of funds: governmental fund and proprietary fund.

*Governmental Funds*: The District's basic services are included in this governmental fund, which focuses on (1) how money flows into and out of the fund and (2) the balances left at year-end that are available for spending or reserves. Consequently, the governmental fund statements provide a detailed short-term view that helps determine the status of financial resources that can be spent in the near future to finance the District's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Thus, readers may better understand the long-term impact of the District's near-term financing decisions. To facilitate this comparison between governmental funds and governmental activities, reconciliations are provided for both the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balance, if differences exist.

The District has one governmental fund, the debt service fund. The debt service fund accounts for revenues and expenditures for the receipt and payment of administration and debt.

*Proprietary Funds*: The District maintains one type of proprietary fund. The proprietary fund type is called the enterprise fund. Enterprise funds are used to present the same functions as the business-type activities presented in the government-wide financial statements. The District uses an enterprise fund to account for its service operations.

**Notes to the Basic Financial Statements**

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents supplementary schedules concerning the District's annual appropriated budgets for the debt service fund and the enterprise fund. A budgetary comparison schedule has been provided to demonstrate compliance with the budget.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. In the case of the District, total assets exceeded liabilities by $27,973,714 as of December 31, 2025. Of the total net position, 70% of the District's assets comprise its investment in capital assets.

The District had an increase in net position from governmental activities of $509 for the year, and an increase from business-type activities of $699,611, for a total increase of $700,120.

**Condensed Statement of Net Position**

| | 2025 | 2024 | Change |
|---|---|---|---|
| Current and other assets | $ 8,713,423 | $ 7,670,888 | $ 1,042,535 |
| Capital assets, net depreciation | 20,806,683 | 21,464,473 | (657,790) |
| Total assets | 29,520,106 | 29,135,361 | 384,745 |
| Current liabilities | 371,499 | 507,606 | (136,107) |
| Long-term liabilities | 1,174,893 | 1,354,161 | (179,268) |
| Total liabilities | 1,546,392 | 1,861,767 | (315,375) |
| Net position: | | | |
| Net investment in capital assets | 19,452,523 | 19,935,841 | (483,318) |
| Restricted | 740,155 | 778,646 | (38,491) |
| Unrestricted | 7,781,036 | 6,559,107 | 1,221,929 |
| Total net position | $ 27,973,714 | $ 27,273,594 | $ 700,120 |

**Comments – Assets**

Current Assets have increased primarily due to growth in cash and investment accounts and an increase in the accounts receivable balance. Capital Assets have decreased due to the sale of an older jet rodder truck and increased depreciation.

In 2025, the District purchased the following capital assets:

- Pumps and equipment
- RAS system upgrades
- Flow meter
- Storage unit
- Communication equipment
- Replacement trucks
- Montezuma replacement project (in progress at year-end)
- Southwest plant blower project (in progress at year-end)

**Comments – Liabilities**

Current and long-term liabilities decreased as loan payments continued according to the amortization schedules with no new debt added during the year.

**Condensed Statement of Activities**

| | 2025 | 2024 | Change |
|---|---|---|---|
| Revenues: | | | |
| Program revenues | | | |
| Charges for services | $ 3,516,616 | $ 3,330,615 | $ 186,001 |
| Capital grants and contributions | 83,126 | 217,500 | (134,374) |
| General revenues | | | |
| Investment earnings | 248,427 | 212,947 | 35,480 |
| Gain on disposal of capital assets | 61,288 | 2,000 | 59,288 |
| Other income | 2,608 | 1,436 | 1,172 |
| Total revenues | 3,912,065 | 3,764,498 | 147,567 |
| Expenses: | | | |
| Sewer operations | 2,147,566 | 1,982,208 | 165,358 |
| Depreciation | 1,064,379 | 1,084,338 | (19,959) |
| Total expenses | 3,211,945 | 3,066,546 | 145,399 |
| Change in net position | 700,120 | 697,952 | 2,168 |
| Net position - beginning | 27,273,594 | 26,575,642 | 697,952 |
| Net position - ending | $ 27,973,714 | $ 27,273,594 | $ 700,120 |

**Comments – Revenues**

The increase in revenues is primarily due to an increase in usage fees, additional interest received on investments, and more capital assets sold in the current year.

**Comments – Expenses**

The increase in expenses is primarily due to increasing costs across all budget areas.

## ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The debt service fund is the District's governmental fund. It accounts for tax receipts used to retire debt and related administrative costs. The fund balance at the beginning of the 2025 fiscal year was $11,646. The ending fund balance for 2025 of $12,155 reflects a fund balance increase of $509.

The enterprise fund is the District's service operations fund. It accounts for charges for service and related costs. The net position at the beginning of the 2025 fiscal year was $27,261,948. The ending net position for 2025 of $27,961,559 reflects a net position increase of $699,611. The increase was due primarily to the increased sewer charges in 2025. Of the ending net position, $728,000 was restricted as a required reserve fund under requirements of the District's long-term debt agreements.

