LEADVILLE SANITATION DISTRICT
LEADVILLE, COLORADO

FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION WITH
INDEPENDENT AUDITOR'S REPORT
AND
SCHEDULE OF FEDERAL EXPENDITURES

DECEMBER 31, 2025 and 2024

LEADVILLE SANITATION DISTRICT
LEADVILLE, COLORADO

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Leadville Sanitation District
Leadville, Colorado

Report on the Audit of the Financial Statements

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of Leadville 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 Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 Leadville 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 opinion.

Other Matter
Summarized Comparative Information

The financial statements include summarized prior-year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended December 31, 2024, from which such summarized information was derived.

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 Leadville 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.

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 Leadville 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 the Leadville 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 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 Leadville Sanitation District's basic financial statements. The Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual, and the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual, and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report July 20, 2026 on our consideration of Leadville Sanitation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Leadville Sanitation District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Leadville Sanitation District's internal control over financial reporting and compliance

Watson Coon Ryan, LLC

Watson Coon Ryan, LLC
Centennial, Colorado
July 20, 2026

Leadville Sanitation District
Management's Discussion and Analysis
Year Ended December 31, 2025

As management of the Leadville Sanitation District (the District), we offer readers of the Leadville Sanitation District's financial statements this narrative overview and analysis of the financial activities of the Leadville Sanitation District for the fiscal year ended December 31, 2025. The District provides wastewater collection and treatment to residential, commercial, and industrial customers in the City of Leadville and adjacent incorporated area.

The Management's Discussion and Analysis (MD&A) should be read in conjunction with the District's financial statements.

Financial Highlights

The assets of the Leadville Sanitation District exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by $15,633,284 (net position). Of this amount, $3,545,982 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

Total assets for the Leadville Sanitation District are $32,808,083. Of this amount $19,594,602 are capital assets and $9,952,532 of loan proceeds were held by a trustee.

Total liabilities for the Leadville Sanitation District are $16,866,276. Of this amount $13,637,430 are long term loans payable.

Overall Analysis

Total assets for the Leadville Sanitation District increased by $4,337,634 between the fiscal years 2024 and 2025. This increase primarily consists of infrastructure improvements to the Sewer Collection System & the Wastewater Treatment Plant. Of this amount $9,952,532 is funds held by a trustee. The District provides a fee-based service for collection and treatment of wastewater. On January 1, 2025, the District increased the Service charges from $49.50 to $52.00 for in-District residents and from $74.25 to $78.00 for out-of-District residents per month, per EQR which increased revenue by $81,931.56.

Tap Fees revenue is used for capital improvements to the Wastewater Treatment Plant (WWTP). On January 1, 2025 Tap fees increased from $15,000 to $18,000 per EQR because of high-density development in Leadville and the surrounding area.

Capital assets have increased due to the WWTP improvement project in process in 2025. Costs related to engineering for the improvements have been capitalized and will be depreciated when the project is completed. The majority of the District's infrastructure is beyond its useful life and is under significant enforcement orders with Colorado Department of Public Health and Environment's (CDPHE).

The District has the following funding mechanisms outstanding:

The District has been awarded a CDPHE Design and Engineering Grant of $300,000 and a Tier II Energy/Mineral Impact Assistance Fund Grant (EIAF grant) of $750,000. The District has also been approved for funding through the State Revolving Funds (SRF) Program for a Loan of $14,972,380. These funds will be used to make the necessary replacements to the District's infrastructure. The SRF Loan was awarded in May 2024 and started repayment in August 2024. The terms of the SRF Loan are 20 years at 2.00% interest.

TIF Area—A downtown development authority (DDA) or urban renewal authority (URA), may form plan areas that use "tax increment financing" to derive revenue from increases in assessed valuation (gross minus net, Form DLG 57 Line 3) attributed to the activities/improvements within the plan area. The DDA or URA receives the differential revenue of each overlapping taxing entity's mill levy applied against the taxing entity's gross assessed value after subtracting the taxing entity's revenues derived from its mill levy applied against the net assessed value. In 2025 the District has had an impact from LURA (Leadville Urban Renewal Authority). In 2018 the City of Leadville formed LURA. The LURA includes Railyard and "modest" redevelopment in the Downtown area. The creation of LURA allows the City to use TIF (tax increment financing) to subsidize improvements. When improvements in the area are made this will create a higher tax revenue, which will be redirected back to the developer, or other entities, to help defray infrastructure costs. These infrastructure costs include items such as roads and utilities, which the District is hopeful it can join into an intergovernmental agreement with LURA to use a portion of TIF revenues to improve the District's Collection System. In 2025 the TIF reduced the District's current year's gross total taxable assessed valuation by $5,244,972.

Temporary Tax Credit for Operations

The Temporary General Property Tax Credit/ Temporary Mill Levy Rate Reduction of 39-1-111.5, C.R.S. may be applied to the taxing entity's levy for general operations to effect refunds. Temporary Tax Credits (TTCs) are not applicable to other types of levies (non-general operations) certified on this form because these levies are adjusted from year to year as specified by the provisions of any contract or schedule of payments established for the payment of any obligation incurred by the taxing entity per 29-1-301(1.7), C.R.S., or they are certified as authorized at election per 29-1-302(2)(b), C.R.S. In 2026 the amount of money necessary to balance the budget for general operating purposes from the property tax revenues is $308,523. The 2025 valuation for assessment for the District as certified by the Lake County Assessors is $101,000,090 less the $5,244,972 TIF.

Overview of the Financial Statements

This discussion and analysis is intended to introduce the Leadville Sanitation District's basic financial statements.

The financial statements of the District are presented as a special government engaged only in business-type activities - providing sewer utility services.

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

The Statements of Revenues, Expenses and Changes in Net Position present information that reflects how the District's net position changed during the past year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

The Statements of Cash Flows report the District's cash flows from operating, capital, and related financing, and investing activities.

