SOUTH DURANGO SANITATION DISTRICT

Financial Statements and
Independent Auditors' Report

FOR THE YEARS ENDED

DECEMBER 31, 2025 AND 2024

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Independent Auditors' Report

Members of the Board of Directors
South Durango Sanitation District

Opinions
We have audited the accompanying financial statements of the business-type activity of South Durango Sanitation District (the District) as of and for the years ended December 31, 2025 and 2024 the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of South Durango Sanitation District, as of December 31, 2025 and 2024, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions
We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the South Durango Sanitation District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the South Durango 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.

Auditors' 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 auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the South Durango 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 South Durango 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 South Durango Sanitation District's financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Littleton, Colorado
August 28, 2026

SOUTH DURANGO SANITATION DISTRICT
Management's Discussion and Analysis
December 31, 2025

The management of the South Durango Sanitation District (the "District") has provided this narrative overview and analysis of the financial affairs of the District for the fiscal year ended December 31, 2025, as part of the District's Financial Statements and Independent Auditor's Report.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of four parts: Independent Auditor's Report, Management's Discussion and Analysis, Basic Financial Statements, and Supplemental Information.

BASIC FINANCIAL STATEMENTS

Statement of Net Position. The statement of net position includes all the District's assets and liabilities, with the difference between the two reported as *net position*. It provides information pertaining to the nature of the District's current assets and utility plant in service (assets) and its current and non-current obligations (liabilities). The statement also provides the basis for determining the overall financial health of the District including liquidity and financial flexibility.

Statement of Revenues, Expenses and Changes in Net Position. The statement of revenues, expenses and changes in net position includes all the revenues and expenses. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years. These statements measure the success of the District's overall operation and can be used to determine if the District's user fees, tap fees and other charges are adequate to cover expenses and develop adequate reserves.

Statement of Cash Flows. The statement of cash flows presents information concerning the District's cash receipts and cash payments during the year. The statement reports the cash receipts, cash payments and net cash from operating, non-capital financing, capital and related financing activities and investing.

FINANCIAL HIGHLIGHTS

1. The District's total net position on December 31, 2025, was $15,971,900 an increase of $2,347,491 from the prior year. This increase was primarily the result of increases in cash and investments.

2. In 2025, Operating Revenues totaling $1,566,713 exceeded Operating Expenses of $1,513,718 resulting in operating income of $52,995. In 2024 the operating income was $6,507. The increase in operating income from 2024 was due to an increase in charges for services during 2025.

3. Cash receipts from tap fees were $1,551,000 in 2025, an increase from 2024 tap fee revenue. Numerous large developments are currently planned in the District service

area. Tap fee revenue is expected to continue to be a substantial revenue source in future years as the District builds reserve funds for future expansion.

FINANCIAL ANALYSIS OF THE SOUTH DURANGO SANITATION DISTRICT

The true picture of the financial health of the District must be tempered with the operational theory and financial control that is practiced on a daily basis by the District.

FINANCIAL POLICY PRIORITIES

The financial goal of the District is to operate in a cost-efficient manner similar to the practices of private enterprise. The Board of Directors of the District annually reviews its financial policies to assess their impact upon financial activities. Policies that affected financial activities are:

1. Growth pays its own way;
2. Cost of administration and operations are funded from user fees;
3. User fees will fund a portion of capital improvement costs when it is determined that the improvement is needed to serve current customers, make improvements to meet new regulatory requirements or when tap fees are not sufficient; and,
4. Tap fees are used for capital improvements or debt service for capital improvements that are required to serve new customers.

In order to develop and monitor financial policies that adhere to the financial policy priorities, the District completed a comprehensive master plan in 2003. The District made substantial improvements to its treatment and collection system as outlined in the master plan with the last major expansion completed in 2012. The District completed a substantial upgrade to the treatment facility in 2022 to provide increased technological capability.