## BUDGETARY HIGHLIGHTS

The District adopts an annual appropriated budget for both the governmental fund and proprietary fund. No changes were made to either budget during the year. The District Board adopted the 2026 Budget on December 8, 2025. An appropriation resolution of $4,308,370 for the enterprise fund was approved.

During 2025, the debt service fund had a net change in fund balance of $509 due to investment earnings during the year.

During 2025, the enterprise fund had actual expenditures of $2,757,023.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The District's investment in capital assets for its business-type activities at the end of the year was as follows:

| | 2025 | 2024 |
|---|---|---|
| Land | $ 169,686 | $ 169,686 |
| Construction in progress | 141,504 | - |
| Distribution lines | 18,489,141 | 18,499,141 |
| Buildings and plant | 12,866,685 | 12,879,685 |
| Equipment | 4,164,397 | 3,967,060 |
| Vehicles | 1,036,002 | 1,464,421 |
| Furniture and fixtures | 52,961 | 52,961 |
| Intangible assets | 40,325 | 40,325 |
| Accumulated depreciation | (16,154,018) | (15,608,806) |
| Capital assets, net | $ 20,806,683 | $ 21,464,473 |

### Long-term debt

At the end of current fiscal year, the District had $1,354,160 in long-term debt, as follows:

| | 2025 | 2024 |
|---|---|---|
| Notes payable | $ 1,354,160 | $ 1,528,631 |
| Lease purchase agreement | - | 16,895 |
| Total | $ 1,354,160 | $ 1,545,526 |

## BUDGETARY AND ECONOMIC FACTORS

**Budgetary Highlights and Outlook -** There were no amendments to the 2025 budget during the year. Budgeted 2026 revenues are expected to decrease from 2025 actual revenues due to expected reductions in interest on investments, and other fees and charges. Certain expenditures for 2026 are expected to increase reflecting increases in salaries, plant operations, sewer line maintenance, capital outlays, and other costs of operations as the district continues work on replacing aging infrastructure and replacing worn out equipment at the treatment facility.

**Economic and Environmental Factors**
Each year, the adoption of the budget must ensure quality of services for all customers and fiscal stability in ever changing political and economic conditions. Many factors, including the state's financial condition and ever-increasing costs must be considered in budget preparation.

## REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Cortez Sanitation District, Post Office Drawer 730, 2908 South Broadway, Cortez, Colorado, 81321.

# BASIC FINANCIAL STATEMENTS

**CORTEZ SANITATION DISTRICT**
**STATEMENT OF NET POSITION**
**DECEMBER 31, 2025**

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 12,155 | $ 7,694,302 | $ 7,706,457 |
| Accounts receivable | - | 915,428 | 915,428 |
| Capital credits receivable | - | 91,538 | 91,538 |
| Total current assets | 12,155 | 8,701,268 | 8,713,423 |
| Noncurrent assets: | | | |
| Capital assets, not being depreciated | - | 311,190 | 311,190 |
| Capital assets, net of depreciation/amortization | - | 20,495,493 | 20,495,493 |
| Total noncurrent assets | - | 20,806,683 | 20,806,683 |
| Total assets | 12,155 | 29,507,951 | 29,520,106 |
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Accounts payable | - | 42,195 | 42,195 |
| Accrued wages payable | - | 11,670 | 11,670 |
| Accrued interest payable | - | 2,177 | 2,177 |
| Compensated absences | - | 93,064 | 93,064 |
| Unearned revenue | - | 43,126 | 43,126 |
| Notes payable - due within one year | - | 179,267 | 179,267 |
| Total current liabilities | - | 371,499 | 371,499 |
| Noncurrent liabilities: | | | |
| Notes payable - net of current portion | - | 1,174,893 | 1,174,893 |
| Total noncurrent liabilities | - | 1,174,893 | 1,174,893 |
| Total liabilities | - | 1,546,392 | 1,546,392 |
| **NET POSITION** | | | |
| Net investment in capital assets | - | 19,452,523 | 19,452,523 |
| Restricted | | | |
| Operating reserve | - | 728,000 | 728,000 |
| Debt service | 12,155 | - | 12,155 |
| Unrestricted | - | 7,781,036 | 7,781,036 |
| Total net position | $ 12,155 | $ 27,961,559 | $ 27,973,714 |

The accompanying notes are an integral part of these financial statements.