These financial statements distinguish functions of the District that will be principally supported by service charges and taxes. The functions of the District include effective and economical operation of wastewater sanitation systems within and surrounding the jurisdictional boundaries of the District. The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

NET POSITION

	2025	**2024**
ASSETS:		
Current assets	3,260,949	2,546,180

Funds held by trustee	9,952,532	16,472,380
Capital assets	19,594,602	9,451,889
Total Assets	32,808,083	28,470,449
LIABILITIES:		
Current liabilities	3,228,846	1,378,644
Noncurrent liabilities	13,637,430	14,203,962
Total Liabilities	16,866,276	15,582,606
DEFERRED INFLOWS OF RESOURCES:		
Unavailable property tax revenue	308,523	138,605
Total deferred inflows of resources	308,523	138,605
NET POSITION:		
Net investment in capital assets	12,026,302	8,975,992
Restricted for Tabor emergency reserve	61,000	55,000
Unrestricted	3,545,982	3,718,246
Total Net Position	15,633,284	12,749,238

The District's net position may serve as a useful indicator for the District's financial position. In the case of the District, assets exceed liabilities and deferred inflows by $15,633,284 as of December 31, 2025.

During 2025, the District's net position increased $2,884,046. As of December 31, 2025, total gross capital assets excluding accumulated depreciation are $25,123,597, which is an increase of $10,369,373 from the 2024 amount of $14,754,524. The change in capital assets primarily relates to the WWTP improvements that began in 2024. Capital assets details can be found on page 15.

During 2025, total liabilities increased by $1,283,670. The increase in total liabilities is primarily related to the Wastewater Treatment Plant improvements performed in 2025 & the invoices being paid in 2026.

During 2025, net investment in capital assets increased by $3,050,310. The increase in net investment in capital assets is mostly related to the phase 1 of the sewer system improvement project and is part of the District's ongoing capital improvements to the collection system.

Economic Factors and Next Year's Budget and Rates

The Leadville Sanitation District owns and operates a Wastewater Treatment Plant (WWTP). In 2025 the WWTP underwent engineering reviews and worked towards finalizing improvement project plans with construction beginning in 2024. The WWTP will be undergoing construction including repairing the headworks building and upgrading various equipment including septage receiving pumps. The aeration basins will be repaired and lined followed by the installation of new mechanical assemblies. Clarifiers and solids handling equipment processes will be retrofitted or replaced. A new building will be constructed in 2025 and 2026 to house UV Disinfection, electrical MCC, automation and blower equipment. The District was offered a Tier II Energy/Mineral Impact Assistance Fund Grant (EIAF grant) of $750,000 to assist with the Leadville Wastewater Treatment Plant Improvement Project and its planning. Additional funding for the project has been secured through a loan from the Colorado Water Pollution Revolving Fund (WPCRP). The project's funding package consists of the WPCR loan, a planning grant, a design and engineering grant, and the EIAF grant, totaling $18,060,000.

Collection system improvements are currently underway to help reduce Infiltration and Inflow and eliminate a potential source of mercury to the WWTP. In 2023 the District televised sections of the existing sewer system to prioritize critical portions needing rehabilitation and repair. Improvements will include the replacement of ageing or failing manholes and damaged sewer mains. Phase I of this project commenced in 2024 and is being funded with District reserves. Phase II will continue into 2025 and is funded with District reserves and a matching $1,000,000 EIAF grant.

The Leadville Sanitation District will continue to increase user fees and taps fees (EQR) annually to fund critical improvements needed at the Wastewater Treatment Plant (WWTP) and Collection system.

Requests for information

This financial report is designed to provide a general overview of the Leadville Sanitation District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Leadville Sanitation District, PO Box 253, Leadville, CO. 80461.

LEADVILLE SANITATION DISTRICT
Statements of Net Position
December 31, 2025 and 2024

	2025	2024
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,165,931	$ 1,845,923
Cash and cash equivalents - restricted	61,000	55,000
Certificates of deposit	--	232,318
Accounts receivable	252,602	187,949
Grants receivable	415,185	32,443
Prepaid expenses	57,708	53,942
Property taxes receivable	308,523	138,605
Total current assets	3,260,949	2,546,180
Noncurrent assets:		
Funds held by trustee	9,952,532	16,472,380
Capital assets, net of accumulated depreciation	7,365,052	7,410,608
Capital assets, not depreciated	12,229,550	2,041,281
Total noncurrent assets	29,547,134	25,924,269
Total assets	$ 32,808,083	$ 28,470,449
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable and accrued liabilities	$ 2,630,996	$ 734,153
Deferred revenue	--	25,139
Developer deposits	31,308	72,393
Current portion of loan payable	566,542	546,959
Total current liabilities	3,228,846	1,378,644
Noncurrent liabilities:		
Loan payable, net of current	13,637,430	14,203,962
Total noncurrent liabilities	13,637,430	14,203,962
DEFERRED INFLOWS OF RESOURCES		
Unavailable property tax revenue	308,523	138,605
Total deferred inflows of resources	308,523	138,605
Net position:		
Net investment in capital assets	12,026,302	8,975,992
Restricted for TABOR emergency reserve	61,000	55,000
Unrestricted	3,545,982	3,718,246
Total net position	$ 15,633,284	$ 12,749,238

The accompanying notes are an integral part of this financial statement.

LEADVILLE SANITATION DISTRICT
Statements of Revenues, Expenses and Changes in Net Position
For the years ended December 31, 2025 and 2024

	2025	2024
Operating revenue		
Charges for services	$ 2,645,915	$ 2,468,200
Operating expenses		
Personnel costs	488,625	433,225
Contract services	421,464	397,678
Utilities	156,046	169,109
Office expenses	121,198	51,691
Insurance, taxes and fees	119,524	149,457
Plant operations	322,151	328,815
Depreciation	272,377	263,844
Total operating expenses	1,901,385	1,793,819
Net operating income (loss)	744,530	674,381
Non-operating revenues (expenses):		
Property taxes, net of county collection fees	141,698	145,456
Specific ownership taxes	7,061	6,022
Interest income	75,048	124,705
Other income	39,147	--
Interest expense	(406,352)	(128,036)
Total non-operating revenues (expenses), net	(143,398)	148,147
Capital contributions		
Tap fees	914,417	819,100
Grant proceeds	1,368,497	1,592,443
Total capital contributions	2,282,914	2,411,543
Change in net position	2,884,046	3,234,071
Total net position - beginning of year	12,749,238	9,515,167
Total net position - end of year	$ 15,633,284	$ 12,749,238

The accompanying notes are an integral part of this financial statement.