The District Board authorized the development of an updated master plan in 2017. A financial model has been developed as part of the plan which has allowed the District Board to better analyze future capital needs. Based on the projections in the financial model the Board increased user and tap fees in 2019 for the first time in several years. Additional increases were approved in 2020. As growth continues in the service area the master plan was updated in 2024 to include the next anticipated expansion of the treatment plant. The financial model is updated each year to reflect actual revenues and expenditures as well as changes to future capital expenditures.

Day-to-Day Operational Control of the District

For operational control, the District has segmented its budget into two primary categories: (i) operating expenses including costs for sewage collection, sewage treatment and administration; and (ii) non-operating expenses consisting of capital projects, debt service for bonds and loans used to fund capital projects, and lease purchase obligations for funding equipment used in daily operations. This allows the District to track operating and non-operating revenues and expenditures to determine if the District's financial policy priorities are being achieved. Based on current growth trends and projections the District will be able to pay non-operating expenses from

non-operating revenues (tap fees) except where those expenses are properly allocated to capital projects serving existing customers or lease purchase expenditures for equipment used in daily operations. Those expenses are paid with user fees.

The District's day-to-day operational control involves many levels of planning, forecasting, and budgeting. Revenues and expenses are allocated to specific functions of the District. The staff presents monthly financial reports to the District Board of Directors. The reports contain revenue and expenditure comparisons to the adopted budget. It is an essential tool for the District's long-range financial planning efforts.

Financial Analysis

Net Position

A summary of the statement of net position is included as Table A which appears below. The District's net position (the difference between assets and liabilities) is one way to measure the financial health of the District. Increases or decreases in the District's net position can be indicators of improving or deteriorating financial health. This, coupled with factors such as population growth and regulatory or policy changes, provide an integrated assessment of the District's health.

TABLE A
Summary Statement of Net Position

	2025	2024
Current assets	$ 5,866,129	$ 5,028,273
Net utility plant in service	10,252,123	8,678,407
Total assets	$16,118,252	$13,706,680
Current liabilities	$ 146,352	$ 82,271
Total liabilities	$ 146,352	$ 82,271
Net position:		
Invested in capital assets (net)	$10,252,123	$ 8,678,407
Unrestricted	5,719,777	4,946,002
Total net position	$15,971,900	$13,624,409

From December 31, 2024, to December 31, 2025, total assets increased $2,411,572. Total net position increased $2,347,491 from 2024 which is likely to continue due to expected increases in user fee and tap fee revenue.

Revenues, Expenses and Changes in Net Position

Table B shows the revenues, expenses and changes in net position for 2024 and 2025 for the District. Table B demonstrates that immediate financial needs are being budgeted and can be reasonably expected to be met. On a year-to-year basis, the District plans to operate in accordance with its financial policies. Tap fee revenue is expected to provide sufficient revenue in future years to pay all debt service except any portion which the Board has determined is properly allocated to existing customers.

Although non-cash expenditures such as depreciation are not always covered by operating revenue, beginning in 2020 the District's operating revenue exceeded operating expense including depreciation resulting a small amount of net operating income. The 2025 operating income was significantly higher than in 2024, a trend which the District believes will continue. When no tap fee revenue was available, user fee revenues were used to pay debt service so the amount available to cover depreciation was reduced. Future tap fee revenue is projected to be substantial and should provide adequate funds for payment of debt service, so operating revenue in excess of operating expenses is now available to fund reserves for depreciation. The District is also increasing budgeted amounts for equipment which is projected for replacement with a useful life of less than 10 years.

Future needs for revenue for increased operating expenses and treatment plant improvements to meet new regulatory requirements as demonstrated by the financial model developed as part of the updated master plan project when fee increases are required. Increases in fees were approved and will be necessary in future years as operating costs increase and to accumulate adequate reserves for treatment plant improvements.