**CORTEZ SANITATION DISTRICT**
**STATEMENT OF ACTIVITIES**
**FOR THE YEAR ENDED DECEMBER 31, 2025**

| | | Program Revenues | | Net Revenue (Expense) and Changes in Net Position | | |
|---|---|---|---|---|---|---|
| Functions/Programs | Expenses | Charges for Services | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Business-type activities: | | | | | | |
| Sewer operations | $ 3,211,945 | $ 3,516,616 | $ 83,126 | $ - | $ 387,797 | $ 387,797 |
| Total business-type activities | $ 3,211,945 | $ 3,516,616 | $ 83,126 | - | 387,797 | 387,797 |
| General revenues: | | | | | | |
| Investment earnings | | | | 509 | 247,918 | 248,427 |
| Gain on disposal of capital assets | | | | - | 61,288 | 61,288 |
| Other income | | | | - | 2,608 | 2,608 |
| Total general revenues | | | | 509 | 311,814 | 312,323 |
| Change in net position | | | | 509 | 699,611 | 700,120 |
| Net position - beginning | | | | 11,646 | 27,261,948 | 27,273,594 |
| Net position - ending | | | | $ 12,155 | $ 27,961,559 | $ 27,973,714 |

The accompanying notes are an integral part of these financial statements.

**CORTEZ SANITATION DISTRICT**
**BALANCE SHEET**
**GOVERNMENTAL FUNDS**
**DECEMBER 31, 2025**

| | Debt Service Fund |
|---|---|
| **ASSETS** | |
| Current assets: | |
| Cash and cash equivalents | $ 12,155 |
| Total current assets | 12,155 |
| Total assets | $ 12,155 |
| **FUND BALANCE** | |
| Restricted for: | |
| Debt Service | $ 12,155 |
| Total fund balance | 12,155 |
| Total fund balance | $ 12,155 |

The accompanying notes are an integral part of these financial statements.

**CORTEZ SANITATION DISTRICT**
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE**
**GOVERNMENTAL FUNDS**
**FOR THE YEAR ENDED DECEMBER 31, 2025**

| | Debt Service Fund |
|---|---|
| **REVENUES** | |
| Investment earnings | $ 509 |
| Net change in fund balance | 509 |
| Fund balance - beginning | 11,646 |
| Fund balance - ending | $ 12,155 |

The accompanying notes are an integral part of these financial statements.

**CORTEZ SANITATION DISTRICT**
**STATEMENT OF NET POSITION**
**PROPRIETARY FUNDS**
**DECEMBER 31, 2025**

| | | Sewer Enterprise Fund |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ | 7,694,302 |
| Accounts receivable | | 915,428 |
| Total current assets | | 8,609,730 |
| Noncurrent assets: | | |
| Capital credits receivable | | 91,538 |
| Capital assets, not being depreciated | | 311,190 |
| Capital assets, net of depreciation/amortization | | 20,495,493 |
| Total noncurrent assets | | 20,898,221 |
| Total assets | $ | 29,507,951 |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable and other accrued liabilities | $ | 42,195 |
| Accrued salaries and benefits | | 11,670 |
| Compensated absences | | 93,064 |
| Unearned revenue | | 43,126 |
| Accrued interest | | 2,177 |
| Notes payable - due within one year | | 179,267 |
| Total current liabilities | | 371,499 |
| Noncurrent liabilities: | | |
| Notes payable - net of current portion | | 1,174,893 |
| Total noncurrent liabilities | | 1,174,893 |
| Total liabilities | | 1,546,392 |
| **NET POSITION** | | |
| Net investment in capital assets | | 19,452,523 |
| Restricted: | | |
| Operating reserves | | 728,000 |
| Unrestricted | | 7,781,036 |
| Total net position | | 27,961,559 |
| Total liabilities and net position | $ | 29,507,951 |

The accompanying notes are an integral part of these financial statements.

**CORTEZ SANITATION DISTRICT**
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND NET POSITION**
**PROPRIETARY FUNDS**
**FOR THE YEAR ENDED DECEMBER 31, 2025**

| | Sewer Enterprise Fund |
|---|---|
| **OPERATING REVENUES** | |
| Sewer charges | $ 3,389,441 |
| Other income | 127,175 |
| Total operating revenues | 3,516,616 |
| **OPERATING EXPENSES** | |
| Administration | 614,465 |
| Sanitation board | 15,072 |
| Plant operation | 904,113 |
| Sewer line maintenance | 602,719 |
| Interest and fiscal charges | 11,197 |
| Depreciation | 1,064,379 |
| Total operating expenses | 3,211,945 |
| Total operating income | 304,671 |
| **NONOPERATING REVENUES** | |
| Sewer development charges | 41,563 |
| Plant investment fees | 41,563 |
| Investment earnings | 247,918 |
| Gain on disposal of capital assets | 61,288 |
| Other income | 2,608 |
| Total nonoperating revenues | 394,940 |
| Change in net position | 699,611 |
| Net position - beginning | 27,261,948 |
| Net position - ending | $ 27,961,559 |

The accompanying notes are an integral part of these financial statements.