LEADVILLE SANITATION DISTRICT
Statements of Cash Flows
For the years ended December 31, 2025 and 2024

		2025		2024
Cash flows from operating activities:				
Cash received from customers	$	2,515,035	$	2,389,885
Cash paid to suppliers		(1,768,301)		(1,129,588)
Cash payments to employees for services		(488,625)		(433,225)
Net cash provided by operating activities		258,109		827,072
Cash flows from noncapital financing activities:				
Property tax and specific ownership collections, net		148,760		151,478
Net cash provided by noncapital financing activities		148,760		151,478
Cash flows from capital financing activities:				
Tap fees received		914,417		819,100
Payments on loans payable		(546,949)		(221,459)
Loan proceeds received		6,519,848		--
Cash paid to lenders for interest		(406,352)		(128,036)
Capital grant proceeds received		985,755		300,000
Cash paid for capital acquisitions		(7,854,947)		(3,646,889)
Net cash (used) by capital financing activities		(388,228)		(2,877,284)
Cash flows from investing activities:				
Certificates of deposits matured		232,319		71,036
Certificates of deposits purchased		--		(71,036)
Reinvested interest on certificates of deposit		--		(2,668)
Interest received		75,048		124,705
Net cash provided by investing activities		307,367		122,037
Net increase (decrease) in cash		326,008		(1,776,697)
Cash and restricted cash, beginning of year		1,900,923		3,677,620
Cash and restricted cash, end of year	$	2,226,931	$	1,900,923
Reconciliation of operating (loss) to net cash provided by operations:				
Net operating income (loss)	$	744,530	$	674,381
Adjustments to reconcile operating (loss) to cash provided by operating activities:				
Depreciation		272,377		263,844
Change in operating assets and liabilities:				
(Increase) decrease in accounts receivables		(64,656)		(76,327)
(Increase) decrease in developers deposits		(41,085)		--
(Increase) decrease in deferred revenue		(25,139)		--
(Increase) decrease in prepaid expenses		(3,766)		(1,813)
Increase (decrease) in accounts payable and accrued liabilities		(624,152)		(33,013)
Total adjustments		(486,421)		152,691
Net cash provided by operating activities	$	258,109	$	827,072

The accompanying notes are an integral part of this financial statement.

1. Summary of significant accounting policies

Leadville Sanitation District's (the District) financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The more significant of the District's accounting policies are described below.

Reporting entity. The District is a Statutory, Single-Purpose, Special District governed by a five-member Board of Directors that are elected by the qualified voters in the District. It is a quasi-municipal corporation and a political subdivision of the State of Colorado with all powers thereof, which includes the power to levy taxes against property within the District. The Board is accountable only to the voters and has no authority or influence over any other governmental entity. Likewise, the District is not financially dependent upon nor directly influenced by any other level of government. These financial statements reflect the operation of the District only.

The District is a special-purpose government engaged only in business-type activities. As such, only enterprise fund financial statements are presented.

Measurement focus, basis of accounting and financial statement presentation. The accompanying financial statements are presented in accordance with GASB Statement No. 34. The government-wide financial statements (i.e. the statement of net position and the statement of revenues, expenses, and changes in fund net position) report information on the business-type activities of the District, which rely to a significant extent on taxes, user fees and charges for support. The statement of activities demonstrates the degree to which expenses of the business-type activities are supported by user fees.

The government-wide 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.

The District's operations are classified as an Enterprise fund that accounts for the acquisition, operation, and maintenance of activities that are similar to a business. The business-type fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations, the delivery of wastewater. Operating expenses for the fund include wastewater expenses, all revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Proprietary fund revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Assets, liabilities, deferred inflows of resources, and net position

Cash and cash equivalents. For purposes of the statement of cash flows, the District considers demand deposits and all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents.

Noncash capital and financing activities. As of December 31, 2025, $2,520,994 of capital asset acquisitions were included in accounts payable and had not yet been paid in cash. These transactions did not result in cash flows during the period and are therefore disclosed as noncash capital and financing activities in accordance with GASB Statement No. 9 guidance

Fair value of financial instruments. The District's financial instruments include cash and investments, accounts receivable, and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2025 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Prepaid items. Payments made to vendors that will benefit periods beyond the end of the current calendar year are recorded as prepaid items.

Property taxes receivable. Taxes levied in one year are collected in the succeeding year. Thus, taxes certified in 2024 were collected in 2025 and taxes certified in 2025 will be collected in 2026. Taxes to be collected are due on January 1st in the year of collection; however, they may be paid in either one installment (no later than April 30th) or two equal installments (not later than February 28th and June 15th) without interest or penalty. Taxes which are not paid within the prescribed time bear interest at the rate of one percent (1 %) per month until paid. Unpaid amounts and the accrued interest thereon become delinquent on June 16th.

Accounts receivable. Accounts receivable primarily consist of connection fees earned as of December 31, 2025. The District considers all receivables to be collectible at December 31, 2025.

Capital assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Capital outlay for projects is capitalized as projects are constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The District has not adopted a formal written capitalization policy. Based on management's established practice, expenditures for individual assets with a cost of more than $1,000 are capitalized, while expenditures at or below that threshold are expensed as incurred.

Disposal plant, collection lines, and equipment on hand, have been stated at estimated historical cost at date of acquisition. All additions since that date have been stated at the actual cost to the District.

Treatment plants, distribution systems, equipment, and vehicles are depreciated using the straight-line method over their estimated useful lives ranging from 5 to 100 years.

Leases and subscription-based IT arrangements. Under GASB 87 and 96, the District recognizes short-term lease payments as outflows of resources based on the payment provisions of the lease contract.

Compensated absences. The District accrues accumulated unpaid vacation, personal and compensatory leave when earned by the employee. The District has a policy which allows employees to accumulate unused vacation, personal, and compensatory leave, up to a certain maximum number of hours.

The accumulated vacation, personal, and compensatory leave, is recorded as an accrued liability and current salary expense when incurred in the propriety fund financial statements. In the event of termination, an employee is reimbursed for the accumulated hours up to the maximum amounts. Earned but unused vacation benefits are accrued when incurred in the financial statements.

Long Term Obligations. Loans payable are recognized as liabilities when incurred. Loans payable are recorded at the amount of proceeds received, net of any applicable discounts or premiums. Interest expense is recognized over the term of the note using the effective interest method. Principal payments reduce the outstanding balance of the loans payable. The current portion of loans payable due within one year is classified as a current liability, with the remainder classified as a noncurrent liability in the statement of net position.