TABLE B
Condensed Statements of Revenues, Expenses and Changes in Net Position

	2025	2024
Total operating revenues	$ 1,566,713	$ 1,492,279
Total operating expenses	1,513,718	1,485,772
Operating income	52,995	6,507
Non-operating revenue	$ 1,786,584	$ 754,651
Total non-operating revenue	$ 1,786,584	754,651
Capital contributions	$ 507,912	$ -
Change in Net Position	$ 2,347,491	$ 761,158
Beginning net position	$13,624,409	$ 12,863,251
Ending net position	$15,971,900	$ 13,624,409

Table B shows an increase in net position of the District from 2024 to 2025 of $2,347,491. As noted in the highlights, this increase is primarily the result of increased revenue. The District

anticipates its financial statements will show an increase in net position in future years from increases in revenue as the District continues to accumulate cash reserves for replacement of equipment and future capital needs.

ECONOMIC FACTORS; NEXT YEAR'S BUDGET AND RATES

The Board of Directors and the management of the South Durango Sanitation District considered many factors when it established the budget for 2025. Projected revenue from user fees and changes in operating costs were evaluated and considered before a final budget was adopted. The budget projects substantial tap fee revenue based on projects in the District service area currently planned for 2025.

The Capital Improvements Plan (CIP) of the District is being updated in accordance with the recommendations in the master plan. In addition to major improvements projected in 2027 to meet new regulatory requirements, the CIP also includes expenditures in the next 2 years for replacements and upgrades to the treatment plant which will allow for more efficient operations as growth increases treatment demands.

CONTACTING THE DISTRICT

This financial report is designed to provide our residents, customers, investors, and creditors with the general overview of the District's finances and demonstrates the District's accountability for the money it receives. If you have any questions concerning this report or need additional information, please contact the South Durango Sanitation District at PO Box 2024, Durango, Colorado 81302-2024 or by telephone at (970)382-2623. Information is also available on the District website: http://www.southdurangosanitation.org.

SOUTH DURANGO SANITATION DISTRICT

STATEMENTS OF NET POSITION

December 31, 2025 and 2024

	2025	2024
ASSETS		
Current Assets		
Cash and cash equivalents	$ 94,169	$ 214,541
Investments	5,349,276	4,358,550
Accounts receivable	355,878	396,532
Other receivables	-	3,210
Prepaid expenses	46,731	31,052
Inventory	-	615
Due from Loma Linda Sanitation District	6,232	7,350
Due from developers	13,843	16,423
Total current assets	5,866,129	5,028,273
Utility Plant in Service		
Land and easements	243,120	243,120
Furniture and fixtures	1,490	5,035
Plant and infrastructure	17,415,024	16,155,249
Storage building	20,828	20,828
Equipment	1,525,884	673,758
	19,206,346	17,097,990
Less accumulated depreciation	(8,954,224)	(8,419,583)
Net utility plant in service	10,252,123	8,678,407
Total assets	$ 16,118,252	$ 13,706,680
LIABILITIES AND NET POSITION		
Liabilities		
Current Liabilities		
Accounts payable	$ 99,797	$ 65,623
Accrued compensated absences	43,764	14,314
Revenue received in advance of service	2,791	2,334
Total current liabilities	146,352	82,271
Total liabilities	146,352	82,271
Net Position		
Net investment in capital assets	10,252,123	8,678,407
Unrestricted	5,719,777	4,946,002
Total net position	15,971,900	13,624,409
Total liabilities and net position	$ 16,118,252	$ 13,706,680

The accompanying notes are an integral part of these statements.

SOUTH DURANGO SANITATION DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended December 31, 2025 and 2024

	2025	2024
Operating Revenues		
Charges for services	$ 1,566,713	$ 1,492,279
Operating Expenses		
Collection and treatment	1,128,664	1,193,319
General and administrative	385,054	292,453
Total operating expenses	1,513,718	1,485,772
Operating income	52,995	6,507
Non-operating Revenues		
Tap fees	1,551,000	551,850
Investment earnings	221,545	199,741
Other income	14,039	3,060
Total non-operating revenues	1,786,584	754,651
Capital Contribution		
Developer Donated Lines	507,912	-
Change in Net Position	2,347,491	761,158
Net position at beginning of year, previously reported	13,624,409	12,863,251
Net position at end of year	$ 15,971,900	$ 13,624,409

The accompanying notes are an integral part of these statements.