**CORTEZ SANITATION DISTRICT**
**STATEMENT OF CASH FLOWS**
**PROPRIETARY FUNDS**
**DECEMBER 31, 2025**

| | Sewer Enterprise Fund |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Cash received from customers | $ 3,243,543 |
| Other operating cash receipts | 135,078 |
| Cash payments to employees and board members | (1,369,803) |
| Cash payments to suppliers for goods and services | (893,184) |
| Net cash provided (used) by operating activities | 1,115,634 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| Miscellaneous | 2,608 |
| Net cash provided (used) by noncapital financing activities | 2,608 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | |
| Sewer development charges | 41,563 |
| Plant investment fees | 41,563 |
| Capital expenditures | (418,091) |
| Proceeds from sale of capital assets | 72,790 |
| Debt principal payments | (191,367) |
| Net cash provided (used) by capital and related financing activities | (453,542) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Interest received | 247,918 |
| Net cash provided (used) by investing activities | 247,918 |
| Net increase (decrease) in cash and cash equivalents | 912,618 |
| Cash and cash equivalents - beginning balance | 6,781,684 |
| Cash and cash equivalents - end balance | $ 7,694,302 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | |
| Operating income | $ 304,671 |
| Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities: | |
| Depreciation | 1,064,379 |
| Changes in assets and liabilities: | |
| Accounts receivable | (137,311) |
| Capital credit | 7,903 |
| Accounts payable | (91,253) |
| Accrued wages payable | (90) |
| Compensated absences | (20,401) |
| Unearned revenue | (8,587) |
| Accrued interest | (3,677) |
| Net cash provided (used) by operating activities | $ 1,115,634 |

The accompanying notes are an integral part of these financial statements.

# NOTES TO FINANCIAL STATEMENTS

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Cortez Sanitation District (the District) have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the District are discussed below.

*A. REPORTING ENTITY*

The District is a special district organized under Colorado Statutes on February 17, 1953. The District provides sanitation services and generally serves the residents of Cortez, Colorado, and the surrounding area. The District is governmental in nature and is autonomous from other organizations, and the residents of the District elect the Board.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is both legally and substantively separate from the government.

*B. BASIS OF PRESENTATION – GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS*

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. Any fiduciary activities are reported only in the fund financial statements. Governmental activities are supported by taxes and intergovernmental revenues. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which direct expenses of given functions or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges for sanitation services, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and proprietary funds. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges for interfund services provided and used, the elimination of which would distort the direct costs and program revenues reported for the various functions.

The emphasis of fund financial statements is on major funds. Major individual funds are reported as separate columns in the fund financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The District reports the following major governmental fund:

The *Debt Service Fund* accounts for the accumulation of resources for and the payment of principal, interest and related expenses on long-term general obligation debt.

The District reports the following major enterprise fund:

The *Sewer Enterprise Fund* accounts for business-like activities provided to the general public. These activities are financed primarily by user's charges, and the measurement of financial activity focuses on net income measurement similar to the private sector.

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

*C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING*

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue in the fiscal year in which all eligibility requirements imposed by the provider have been met.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the period or soon enough thereafter to pay liabilities of the current fiscal period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants recognize revenue when the qualifying expenditures have been incurred and all other grant requirements have been met, and the amount is received during the period or within the availability period of this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

*D. ASSETS, LIABILITIES, AND NET POSITION/FUND BALANCE*

*Cash and cash equivalents*

Cash and cash equivalents include cash on hand and in the bank and short-term investments with original maturities of three months or less from the date of acquisition.

*Investments*

Investments with a maturity of less than one year when purchased, non-negotiable certificates of deposit, and other nonparticipating investments are stated at cost or amortized cost. Investments with a maturity greater than one year when purchased are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

Local government investment pools in Colorado must be organized under Colorado Revised Statutes, which allows certain types of governments within the state to pool their funds for investment purposes. Investments in such pools are valued at the pool’s share price, the price at which the investment could be sold.

*Receivables*

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Capital Assets*

Capital assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset, or materially extend asset lives, are not capitalized. Improvements are capitalized and are depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation expense has been computed using the straight-line method over the estimated economic useful lives:

| | |
|---|---|
| Buildings and improvements | 30-50 years |
| Infrastructure Assets | 30-50 years |
| Vehicles and equipment | 5-20 years |
| Office equipment | 3-10 years |

When depreciable property is acquired, depreciation is included in expense for the year of acquisition for the number of months during the year the asset was in service. When depreciable property is retired or otherwise disposed of, depreciation is included in expense for the number of months in service during the year of retirement and the related costs and accumulated depreciation are removed from the accounts with any gain or loss reflected in the statement of revenue, expenses and changes in fund net position.