Deferred inflows of resources. In addition to liabilities, the statements of net position report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Accordingly, the item, deferred property tax revenue, is deferred, and recognized as an inflow of resources in the period that the amount becomes available.

Net position. Net position is classified as net position and may be displayed in three components:

- *Net investment in capital assets* - 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 net position* - consists of net position with constraints placed on the use either by (1) external groups, such as creditors, grantors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- *Unrestricted net position* - all other net position that do not meet the definition of "restricted" or "net investment in capital assets." This net position is available for future operations or distributions.

For presentation purposes when both restricted and unrestricted resources are available for use, it is the District’s practice to use restricted resources first, then unrestricted resources as they are needed.

Revenues and expenses. Revenues and expenses are distinguished between operating and non-operating items. Operating revenues generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are fees for wastewater collection and treatment services.

Tap fees, which represent one-time charges paid by new customers or existing customers for the right to receive wastewater collection service, are recognized as revenue at the time payment is received. At this point, the customer’s right to system capacity is established and the District’s obligation to provide service is triggered. No receivable is recorded for tap fees, as the right to join the District is not granted until payment is made. Tap fees received from customers are accounted for as contributions to capital rather than as operating revenue

Operating expenses include the costs associated with the wastewater collection services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Use of estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities and deferred inflow of resources at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Risk management. The District has secured commercial insurance to cover any general liability or Workers' Compensation claims subject to $1,000 - $2,500 and $500 deductibles per claim respectively. No claims have been settled that exceeded insurance limits in the past three fiscal years.

Budgetary information. Budgets are adopted on a non-US GAAP basis wherein depreciation is not budgeted; capital expenditures and principal payments on capital debt are budgeted and recorded as expenditures. The District conforms to the following procedures, in compliance with CRS, Title 29, Article 1, in establishing the budgetary data reflected in the financial statements:

- Prior to October 15, the District’s Treasurer submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The budget includes proposed expenditures and the means of financing them.
- Public notice is offered by the Board of Directors to obtain taxpayer comments.
- Prior to December 31, the budget is adopted by formal resolution.
- Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures must be approved by the Board of Directors.
- All appropriations lapse at the end of each fiscal year.

The District has a Tax Increment Financing (TIF) arrangement in place. The TIF is not material to the District’s financial position or results of operations. The net assessed value used for budget purposes excludes the portion of assessed value captured by the TIF district. Incremental tax revenues generated by the TIF district are allocated to the TIF project rather than the District’s general fund.

For the year ended December 31, 2025, the District initially adopted a budget that included four separate funds. The budget was subsequently amended during the year to correct this presentation, consolidating all amounts into a single General Fund. The amendment did not result in any changes to total budgeted amounts; rather, it served solely to properly reflect all activity within the appropriate fund structure. As a result of this amendment, the financial statements present both the original and amended budget for the General Fund for comparative purposes. No other funds are presented in the budgetary comparison, as the amended budget reflects the consolidation of all previously reported funds into the General Fund.

Recently issued accounting pronouncements. In December 2023, GASB issued Statement No. 102, Certain Risk Disclosures. Statement 102 requires note disclosure when (a) a concentration or constraint is known prior to issuance of the financial statements, (b) it makes the reporting unit vulnerable to the risk of a substantial impact, and (c) an event associated with the concentration or constraint has occurred, begun to occur, or is more likely than not to begin to occur within 12 months of issuance.

The District adopted the requirements of the guidance effective January 1, 2025, and has elected to apply the provisions of this standard to the beginning of the period of adoption. Management performed the analysis required under Statement 102 did not identify any concentrations or constraints that require disclosure.

Related Party Transactions During the years ended December 31, 2025, the District did not engage in any transactions with related parties that would require disclosure under generally accepted accounting principles.

Prior Year Comparative Information The financial statements include certain prior year summarized comparative information in total. Comparative footnote disclosures are not presented; only current year footnotes are provided. As a result, the summarized prior year information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2024, from which the summarized information was derived. This approach is intended to facilitate year-over-year analysis while maintaining clarity and relevance in the disclosures

2. Detailed notes concerning the fund

Cash, cash equivalents and restricted cash. At December 31, 2025, the carrying amount of the District's deposits totaled $2,226,931 and the bank balances totaled $2,301,250 all bank balances were covered by federal depository insurance, or pledged collateral held by the financial institution in the District's name.

The District's investments consisted of local investment pools at fiscal year-end. The District's investments are stated at fair value, with certain exceptions described below. The District categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, which provides a framework for measuring fair value and establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices within Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

Certain investment types are not required to be measured at fair value; these include money market funds and certain investment pools which are measured at amortized cost, and other investment pools which are measured at the net asset value (NAV) determined by the pool, which approximates fair value. These instruments are exempt from categorization within the fair value hierarchy.

At December 31, the District had the following cash and cash equivalents:

	2025
COLOTRUST	$ 1,233,761
CSAFE	675,337
Cash deposits	317,833
	$ 2,226,931

Cash deposits are classified in the accompanying financial statements as follows:

	2025
Cash and cash equivalents	$ 2,165,931
Restricted cash	61,000
	$ 2,226,931

Cash deposits. 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. The institution is allowed 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 102% of the uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools. The District follows state statutes for investments. None of the District's deposits were exposed to custodial credit risk.

Restricted cash. Restricted Cash - Tabor Emergency Reserve at December 31, 2025 of $61,000, represents funds required under Amendment No. 1, the "Tabor Amendment" passed by Colorado voters in November 1992, for "emergency reserves" and may be utilized only for declared emergencies which exclude economic conditions, revenue shortfalls, and district salary and fringe benefit increases.

Funds held be trustee. As of December 31, 2025, the District had $9,952,532, held by the trustee in connection with the Colorado Water Resources and Power Development Authority loans. These funds are held by the trustee and are disbursed by the trustee as project expenditures are incurred and valid claims are submitted by the District. The District does not have direct access to these funds until claims are approved. Accordingly, the held funds are not reported as cash or cash equivalents in the District’s statement of net position, but are classified as a funds held by trustee. The terms of the arrangement require that funds be used exclusively for eligible project costs, and any remaining balance will be returned to the District or applied according to the agreement at project completion.

Investments. The District has not adopted a formal investment policy; however, the District follows State statutes regarding investments.