SOUTH DURANGO SANITATION DISTRICT

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2025 and 2024

	2025	2024
Cash Flows from Operating Activities		
Cash received from customers	$ 1,611,034	$ 1,381,757
Cash paid to suppliers	(656,637)	(837,319)
Cash paid to employees	(265,773)	(165,528)
Net Cash Provided (Used) by Operating Activities	688,624	378,910
Cash Flows from Non-capital Financing Activities		
Tap fees	1,551,000	551,850
Sludge Fees	14,039	3,060
Net Cash Provided (Used) by Non-capital Financing Activities	1,565,039	554,910
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets	(1,604,854)	(240,400)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,604,854)	(240,400)
Cash Flows from Investing Activities		
Sale (purchase) of investments	(990,726)	(1,964,020)
Interest income	221,545	199,741
Net Cash Provided (Used) by Investing Activities	(769,181)	(1,764,279)
Net Cash Increase (Decrease)	(120,372)	(1,070,859)
Cash at beginning of year	214,541	1,285,400
Cash at end of year	$ 94,169	$ 214,541
Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities		
Net operating income (loss)	$ 52,995	$ 6,507
Items to reconcile operating income to cash provided (used) by operating activities		
Depreciation	539,050	518,308
(Increase) Decrease in accounts receivable	40,654	(112,090)
(Increase) Decrease in other receivables	3,210	(99)
(Increase) Decrease in prepaid expenses	(15,679)	(177)
(Increase) Decrease in inventory	615	-
(Increase) Decrease in due from Loma Linda Sanitation District	1,118	(6,700)
(Increase) Decrease in due from / to developers	2,580	535
Increase (Decrease) in accounts payable	34,174	(10,391)
Increase (Decrease) in accrued compensated absences	29,450	(18,650)
Increase (Decrease) in revenue received in advance of service	457	1,667
Total Adjustments	635,629	372,403
Net Cash Provided (Used) by Operating Activities	$ 688,624	$ 378,910

The accompanying notes are an integral part of these statements.

1. Organization

The South Durango Sanitation District (the District) was formed November 9, 1983, for the purpose of providing sanitation services for the residents and businesses located within the District. The District has its own governing board which is elected by eligible voters of the District.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens, and fiscal dependency.

2. Significant Accounting Policies

This summary of the District's significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. The policies are considered essential and should be read in conjunction with the accompanying financial statements.

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units accounted for as proprietary enterprise funds. The enterprise fund is used since the District's powers are related to those operated in a manner similar to a private business enterprise where net income and capital maintenance are appropriate determinations of accountability.

The more significant accounting policies of the District are described as follows:

Proprietary Fund

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. The District's operations are accounted for as one enterprise fund.

Basis of Accounting

The District's records are maintained on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the liability is incurred. Unbilled sewer system utility service receivables are recorded at year end. Penalties, interest, and miscellaneous revenues are recorded when received in cash because they are generally not measurable until actually received. Depreciation is computed and recorded as an operating expense. Expenditures for property, plant and equipment are shown as increases in assets. Tap fees received are recorded as non-operating revenues.

2. Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting

The District's Board follows these procedures in establishing the budget for the year:

1. In accordance with State statutes, prior to October 15, the person designated by the Board of Directors submits to the Board of Directors a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means to finance them for the upcoming year, along with estimates for the current year and actual data for the preceding year. The state statutes require more detailed line item budgets be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for budgetary purposes is at the fund level.

2. Public hearings are conducted to obtain public comment.

3. Prior to December 31, the budget is legally enacted through passage of a resolution.

4. The person designated by the Board is required to present a monthly report to the Board of Directors explaining any variance from the approved budget.