*Unearned Revenue*

Customer credit balances and early payments for sewer services are recorded as unearned revenue.

*Interfund Receivables/Payables and Transfers*

During the course of operations, payments or receipts may be made or received in one fund but relate to activity in another fund, resulting in interfund receivables/payables. These receivables and payables are classified, if applicable, as “due from other funds” and “due to other funds” in the fund financial statements. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as interfund transfers. Interfund receivables/payables are not expected to be repaid within one year.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Leases*

Lessee - The District is a lessee for a noncancellable lease of a vehicle. The District recognizes a lease liability and an intangible right-to-use lease assets in the government-wide and proprietary fund financial statements. The District recognizes lease liabilities with an initial, individual value of $15,000 or more.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

*Long-term liabilities*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the debt using the straight-line method. Bonds payable are reported net of the applicable premium or discount.

In the fund financial statements, governmental fund types recognize premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Net position flow assumption*

The District may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

*Fund Balance Classification*

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications available to be used in the governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action that was used when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors or through the Board of Directors delegating this responsibility to management through the budgetary process. This classification also includes the remaining positive fund balance for any governmental funds except for the General Fund.

Unassigned – This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The District would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*E. REVENUES AND EXPENDITURES/EXPENSES*

*Program revenues*

Amounts reported as program revenues include 1) fees and charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Revenues that are not classified as program revenues, including all taxes, are reported as general revenues.

*Compensated absences*

The District recognizes a liability for compensated absences in accordance with the provisions of GASB Statement No. 101, *Compensated Absences*. Under this standard, a liability is reported for leave that is attributable to services already rendered, is to be used for time off, and is more likely than not to be used for time off or otherwise paid.

Employees of the District are allowed to accumulate unused vacation. Upon termination of employment with the District, an employee is compensated for all accrued vacation within the maximum leave accruals at the current rate of pay. These compensated absences are recognized when due in the governmental funds types. A liability has been recorded in the government-wide financial statements for accrued compensated absences.

*Operating and non-operating revenues and expenses*

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the fund are sanitation assessments, late and reconnect charges, and inspection fees. Operating expenses include all expenses incurred to provide sanitation services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

*F. ESTIMATES*

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

*Budget information*

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In the fall, a proposed operation budget is submitted to the Board for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted by the District to obtain taxpayer comments.
3. Prior to December 31, the budget is legally enacted through passage of a resolution. This authorizes a lump-sum expenditure budget by fund for the District. This aggregate expenditure budget, by fund, then becomes the level of control upon which expenditures cannot legally exceed appropriations. An appropriation ordinance is also adopted which allocates the total budget by fund.
4. Any revisions that alter the budget of any fund must be approved by the Board by passage of a resolution.
5. Formal budgetary integration is employed as a management control device during the year for the debt service fund.
6. Budgets for the debt service fund are adopted on a basis consistent with GAAP. Budgeted amounts are as originally adopted or as amended by the Board.
7. All annual appropriations lapse at the end of the year.

## NOTE 3 – DEPOSITS AND INVESTMENTS

As summary of deposits and investments as of December 31, 2025, is as follows:

| | | |
|---|---|---|
| Deposits | $ | 3,873,623 |
| Investments | | 3,832,834 |
| Total | $ | 7,706,457 |

Deposits and investments are reported in the financial statements as follows:

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 7,706,457 |

*Cash deposits with financial institutions*

<u>Custodial Credit Risk—deposits</u>: Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits might not be recovered. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. 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 102% of the uninsured deposits.

The carrying amount of the District's deposits at December 31, 2025 were $3,873,623 and the bank balances were $3,905,468. Of the bank balances, $250,000 were covered by federal deposit insurance, and the remaining balance was uninsured but collateralized in accordance with the provisions of the PDPA.

## NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

*Investments*

The District is authorized by Colorado statutes to invest in the following:

- Obligations of the United States and certain U.S. government agencies' securities;
- Certain international agencies' securities;
- General obligation and revenue bonds of U.S. local government entities;
- Bankers' acceptances of certain banks;
- Certain commercial paper;
- Local government investment pools;
- Written repurchase agreements collateralized by certain authorized securities;
- Certain money market fund;
- Guaranteed investment contracts.

At December 31, 2025, the District's investment balances were as follows:

| Investment Type | Year-end Balance | Measurement | Maturity | Standard & Poor's Rating |
|---|---|---|---|---|
| C-SAFE | 3,069,425 | Net asset value | Less than 90 days | AAAm |
| ColoTrust | 763,409 | Net asset value | Less than 90 days | AAAm |
| Total | $ 3,832,834 | | | |

*Local Government Investment Pools.* The Colorado Local Government Liquid Asset Trust (ColoTrust) is an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces the requirements of creating and operating the pools, which operate in conformity with the Securities and Exchange Commission's Rule 2a-7 as promulgated under the Investment Company Act of 1940, as amended, which includes the maintenance of each share equal in value to $1.00. Investments are limited to those allowed by state statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodians' internal records identify the investments owned by the participating governments. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

<u>Interest Rate Risk</u> – Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. As a means of managing its exposure to interest rate risk, the District has a board approved investment policy that limits investment maturities to five years or less. Colorado revised statute 24-75-601 also limits investment maturities to five years or less.