The District generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk or investment custodial risk disclosure requirements for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

- Obligations of the United States, certain U.S. government agency securities of the World Bank
- Certain international agency securities

- General obligation and revenue bonds of U.S. local government entities
- Certain certificates of participation
- Certain securities lending agreements
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

As of December 31, 2025, the District had the following investments:

	Maturity	**Amount**
COLOTRUST (at NAV)	Weighted Average Under 60 Days	$ 1,233,761
CSAFE (at NAV)	Weighted Average Under 60 Days	675,337

COLOTRUST. The District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust) an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to $1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and any security allowed under CRS 24- 75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAm by Standard & Poor's. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

CSAFE. The District invested in the Colorado Surplus Asset Fund Trust (CSAFE) (the Trust), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at $1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE is rated AAAm by Standard & Poor's. CSAFE records its investments at amortized cost and the District records its investments in CSAFE using the amortized cost method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

Interest rate risk. The interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. The District's only investments are in local government investment pools and Certificates of Deposit.

Credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. As of December 31, 2025, the District's investments in COLOTRUST and CSAFE were rated AAAm by Standard & Poor's.

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District places no limit on the amount the District may invest in any one issuer. The District's investments are concentrated in local government investment pools.

Forgivable loans. On May 23, 2024, the District Received a $4,500,000 loan from Colorado Water Resources and Power Development Authority, of which $1,500,000 was forgiven upon the execution of the loan. The remaining $3,000,000 loan may be forgiven based on meeting specified eligibility conditions. As of December 31, 2025, the remaining $3,000,000 has not yet been recognized as conditions have not yet been met.

Grant Revenues. On April 12, 2024, the District received a federal grant from the Colorado Department of Local Affairs (DOLA) under the Energy & Mineral Impact Assistance Program in the amount of $750,000 for critical upgrades to its wastewater treatment plant at 13867 Highway 24 in Leadville, Colorado. The District is required to provide $13,794,000 in matching funds, representing 94% of the $14,544,000 total project cost. The project includes improvements to the headworks, aeration basins, clarifiers, sludge systems, solids handling, and disinfection processes, with the District responsible for ownership and maintenance of all improvements for at least ten years following completion. The grant period extends through December 29, 2026, with quarterly reporting, audit, and monitoring requirements, and the District must comply with all applicable procurement, bonding, and construction standards. As of December 31, 2025, the District has recognized $450,757. The remaining $266,800 will be recognized as conditions are met.

On September 11, 2024, the District received a state grant from the Colorado Department of Local Affairs (DOLA) under the Energy & Mineral Impact Assistance Program in the amount of $1,000,000 for Phase 2 sewer system improvements. The project includes design and construction of approximately 2,591 linear feet of 8-inch sanitary sewer mains, 124 service tie-ins, and 13 manholes, with the District responsible for ownership and maintenance of all improvements. The revised project budget totals $2,000,000, with $1,000,000 provided by the grant and $1,000,000 in matching funds from the District, reflecting a required 50% local match. Grant revenue is recognized as eligible expenditures are incurred during the grant period, which runs from the later of the effective date or August 22, 2024, through November 30, 2026. The District complies with state audit and monitoring requirements and maintains records for inspection. As of December 31, 2025, the District has recognized $913,803 as revenue. The remaining $86,197 will be recognized as conditions are met.

Changes in capital assets

The changes in capital assets for the year ended December 31, 2025 are as follows:

	Balance January 1, 2025	Additions	Deletions	Balance December 31, 2025
Capital assets being depreciated				
Sewage Treatment Plant & Equipment	$ 2,492,292	$ 51,875	$ (58,746)	$ 2,485,421
Sewage Collection System	6,744,212	187,674	--	6,931,886
New Plant	2,991,149	--	--	2,991,149
Silverhills Line	485,591	--	--	485,591
Total capital assets being depreciated	12,713,243	239,549	--	12,894,047
Accumulated depreciation	(5,302,636)	(272,377)	46,018	(5,528,995)
Net capital assets	7,410,608	(32,828)	(12,728)	7,365,052
Non-depreciated assets:				
Land	21,352	--	--	21,352
Construction in progress	2,019,930	10,188,268	--	12,208,198
Total non-depreciated assets	2,041,281	10,381,809	--	12,229,550
Total net book value	$ 9,451,889	$ 10,348,981	$ (12,728)	$ 19,594,602

Long-Term Debt

On May 23, 2024, the District has entered into two loan agreements with the Colorado Water Resources and Power Development Authority to finance improvements to its wastewater treatment facilities.

The first loan, a Clean Water State Revolving Fund (“CWSRF”) loan, provides a commitment of up to $12,500,000, with a net effective interest rate of 3.287% and a term extending to August 1, 2045. Repayment is secured solely by net revenues from the District’s wastewater system and is subject to federal compliance requirements, including the Davis-Bacon Act, American Iron and Steel, and Build America Buy America Act.

The second loan, a Revenue Loan with Principal Forgiveness (“RLWPF”), totals $4,500,000, of which $1,500,000 was forgiven up-front as principal forgiveness, and $3,000,000 is repayable over 20 years at a fixed interest rate of 2.00%. Repayment is also secured solely by pledged system revenues, with semi-annual payments scheduled through May 1, 2044.

Each loan agreement contains covenants regarding rate setting, reserve requirements, additional debt limitations, and reporting and maintenance obligations. Both CWSRF loan and RLWPF loan are secured solely by net revenues from the District’s wastewater system and pledged property. As of December 31, 2025, the District is in compliance with all significant debt covenants.

Under the terms of the loan agreements, the CWSRF loan holds senior lien status on pledged revenues, while the RLWPF loan is subordinate to the CWSRF loan. This priority of payment affects the order in which creditors would be paid in the event of default or liquidation. The seniority and subordination provisions are significant terms that impact the risk profile of each loan and are disclosed in accordance with applicable accounting standards Principal and interest requirements to maturity, as well as other significant terms, are disclosed in the following schedules and notes.

As of December 31, 2025 the following changes in debt occurred:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
CWSRF	$ 11,804,787	$ --	$ 422,050	$ 11,382,737	$ 439,133
RLWPF	2,946,134	--	124,899	2,821,235	127,409
Total	$ 14,750,921	$ --	$ 546,949	$ 14,203,972	$ 566,542

The District's outstanding loans with the Colorado Water Resources and Power Development Authority require semi-annual payments of principal and interest. The following schedules present the principal and interest requirements to maturity for each loan, with principal and interest shown separately for each of the next five years and in five-year increments thereafter, as required by GASB standards. These schedules reflect the unique terms of each loan, including interest rates, payment schedules, and any embedded service costs.