5. State statutes require the adoption of a summary budget for proprietary funds.

6. Appropriations lapse at the end of each calendar year.

7. The District Board may authorize supplemental appropriations during the year.

Deposits and Investments

Colorado law authorizes the District to invest in obligations of the United States, State of Colorado, Colorado counties and school districts, repurchase agreements, financial institutions, and local government investment pools. House bill 1056 expanded the list of investments that are legal for local governments.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments purchased with a maturity of twelve months or less to be cash equivalents.

Prepaid Items

Payments made for services that will benefit periods beyond the end of the current year are recorded as prepaid items.

2. Summary of Significant Accounting Policies (continued)

Allowances for Uncollectibles

No allowance for uncollectibles has been provided because the District has a statutory lien against the property served for all unpaid charges. The Board of Directors of the District believes it will collect on all past due accounts because by statute the lien is perpetual until paid.

Inventories

Inventories are stated at cost.

Fixed Assets

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated acquisition value on the date donated.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the statement of net position. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives range from 5 to 40 years.

Net Position

Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditor, grantors, or laws or regulations of governments. The District's policy with regard to the order of spending is to spend the restricted funds first.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Operating Revenues and Expenses

The District distinguishes between operating revenues and expenses and non-operating items in the Statements of Revenues, Expenses and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing sanitation services to its customers. Operating revenues consist of charges to customers for service provided. Operating expenses include the cost of service, administrative expenses, and depreciation of assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

3. Cash and Investments

Cash, cash equivalents, and investments consist of the following as of December 31:

	2025	2024
Cash & cash equivalents	$ 94,169	$ 214,541
Investments	5,349,276	4,358,550
Total	$ 5,443,445	$ 4,573,091

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories, the eligibility of which is determined by state regulators. Amounts deposited in excess of the federal insurance level must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows the institution to create a single collateral pool for all public funds. The market value of the collateral must be at least 102% of the aggregate uninsured deposits.

The State Regulatory Commissions for banks and financial services are required by statute to monitor the naming of eligible depositories and report of the uninsured deposits and assets maintained in the collateral pools.

Deposits with banks are comprised of the following:

Bank Deposits	Carrying Amount	Bank Balance	Insured	Collateralized
2025	$ 94,169	$ 169,780	$ 169,780	$ -
2024	$ 214,541	$ 245,630	$ 245,630	$ -

For deposits, custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk. As of December 31, 2025 and 2024, the District's bank balance was exposed to custodial credit risk by $0 and $0, respectively. Deposits that are exposed to custodial credit risk are collateralized with securities held by the pledging financial institution through PDPA.

Investments

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

Investments represent the District's holdings in COLOTRUST and certificates of deposit held through Multi-Bank Securities, Inc. COLOTRUST is a local government investment pool that provides Colorado governmental entities with a liquid investment vehicle meeting the investment requirements of Colorado statutes. The District's investments through Multi-Bank Securities, Inc. are held in certificates of deposit through Pershing LLC.

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.

3. Cash and Investments (continued)

Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial risk for investments that are in the possession of another party.

Colorado Revised Statutes limit investment maturities to five years or less (depending on the type of investment) 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 that local governments may invest in, which include:

- obligations of the United States and certain U.S. government agency securities,
- certain international agency securities,
- general obligation and revenue bonds of U.S. local government entities,
- bankers' acceptances of certain banks,
- commercial paper,
- written repurchase agreements collateralized by certain authorized securities,
- certain money market funds,
- guaranteed investment contracts, and
- local government investment pools(*).

As of year-end the District had the following investments:

		Carrying Value	
Investment	**Maturity**	2025	2024
Colorado Local Government Liquid Asset Trust:			
COLOTRUST PLUS+	Weighted average maturity under 60 days	$ 1,888,452	$ 2,889,640
Multi-Bank Securities, Inc:			
Pershing CD Account	Maturity over 90 days	$ 3,460,824	$ 1,468,910
		$ 5,349,276	$ 4,358,550

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 District invested in COLOTRUST PLUS+ (PLUS) and COLOTRUST EDGE (EDGE), two of the three portfolios offered by COLOTRUST.