<u>Credit Risk</u> – Credit risk is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. State law and District policy limit investments to those described above.

**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

Concentration of Credit Risk – Concentration of credit risk is the risk of loss that may be caused by the District's investment in a single issuer. The District places no limit on the amount it may invest in any one issuer. More than 20 percent of the District's investments are in ColoTrust. These investments are 80% of the District's total investments.

*Fair value of investments*. The District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles (GAAP). These guidelines recognize a three-tiered fair value hierarchy as follows:

- Level 1 inputs reflect prices quoted in active markets.
- Level 2 inputs reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.
- Level 3 inputs reflect prices based upon unobservable sources.

District investments measured at net asset value or amortized cost fall under the existing exemptions to fair value measurement.

*Restricted cash and cash equivalents*

The loan agreements with the Colorado Water Resources and Power Development (CWRPDA) generally require that the District maintain a minimum of a three-month operating reserve relating to the anticipated expenditures for the Enterprise Fund.

As of December 31, 2025, $728,000 was restricted as an operating reserve as required by debt covenants.

As of December 31, 2025, $12,155 of cash and investments were restricted for debt service.

Restricted cash is included in cash and cash equivalents.

## NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2025 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets, not being depreciated | | | | |
| Land | $ 169,686 | $ - | $ - | $ 169,686 |
| Construction in progress | - | 141,504 | - | 141,504 |
| Total capital assets, not being depreciated | 169,686 | 141,504 | - | 311,190 |
| Capital assets, being depreciated | | | | |
| Distribution lines | 18,499,141 | - | (10,000) | 18,489,141 |
| Buildings and plant | 12,879,685 | - | (13,000) | 12,866,685 |
| Equipment | 3,967,060 | 231,587 | (34,250) | 4,164,397 |
| Vehicles | 1,464,421 | 45,000 | (473,419) | 1,036,002 |
| Furniture and fixtures | 52,961 | - | - | 52,961 |
| Intangible assets | 40,325 | - | - | 40,325 |
| Total capital assets, being depreciated | 36,903,593 | 276,587 | (530,669) | 36,649,511 |
| Less accumulated depreciation for: | | | | |
| Distribution lines | (6,388,826) | (453,921) | 10,000 | (6,832,747) |
| Buildings and plant | (5,721,402) | (274,115) | 2,600 | (5,992,917) |
| Equipment | (2,197,224) | (257,060) | 34,250 | (2,420,034) |
| Vehicles | (1,283,164) | (68,158) | 472,317 | (879,005) |
| Furniture and fixtures | (10,125) | (3,060) | - | (13,185) |
| Intangible assets | (8,065) | (8,065) | - | (16,130) |
| Total accumulated depreciation | (15,608,806) | (1,064,379) | 519,167 | (16,154,018) |
| Total capital assets, being depreciated, net | 21,294,787 | (787,792) | (11,502) | 20,495,493 |
| Total business type capital assets, net | $ 21,464,473 | $ (646,288) | $ (11,502) | $ 20,806,683 |

Depreciation expense was charged to functions and programs as follows:

| | |
|---|---|
| Business-type activities | $ 1,064,379 |

## NOTE 5 - LONG-TERM LIABILITIES

*Water Pollution Control Revolving Fund Loan*

On May 3, 2007, the Colorado Water Resources and Power Development (CWRPDA) issued a loan for $2,000,000 to the District. No subsidies were associated with this loan. The 2007 loan is due in semiannual installments of $69,964 on May 1 and November 1, including interest at 3.5% and an annual administrative fee, through May 1, 2027.

On April 30, 2019, the CWRPDA issued a second loan for $1,400,000 to the District. No subsidies were associated with this loan. The 2019 loan is due in semi-annual installments of $25,485 on May 1 and November 1, including interest at 0.5% through November 1, 2049.

The loan agreements contain provisions that in the event of default by the District, the CWRPDA may take whatever action at law or in equity may appear necessary or desirable to collect the remaining amounts due.

The business activities net revenues, defined as revenues after deducting necessary operation and maintenance expense, are collateral against the loan. Further, rates must be sufficient to produce gross revenues to pay all operating and maintenance expenses, plus 110% of the total debt service payments.

*Supplementary Revenue Allowances (SRA's)* - The CWRPDA appropriates annual SRA's as a way to subsidize the loans they issue, effectively reducing the interest costs to the District.