The CWSRF Loan future maturity schedule including service fees, principal and interest as of December 31, 2025 are as follows:

December 31,	Principal	Interest	Service Fee	Total Payments
2026	$ 439,133	$ 245,950	$ 95,779	$ 780,862
2027	454,119	233,450	95,779	783,348
2028	462,236	220,700	95,779	778,715
2029	479,273	207,950	95,779	783,002
2030	490,280	193,650	95,779	779,709
2031-2035	2,652,578	772,250	478,895	3,903,723
2036-2040	2,978,171	445,500	478,895	3,902,566
2041-2045	3,426,947	158,600	317,268	3,902,815
	$ 11,382,737	$ 2,478,050	$ 1,753,954	$ 15,614,741

The RLWPF loan future maturity schedule including principal and interest as of December 31, 2025 are as follows:

December 31,	Principal	Interest	Total Payments
2026	$ 127,409	$ 55,791	$183,200
2027	129,970	53,230	183,200
2028	132,582	50,618	183,200
2029	135,247	47,953	183,200
2030	137,966	45,234	183,200
2031-2035	732,558	183,442	916,000
2036-2040	809,199	106,800	916,000
2041-2045	616,303	24,897	641,200
	$ 2,821,235	$ 567,965	$3,389,200

3. <u>Other information</u>

Risk management. The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets, errors or omissions, injuries to employees, or acts of God.

The District has elected to participate in the Colorado Special Districts Property and Liability Pool (the Pool) which is sponsored by the Special District Association of Colorado.

The Pool is an organization created by intergovernmental agreement to provide property, liability, public official liability, and boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for property, general liability and public official's liability coverage. Members of the Pool may be required to make additional surplus contributions in the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool. Any excess funds, which the Pool determines are not needed for purposes of the Pool, may be returned to the members pursuant to a distribution formula. No distributions were made during the year ended December 31, 2025.

Commitments. On May 9, 2024, the District entered into a contract for Phase 1 of the sewer system improvement project with an original contract amount of $2,280,186. As of December 31, 2025, cumulative work performed under the contract totaled approximately $1,922,228 and the remaining commitment under the contract was approximately $357,958. The project includes the design and replacement of approximately 2,480 linear feet of sewer mainline, 14 manholes, and 51 service connections. The District retains ownership and maintenance responsibility for all completed improvements and is funding the project entirely from District reserves.

On September 23, 2024, the District executed a contract for construction and upgrades at the Wastewater Treatment Plant (WWTP) with an original contract value of $15,904,752. On September 12, 2024, the District entered into a construction administration agreement for project oversight services associated with the WWTP improvements totaling $1,185,000. As of December 31, 2025, cumulative work performed and billings under these contracts totaled approximately $7,393,936, and the remaining commitment was approximately $8,510,816. These projects are being funded from federally funded loans and grants.

Contingencies. The District is involved in litigation related to a construction dispute, in which it is both a defendant and a plaintiff. The trial court entered a judgment against the District in the amount of approximately $124,000. The District has appealed the judgment. If the District is unsuccessful on appeal, the total amount payable, including estimated post-judgment interest, is expected to be approximately $135,000. The opposing party is also seeking approximately $101,000 of additional costs that were previously denied by the trial court and are subject to cross-appeal.

Based on the current status of the appeal and consultation with legal counsel, management believes an unfavorable outcome is reasonably possible but not probable. Accordingly, no liability has been recorded in the accompanying financial statements. The District estimates the reasonably possible loss exposure related to this matter to be approximately $135,000, with an additional potential exposure of approximately $101,000 if the opposing party prevails on its cross-appeal. Management will continue to monitor the progress of the litigation and will record any adjustments as necessary in accordance with applicable accounting standards.

TABOR amendment. In November of 1992, Colorado voters approved Amendment 1 to the state Constitution which, is commonly known as The Taxpayer's Bill of Rights or the TABOR Amendment.

The amendment applies to all units of local government and limits taxes, spending, revenue, and multi-year debt (excepting bond refunding to lower interest rates and adding employees to pension plans). The amendment does not apply to units that are defined as "Enterprises." The Leadville Sanitation District does not qualify as an "Enterprise."

The amendment defined the District's year ending December 31, 1992, as the initial base year for purposes of defining compliance with the amendment. The amendment defines inflation and local growth. Future year's revenue, based upon prior year's revenue, is only allowed to increase based upon the inflationary and local growth factors. The District must refund revenue received in excess of the prior year's revenue to the voters, unless the voters were to approve retention of the excess revenue. The District placed a question on the November 1996, ballot that would permit the District to keep and spend all revenues from all sources in 1996 and subsequent years without limiting in any year the amount of other revenues that may be collected. The voters approved this ballot question.

The amendment also requires the District to establish an "Emergency Reserve" which must be equal to 3% of current year's spending. Conditions under which these reserves may be spent are severely limited.

The Leadville Sanitation District, Leadville, Colorado, believes that it is in compliance with the provisions of TABOR, as it is currently understood. Many of the provisions may not become fully understood without judicial review.

4. <u>457(b) employer plan</u>

The District instituted a 457(b) employee retirement plan in which all regularly employed full time permanent employees working at least 32 hours per week may participate after 90 days of service. The district will match up to 6% of the qualifying employee salary contributions as determined by the Board of Directors. All contributions vest immediately. The District has no contingent liability for such items as past service costs. The contributions are $12,771 for 2025.

5. <u>Wastewater treatment plant modernization</u>

The Leadville Sanitation District Wastewater Treatment Plant is in the process of comprehensive renovation and system modernization. Construction commenced in November 2024 and is anticipated to be substantially complete by the fall of 2026. The District's existing wastewater discharge permits are scheduled for renewal in 2026. Although the scope and potential financial impact of any revised or more stringent discharge requirements remain undetermined, management recognizes that such changes could impose additional fiscal obligations on the District and its ratepayers.

During the current reporting period, the District successfully fulfilled the requirements of an Infiltration and Inflow (I&I) compliance order, addressing approximately 25 percent of the critical infrastructure identified as contributing to I&I. The District remains committed to exceeding these compliance benchmarks and continuing its long-term capital improvement initiatives aimed at rehabilitating and upgrading aging infrastructure throughout Lake County and the City of Leadville.