PLUS+ operates similarly to a money market fund and each share is equal in value to $1.00. There are no unfunded commitments, the redemption period frequency is daily and there is no redemption period.

3. Cash and Investments (continued)

Allowable investments in the PLUS+ portfolio include U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities, certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. EDGE investments consist of money market instruments and medium-term notes designed for the short to intermediate reserve and surplus funds of Colorado governments.

A designated custodial bank serves as custodian for COLOTRUST's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for COLOTRUST'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 COLOTRUST. PLUS+ is rated AAAm by S&P Global Ratings and EDGE is rated AAAf/S1 by Fitch Ratings.

Certain investments measured at fair value on a recurring basis are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District's investments are not required to be categorized within the fair value hierarchy. These investments are measured at amortized cost or in certain circumstances the value is estimated using the net asset value (NAV) per share, or its equivalent of the investment. These investments include 2a7-like external investment pools and money market investments. The District held investments in COLOTRUST at year end for which the investment evaluations were determined as follows.

COLOTRUST determines the NAV of the shares of each portfolio as of the close of business on each day. The NAV per share of each portfolio is computed by dividing the total value of the securities and other assets of the portfolios, less any liabilities, by the total outstanding shares of the portfolios. Liabilities, which include all expenses and fees of COLOTRUST, are accrued daily. The NAV is calculated at fair value using various inputs to determine value in accordance with FASB guidance. It is the goal of PLUS+ to maintain a NAV of $1.00 per share, however changes in interest rates may affect the fair value of the securities held by COLOTRUST and there can be no assurance that the NAV will not vary from $1.00 per share. EDGE does not seek to maintain a stable NAV. Edge investment may fluctuate and could be greater or less than the share price at price of purchase, prior to redemption and at the time of redemption.

Pershing CD Account

The District's investments through Multi-Bank Securities, Inc. are held in a custodial account administered by Pershing LLC and consist of brokered certificates of deposit issued by multiple financial institutions. These investments are purchased and held primarily to preserve principal while providing a predictable stream of interest income. At December 31, 2025, the District held brokered certificates of deposit with a carrying value of $3,460,824. The certificates of deposit have staggered maturities ranging from April 2026 through April 2029 and bear fixed interest rates ranging from 3.80% to 4.30%. The investments are diversified among multiple issuers to reduce concentration risk and are held by Pershing LLC as custodian. Brokered certificates of deposit are eligible for Federal Deposit Insurance Corporation (FDIC) coverage, subject to applicable coverage limits and requirements.

4. Capital Assets

A summary of changes in capital assets during 2025 is as follows:

	Beginning of Year	Additions	Adjustments / Deletions	End of Year
Non-depreciable assets:				
Land and easements	$ 243,120	$ -	$ -	$ 243,120
Depreciable assets:				
Furniture and fixtures	5,035	-	(3,545)	1,490
Equipment	673,758	852,990	(864)	1,525,884
Storage building	20,828	-	-	20,828
Plant and infrastructure	16,155,249	1,259,775	-	17,415,024
	17,097,990	2,112,765	(4,409)	19,206,346
Less accumulated depreciation	8,419,583	534,641	-	8,954,224
Net Utility Plant in Service	$ 8,678,407	$ 1,578,124	$ (4,409)	$ 10,252,122

Depreciation expense for the year ended December 31, 2025 was $534,641

A summary of changes in capital assets during 2024 is as follows:

	Beginning of Year	Additions	Adjustments / Deletions	End of Year
Non-depreciable assets:				
Land and easements	$ 243,120	$ -	$ -	$ 243,120
Depreciable assets:				
Furniture and fixtures	5,035	-	-	5,035
Equipment	654,724	19,034	-	673,758
Storage building	20,828	-	-	20,828
Plant and infrastructure	15,933,883	221,366	-	16,155,249
	16,857,590	240,400	-	17,097,990
Less accumulated depreciation	7,901,275	518,308	-	8,419,583
Net Utility Plant in Service	$ 8,956,315	$ (277,908)	$ -	$ 8,678,407

Depreciation expense for the year ended December 31, 2024 was $518,308.