*Loan Collateral and Covenants* - All capital assets constructed from loan proceeds are collateral against the loan, as well as any other legal remedies available under law in the event the District defaults on the loan. The CWRPDA's covenants include the annual board appropriation of the mill levy, service fees must be sufficient to allow for proper maintenance of the capital assets and provide for operating expenses, establishing a three-month operating reserve, and the annual submission of the final audit. As of December 31, 2025, the District was in material compliance with all covenants.

*Administrative Fees* - The CWRPDA breaks out interest expense into two components, interest and an administrative fee. The administrative fee is the portion of the interest expense internally allocated by the CWRPDA for administrative expenses. The interest expense and administrative fee combined is the total interest expense.

*Lease Purchase Agreement*

On February 15, 2018, the District entered into a contract to finance the purchase of equipment. The lease purchase agreement is due in semi-annual installments of $15,339 on August 8 and February 2, including interest at 4.6%. The District has the option to purchase, at a set option price, on each contract payment date. The lease purchase agreement ended during the year ended December 31, 2025 and was not renewed.

Capital assets acquired through lease purchase obligations are as follows:

| | |
|---|---|
| Equipment | $ 181,842 |
| Accumulated depreciation | (181,842) |
| | $ - |

## NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

Annual debt service requirements to maturity for notes payable are as follows:

| Year Ending December 31 | Principal | Interest |
|---|---|---|
| 2026 | $ 179,267 | $ 11,634 |
| 2027 | 114,259 | 6,676 |
| 2028 | 45,725 | 5,246 |
| 2029 | 45,954 | 5,017 |
| 2030 | 46,184 | 4,787 |
| 2031-2035 | 234,412 | 20,443 |
| 2036-2040 | 240,338 | 14,517 |
| 2041-2045 | 246,414 | 8,441 |
| 2046-2049 | 201,607 | 2,277 |
| | $ 1,354,160 | $ 79,038 |

*Changes in Long-Term Liabilities*

Changes in the District's long-term liabilities for the year ended December 31, 2025, are as follows:

| | Beginning Balance | Deductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|
| *Business-type activities* | | | | |
| Notes payable | $ 1,528,631 | $ (174,471) | $ 1,354,160 | $ 179,267 |
| Lease purchase agreement | 16,895 | (16,895) | - | - |
| *Total business-type activities* | $ 1,545,526 | $ (191,366) | $ 1,354,160 | $ 179,267 |

Interest expense of $11,197 was included in business-type activities for the year ended December 31, 2025.

## NOTE 6 – RETIREMENT PLAN

In 2016, the District established a defined contribution District Retirement Plan (Plan) intended to qualify as a profit-sharing plan under Internal Revenue Code Section 401(a). Any full-time employee who is at least age 18 and scheduled to work regularly at least 30 hours per week is eligible to participate in the Plan upon date of hire. The Plan documents require a contribution of 5% of the participant's compensation. Participants may contribute any amount to the Plan if the contribution satisfies the requirements under law for rollover contributions. Amounts are fully vested at all times. During the fiscal year ending December 31, 2025, the District made $46,484 in retirement contributions.

The District has also established a Section 457 Plan for employee contributions. As of December 31, 2025, no employees are actively contributing to the Section 457 Plan.

**NOTE 7 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As of December 31, 2025, the District was not aware of any contingent liabilities that would require estimates relating to any of these types of exposures.

**NOTE 8 – PARTICIPATION IN PUBLIC ENTITY RISK POOL**

The District is a member of the Colorado Special Districts Property and Liability Pool (CSD Pool). The CSD Pool was created under authority of Colorado State Statutes, and provides defined property and liability coverage, and claims and risk management services.

The District pays an annual premium to the CSD Pool for insurance coverage. For December 31, 2025, the District paid $59,757 in insurance premiums. The District's agreement with the CSD Pool provides the CSD Pool will be self-sustaining through member premiums.

The District is subject to additional liabilities should the CSD Pool's anticipated claims exceed available reserves. There were no significant reductions in insurance coverage from the prior year, and no claims that exceeded reserved coverage in the last three years.

**NOTE 9 – TAX, SPENDING, REVENUE AND DEBT LIMITATIONS**

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the amendment. However, the entity has made certain interpretations of the amendment's language in order to determine its compliance.

**NOTE 10 – SUBSEQUENT EVENTS**

The District had certain construction projects recorded as construction in progress at December 31, 2025. Subsequent to year-end, the projects are substantially complete or completed and placed into service as follows:

The Montezuma Replacement Project, which was included in construction in progress at December 31, 2025, is substantially completed and expected to be placed into service in August 2026. The total capitalized cost of the project is estimated to be approximately $540,000 and will be subsequently reclassified to capital assets and depreciated over its estimated useful life on completion.