6. <u>Subsequent events</u>

The District has evaluated subsequent events through the report date, which is the date these financial statements were available to be issued. No events or transactions were identified during this period that would require recognition in the financial statements or disclosure in the notes.

LEADVILLE SANITATION DISTRICT
Schedule of Revenues, Expenses and Changes in Net Position -
Budget (Non - US GAAP Basis) and Actual
For the year ended December 31, 2025

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Operating Revenues:				
User fees collected by District	$ -	$ 2,314,772	$ 2,293,167	$ (21,605)
Other fees for services	-	46,800	352,748	305,948
Total operating revenue	-	2,361,572	2,645,915	284,343
Expenditures:				
Personnel costs	-	720,000	488,625	231,375
Contract services	44,500	200,500	421,464	(220,964)
Office expenses	15,158	232,608	121,198	111,410
Insurance, taxes and fees	-	76,250	119,524	(43,274)
Contigencies	5,000	5,000	-	5,000
Utilities	-	176,500	156,046	20,454
Plant operations	28,000	549,500	322,151	227,349
Capital outlay	-	10,400,000	10,621,358	(221,358)
Total expenditures	92,658	12,360,358	12,250,366	109,992
Non-Operating Revenues/Expenses:				
Loan proceeds	-	8,100,000	5,019,848	(3,080,152)
Loan payments	-	(642,728)	(546,949)	95,779
Property tax	138,605	138,605	141,698	3,093
Specific ownership taxes	9,702	9,702	7,061	(2,641)
Interest income	-	30,000	75,048	45,048
Interest expense	-	(318,951)	(406,352)	(87,401)
Total non-operating revenues	148,307	7,316,628	4,290,354	(3,026,274)
Capital Contributions				
Tap fees	-	270,000	914,419	644,419
Grant proceeds	-	1,000,000	1,368,497	368,497
Total capital contributions	-	1,270,000	2,282,916	1,012,916
Net income - non - US GAAP budgetary basis	$ 55,649	$ (1,412,158)	$ (3,031,181)	$ (1,839,007)
Adjustments to US GAAP basis:				
Capital outlay - capitalized			10,621,358	
Loan proceeds recorded as payable			(5,019,848)	
Loan payments recorded as reduction in payable			546,949	
Gain/Loss on disposal of assets			39,145	
Depreciation expense			(272,377)	
Total adjustments to US GAAP basis			5,915,227	
Net income - US GAAP basis			$ 2,884,046	

Leadville Sanitation District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2025

Program	Federal Assistance Listing Number	Passed Through To Subrecipients	Federal Expenditures
U.S. Department of the Interior			
Passed through from Colorado Department of Local Affairs			
Energy and Mineral Impact Assistance Program	15.437	$ -	$ 484,757
U.S. Environmental Protection Agency			
Passed through from Colorado Water Resources & Power Development Authority			
Water Pollution Control Revolving Fund	66.458	-	7,914,650
Total Expenditures of Federal Awards		$ -	$ 8,399,407

See the accompanying notes to schedule of expenditures of federal awards.

Leadville Sanitation District
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2025

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Leadville Sanitation District under programs of the federal government for the year ended December 31, 2025. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Leadville Sanitation District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Leadville Sanitation District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represents adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

3. INDIRECT COST RATE

Leadville Sanitation District has elected to use the de minimis indirect cost rate allowed under the Uniform Guidance.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Leadville Sanitation District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards)*, the financial statements of the business-type activities of Leadville Sanitation District as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise Leadville Sanitation District's basic financial statements, and have issued our report thereon dated July 20, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Leadville Sanitation District's internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Leadville Sanitation District's internal control. Accordingly, we do not express an opinion on the effectiveness of Leadville Sanitation District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2025-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Leadville Sanitation District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Leadville Sanitation District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Leadville Sanitation District's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned. Leadville Sanitation District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Watson Coon Ryan, LLC

CENTENNIAL, COLORADO
July 20, 2026

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Leadville Sanitation District

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Leadville Sanitation District's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Leadville Sanitation District's major federal programs for the year ended December 31, 2025. Leadville Sanitation District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Leadville Sanitation District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Leadville Sanitation District and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Leadville Sanitation District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Leadville Sanitation District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Leadville Sanitation District's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Leadville Sanitation District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Leadville Sanitation District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Leadville Sanitation District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Leadville Sanitation District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2025-002 that we consider to be a significant deficiency. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully,

Watson Coon Ryan, LLC

CENTENNIAL, COLORADO
JULY 20, 2026

Leadville Sanitation District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2025

SUMMARY OF AUDITORS RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified?	x Yes	___ No
Significant deficiencies identified?	___ Yes	x None reported
Noncompliance material to financial statements noted?	___ Yes	x No

Federal Awards

Internal control over major federal programs:

Material weaknesses identified?	___ Yes	x No
Significant deficiencies identified?	x Yes	___ None reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	___ Yes	x No
Identification of major federal programs:	**66.458** Water Pollution Control Revolving Fund	
Dollar threshold used to distinguish between type A and type B programs:	$ 1,000,000	
Auditee qualified as a low-risk auditee?	___ Yes	x No

Section II: Financial Statement Findings

Finding 2025-001
Type of Finding: Material Weakness in Internal Control over Financial Reporting
Repeat Finding: No

Criteria:
Management is responsible for establishing and maintaining effective internal control over financial reporting to ensure that financial statements are prepared in accordance with generally accepted accounting principles (GAAP) and are free from material misstatement. Under 2 CFR 200.303, nonfederal entities must establish and maintain effective internal control over federal awards that provides reasonable assurance that the entity is managing the awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award. Under 2 CFR 200.508, auditees must prepare appropriate financial statements and a schedule of expenditures of federal awards (SEFA).

Condition:
For the year ended December 31, 2025, the Leadville Sanitation District did not perform timely and complete year-end reconciliations of key general ledger accounts, including cash, accounts receivable, accounts payable, and certain accrued liabilities, prior to the commencement of the annual audit. As a result, the auditors proposed and management recorded multiple material audit adjustments to properly state year-end balances in the financial statements and SEFA.

Cause:
The condition resulted from insufficient formal policies and procedures over the year-end financial close process, including inadequate assignment of responsibility and timelines for completing and reviewing reconciliations of significant accounts. Additionally, staffing constraints and competing operational priorities at year-end limited the Organization's ability to complete and review reconciliations on a timely basis.