5. Tap Purchase Agreements

The District entered into a tap purchase agreement with the Tierra Group, LLC and its anticipated successor, GRVP, LLC (Developer), both of whom are wholly owned subsidiaries of the Southern Ute Indian Tribe (the Tribe) on April 16, 2004. This agreement grants the Developer exclusive right to purchase 490 taps between 2004 and 2009. The agreement also required the Developer to purchase taps when requested by the District (Guaranty Taps) when tap sales did not provide sufficient funds for payment of debt service on the District's 2004 revenue bonds. The Developer purchased 182 Guaranty Taps from the District which were assigned to various lots as development occurred. The final Guaranty Tap owned by the Developer was assigned in 2015.

The agreement recognizes the credit enhancement provided by the Tribe, which enabled the District to obtain funds necessary to complete Phase 1 of the Wastewater Treatment Plant and the Grandview Interceptor. In recognition of that enhancement, the District agreed to guarantee the Developer exclusive right to 40% of the capacity in the interceptor.

6. Intergovernmental Agreement

The District and Loma Linda Sanitation District provide wastewater collection and treatment services within their respective service areas which are adjacent to one another. The Colorado statutes encourage and authorize local governments to "cooperate or contract with one another to provide any function, service, or facility lawfully authorized to each of the cooperating or contracting units, including the sharing of costs" (Section 29-1-203). The boards of directors of Districts have approved a Shared Services Agreement that provides for the shared use of certain employees and equipment. This allows each District to provide services more efficiently and at a lower cost. The agreement is reviewed annually for any changes that are needed for allocation of costs, addition or deletion of services and any other necessary changes.

7. Risk Management

The District is exposed to various risks of loss related to torts, thefts of, damages to and destruction of assets; error or omissions; injuries to employees, or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2025. The Pool is an organization created by intergovernmental agreement to provide property, liability, public official's liability, boiler and machinery and workers compensation coverage to its members.

The District pays annual premiums to the Pool for liability, property and public official's coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. 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.

The District continues to carry commercial insurance coverage for other risks of loss including workers compensation. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

8. Prior-Year Reclassifications

Certain amounts reported in the prior-year financial statements have been reclassified to conform to the current-year presentation. These reclassifications had no effect on previously reported net position, change in net position, or cash flows.

Supplemental Information

SOUTH DURANGO SANITATION DISTRICT

SCHEDULE OF OPERATING EXPENSES

Years Ended December 31, 2025 and 2024

	2025	2024
Collection and treatment		
Depreciation	$ 534,641	$ 518,308
System maintenance	240,875	213,953
Employee payroll	190,919	146,878
Utilities	71,674	73,664
Engineering costs	31,031	189,438
Insurance	31,824	28,897
Chemical testing	27,700	22,181
Total collection and treatment	$ 1,128,664	$ 1,193,319
General and Administrative		
Accounting and legal	$ 183,265	$ 152,160
Operators	45,852	45,212
Payroll tax expense	107,958	55,859
Postage and office	28,017	19,893
Other	14,053	14,485
Board of directors	4,000	3,867
Rent Expense	1,909	-
Dues and licenses	-	977
Total general and administrative expenses	$ 385,054	$ 292,453

SOUTH DURANGO SANITATION DISTRICT

SCHEDULE OF EXPENSES - BUDGET AND ACTUAL

Years Ended December 31, 2025 and 2024

	Original Budget	Final Budget	Expenditures Reported on the GAAP Basis	Adjustments to Budgetary Basis	Expenditures on the Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
2025						
Total expenditures	$ 3,335,346	$ 3,335,346	$ 1,513,718	$ 1,065,804	$ 2,579,522	$ 755,824
2024						
Total expenditures	$ 1,737,635	$ 1,737,635	$ 1,485,772	$ (277,908)	$ 1,207,864	$ 529,771

Adjustments to budgetary basis are comprised of capital expenditures, and depreciation expense.