The Southwest Plant Blower Project, also included in construction in progress at December 31, 2025, was substantially completed and placed into service in March 2026. The total capitalized cost of the project was approximately $111,000 and has been reclassified to capital assets and depreciation commenced upon placement into service.

# SUPPLEMENTARY INFORMATION

# CORTEZ SANITATION DISTRICT
# DEBT SERVICE FUND
# SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
# BUDGET AND ACTUAL
# FOR THE YEAR ENDED DECEMBER 31, 2025

| | Budgeted Amounts | | | |
|---|---|---|---|---|
| | Original | Final | Actual Amounts | Variance with Final Budget |
| **REVENUES** | | | | |
| Investment earnings | $ - | $ - | $ 509 | $ 509 |
| Net change in fund balance | - | - | 509 | 509 |
| Fund balances - beginning | 11,052 | 11,052 | 11,646 | 594 |
| Fund balances - ending | $ 11,052 | $ 11,052 | $ 12,155 | $ 1,103 |

See the accompanying independent auditors' report

**CORTEZ SANITATION DISTRICT**
**SEWER ENTERPRISE FUND**
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN NET POSITION**
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**
**FOR THE YEAR ENDED DECEMBER 31, 2025**

| | Budgeted Amounts | | | |
|---|---|---|---|---|
| | Original | Final | Actual Amounts | Variance with Final Budget |
| **REVENUES** | | | | |
| Sewer service fees | $ 3,343,224 | $ 3,343,224 | $ 3,389,441 | $ 46,217 |
| Other fees & charges | 60,000 | 60,000 | 129,783 | 69,783 |
| Interest on investments | 145,111 | 145,111 | 247,918 | 102,807 |
| Sewer development charges | 77,000 | 77,000 | 41,563 | (35,437) |
| Sewer development charges designated | 77,000 | 77,000 | 41,563 | (35,437) |
| Gain on disposal of equipment | - | - | 61,288 | 61,288 |
| Total revenues | 3,702,335 | 3,702,335 | 3,911,556 | 209,221 |
| **EXPENDITURES** | | | | |
| Administration | 648,529 | 648,529 | 614,465 | 34,064 |
| Sanitation board | 32,362 | 32,362 | 15,072 | 17,290 |
| Plant operations | 1,120,406 | 1,120,406 | 904,113 | 216,293 |
| Sewer line maintenance | 631,855 | 631,855 | 602,719 | 29,136 |
| Capital outlay | 1,100,350 | 1,100,350 | 418,091 | 682,259 |
| Debt service | | | | |
| Principal | 189,466 | 189,466 | 191,367 | (1,901) |
| Interest | 16,775 | 16,775 | 11,197 | 5,578 |
| Total expenditures | 3,739,742 | 3,739,742 | 2,757,024 | 982,718 |
| **Income - budget basis** | $ (37,407) | $ (37,407) | 1,154,532 | $ 1,191,939 |
| **To reconcile net income to GAAP basis** | | | | |
| Capital outlay | | | 418,091 | |
| Principal payments | | | 191,367 | |
| Depreciation | | | (1,064,379) | |
| **Change in net position - GAAP basis** | | | $ 699,611 | |

See the accompanying independent auditors' report

**CORTEZ SANITATION DISTRICT**
**DEBT SERVICE COVERAGE AND RESERVE REQUIREMENTS**
**FOR THE YEAR ENDED DECEMBER 31, 2025**

| | |
|---|---|
| Revenues | |
| Sewer assessments | $ 3,389,441 |
| Other operating revenues | 127,175 |
| Sewer development charges | 41,563 |
| Plant investment fees | 41,563 |
| Investment earnings | 247,918 |
| Gain on disposal of capital assets | 61,288 |
| Other nonoperating revenues | 2,608 |
| TOTAL REVENUES | 3,911,556 |
| Operating Expenses | 3,211,945 |
| Less: depreciation and amortization | (1,064,379) |
| NET OPERATING EXPENSES | 2,147,566 |
| NET REVENUES (PLEDGED PROPERTY) | $ 1,763,990 |
| 2025 Debt service on obligations secured by Pledged Property: | |
| Loans (principal and interest) | $ 185,668 |
| Lease payable (principal and interest) | 16,895 |
| Total Debt Service | 202,563 |
| Net Revenues | $ 1,763,990 |
| DEBT SERVICE COVERAGE FACTOR | 870.84% |
| OPERATION & MAINTENANCE RESERVE: | |
| Operating expenses (net of depreciation) | $ 2,147,566 |
| 3 month reserve | 25% |
| Calculated three month reserves | $ 536,892 |
| Add annual debt service payment | 190,901 |
| Total operating reserve | $ 727,793 |
| Actual Reserve | $ 728,000 |

See the accompanying independent auditors' report.