Potential Effect:
Failure to perform timely and complete reconciliations of significant accounts increases the risk that material misstatements in the financial statements and SEFA will not be prevented or detected and corrected on a timely basis. The need for multiple material audit adjustments is a strong indicator of a material weakness in internal control over financial reporting and may result in users of the financial statements relying on inaccurate financial information.

Questioned Costs: None.

Recommendation:
We recommend that management design and implement a formal year-end financial close and reconciliation process that includes: (1) documented procedures and timelines for preparing and reviewing reconciliations of all significant balance sheet accounts; (2) assignment of clear responsibility for the preparation and independent review of reconciliations; and (3) monitoring controls to ensure reconciliations are completed, reviewed, and any necessary adjustments are recorded prior to finalizing the annual financial statements and SEFA.

Views of Responsible Officials: Management concurs with the finding and will implement controls to ensure necessary material adjustments are identified and posted prior to the annual audit.

Section III: Federal Awards Findings

Finding 2025-002
Type of Finding: Significant deficiency in control with Federal program requirements (Procurement and Suspension and Debarment)

Repeat Finding: No

Criteria:
Under 2 CFR 200.303, nonfederal entities must establish and maintain effective internal control over federal awards to provide reasonable assurance of compliance with federal statutes, regulations, and the terms and conditions of the federal award. The Uniform Guidance further requires that, upon implementing the procurement standards, a nonfederal entity must have written procurement policies and procedures that reflect the procurement requirements in 2 CFR 200.317–.326, including methods of procurement, competition, and required contract provisions. In addition, for procurement transactions, nonfederal entities must ensure that contractors are not suspended or debarred or otherwise excluded from participation in federal assistance programs, typically by checking the System for Award Management (SAM.gov) or obtaining appropriate certifications, when procurement and suspension and debarment are applicable compliance requirements.

Condition:
For the year ended December 31, 2025, the Leadville Sanitation District did not have written procurement policies and procedures that incorporated the applicable Uniform Guidance procurement standards. In addition, for a sample of transactions subject to procurement tested under major federal programs, the District was unable to provide documentation demonstrating that it had verified vendors were not suspended or debarred when such verification was required. Upon further testing, we were able to verify that none of the vendors were suspended or debarred.

Cause:
The condition resulted from management not being aware that formalization and documentation of procurement policies and procedures in accordance with the Uniform Guidance and not implementing a consistent process for documenting suspension and debarment checks for covered transactions were required.

Potential Effect:
The lack of written procurement policies and procedures and the absence of documentation supporting suspension and debarment checks increase the risk that procurement transactions under federal programs may not comply with the Uniform Guidance procurement standards and suspension and debarment requirements. This could result in noncompliance with federal program requirements, potential disallowance of costs, or other remedial actions by federal agencies or pass-through entities.

Questioned Costs: None.

Recommendation:
We recommend that the District (1) develop and formally adopt written procurement policies and procedures that align with the requirements of 2 CFR 200.317–.326, including provisions addressing procurement methods, competition, conflicts of interest, required contract clauses, and documentation requirements; and (2) implement and document procedures to verify and retain evidence that all contractors for covered transactions are not suspended or debarred, such as maintaining SAM.gov search results or equivalent documentation in the procurement files. We also recommend that management provide periodic training to staff involved in the procurement process regarding federal procurement and suspension and debarment requirements.

Views of Responsible Officials: Management concurs with the finding and will implement controls to ensure that written procurement policies and procedures are developed and followed and that required suspension and debarment checks are documented for all covered procurement transactions under federal programs

Section IV: Status of Prior Year Findings

None

LEADVILLE SANITATION DISTRICT

PLANT: 13867 US Hwy 24 BUSINESS OFFICE: 911 US Hwy 24

P.O. Box 253 Leadville, CO 80461 719-486-2993

Audit Finding 2025-001

Planned Corrective Action: Management plans to design and implement a formal year-end financial close and reconciliation process that includes a documented close calendar and procedures for preparing and reviewing reconciliations of all significant balance sheet accounts, including cash, accounts receivable, accounts payable, and accrued liabilities, prior to the commencement of the annual audit. The District will implement standardized reconciliation templates and require that each reconciliation be prepared by an assigned staff member and independently reviewed and approved by a supervisor or finance manager, with signatures and dates retained as evidence of review. Management will also strengthen staffing and oversight during the year-end close by reallocating existing staff or obtaining temporary accounting support, designating a finance lead to monitor reconciliation status through a tracking log, and reporting progress periodically to the District Manager and governing board. In addition, the District will implement interim (quarterly or monthly) closes with reconciliations of key accounts and provide training to accounting personnel on GAAP requirements, SEFA preparation, and reconciliation best practices, including documentation standards, so that material adjustments are identified and recorded before audit fieldwork begins. These actions are intended to ensure timely and complete reconciliations, reduce the need for material audit adjustments, and improve the reliability of the financial statements and SEFA.

Audit Finding 2025-002

Planned Corrective Action: Management plans to develop and formally adopt a comprehensive written procurement policy that aligns with the procurement requirements in 2 CFR 200.317–.326, including provisions addressing methods of procurement, competition, conflicts of interest, required contract clauses, and documentation standards for federally funded purchases. The policy will distinguish between micro-purchases, small purchases, sealed bids, competitive proposals, and noncompetitive procurements, and will specify the documentation required for each method. In addition, the District will establish and implement procedures to verify, prior to award, that all contractors and vendors for covered transactions are not suspended or debarred, typically by performing searches in SAM.gov or obtaining appropriate certifications, and will maintain printed or electronic evidence of those checks in the procurement file. The District will incorporate a procurement checklist or approval form that must be completed and signed by the procurement officer and reviewer, affirming that required suspension and debarment verifications and other Uniform Guidance requirements were performed for each covered procurement. Management will also provide periodic training, at least annually, to staff involved in procurement and grant administration on the Uniform Guidance procurement standards and suspension and debarment requirements, and will perform periodic internal reviews of a sample of federally funded procurements to confirm that the written policy and documentation requirements are consistently followed. Results of such reviews will be reported to management and the governing board to reinforce accountability and drive continuous improvement in the District's internal control over federal awards.

Name of Contact Person: Josh Miller, District Manager

Anticipated Completion Date: Fiscal Year 2026