

Morgan County Quality Water District
Fort Morgan, Colorado

Financial Statements
For the Year Ended December 31, 2025

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Independent Auditors' Report

To the Board of Directors
Morgan County Quality Water District
Fort Morgan, Colorado

Opinions

We have audited the accompanying financial statements of Morgan County Quality Water District (the District), as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of December 31, 2025, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 the 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and historical pension and other post-employment benefit plan information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management

about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The budgetary comparison schedule 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 other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Information

Management is responsible for the other information included in the report. The other information comprises the debt compliance schedules but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or provide any assurance on them.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Lauer, Szabo & Associates, P.C.

Sterling, Colorado
March 31, 2026



Morgan County Quality Water District

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Management's Discussion and Analysis (MD&A)

The management of Morgan County Quality Water District (District) offer readers of our financial statements the following narrative overview and analysis of our financial activities for the year ended December 31, 2025.

Basic Financial Statements: Our basic financial statements are prepared using proprietary fund accounting (enterprise fund). The District is operated under one enterprise fund. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used.

Revenue is recorded when earned and expenses are recorded when incurred. The basic financial statements include a statement of net position; a statement of revenues, expenses and changes in net position; and a statement of cash flow. These are followed by notes to the financial statements.

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

The statement of revenue, expenses, and changes in net position reports the operating revenues, expenses, non-operating revenues, and non-operating expenses of the District for the fiscal year with the difference – the net income or loss — to determine the net change in position for the fiscal year. That change combined with the net position at the end of the previous year equal the net position at the end of the current fiscal year.

The statement of cash flows reports cash and cash equivalent activities for the fiscal year resulting from operating activities, capital and related financing activities, non-capital and related financing activities and investing. The net result of these activities added to the beginning of the year cash balance total equal the cash and cash equivalent balance at the end of the current fiscal year.

Condensed financial information from the statements of net position as of December 31, 2025, and 2024 and statements of revenues, expenses, and changes in net position for the years ended December 31, 2025, and 2024 are as follows:

| Condensed Statements of Net Position | | |
|---|----------------------|----------------------|
| | <i>2025</i> | <i>2024</i> |
| Current Assets | \$ 7,874,261 | \$ 11,533,356 |
| Net Capital Assets | 37,011,246 | 32,755,270 |
| Other Assets | 47,437,086 | 46,640,662 |
| Deferred Outflows of Resources | 224,161 | 335,582 |
| Total Assets | 92,546,754 | 91,264,870 |
| Debt Outstanding | 26,463,181 | 27,181,669 |
| Current Liabilities | 1,169,686 | 1,544,686 |
| Long-Term Liabilities | 732,582 | 848,037 |
| Deferred Inflows of Resources | 263,155 | 248,663 |
| Total Liabilities | 28,628,604 | 29,823,055 |
| Net investment in Capital Assets | 51,753,683 | 46,807,961 |
| Restricted | 5,096,766 | 4,881,302 |
| Unrestricted | 7,067,701 | 9,752,552 |
| Total Net Position | \$ 63,918,150 | \$ 61,441,815 |

**Condensed Statements of Revenues,
Expenses, and Changes in Net Position**

| | <i>2025</i> | <i>2024</i> |
|--|-----------------------------|-----------------------------|
| Operating Revenues | \$ 4,823,038 | \$ 5,500,418 |
| Other Revenues | 1,200,928 | 1,821,293 |
| Total Revenues | <u>6,023,966</u> | <u>7,321,711</u> |
| Operating Expenses | 3,313,157 | 2,954,255 |
| Depreciation/Amortization Expense | 1,083,715 | 910,386 |
| Other Expenses | <u>766,694</u> | <u>775,803</u> |
| Total Expense | <u>5,163,566</u> | <u>4,640,444</u> |
| Income Before Capital Contributions | 860,400 | 2,681,267 |
| Capital Contributions from Tap Fees | <u>1,615,935</u> | <u>810,500</u> |
| Changes in Net Position | 2,476,335 | 3,491,767 |
| Beginning Net Position | <u>61,441,815</u> | <u>57,950,048</u> |
| Ending Net Position | <u>\$ 63,918,150</u> | <u>\$ 61,441,815</u> |

The overall financial position of the District remains strong. The strength of the local economy is reflective in the tap sales we are seeing. Growth areas seem to be concentrated along the I-76 corridor, but all areas of the District have seen at least a little growth.

Master Plan. For long-term planning activities, the District utilizes the 2011 Water Master Plan (the “Master Plan”) and more recent data including financial statements, growth projections and other information. The Master Plan outlines infrastructure requirements to increase water supplies and the capacity of water facilities in response to increased growth and demand through buildout of the system. The District has been working on updating its master plan and expects to complete that effort in 2026.

Potable Water System Capital Improvements. We continue to focus on routine maintenance of infrastructure, replacing aging infrastructure, and upgrading and improving the District distribution

and infrastructure. These capital improvements are necessary to allow us to provide reliable service to existing customers and improve system pressures and capacity to serve existing and future customers.

Investment of District Funds. The District continues to follow their investment philosophy and has been more proactive in seeking the highest yielding rates for District funds, while adhering to the District's Investment Policy that complies with statutory requirements for Colorado special districts. The District has utilized some of the liquid reserves to cover capital project costs. A majority of the District liquid cash reserves are in savings and the Colorado Trust Investment Pool, each are readily available for use on capital projects.

Water Rates. The District reviews water rates each year to determine whether increases are necessary. In April of 2026, the District decided to increase all tier rates to encourage conservation and aid in covering increasing costs due to inflation. All 5 Tiers were increased by 5%. Base rates were increased to \$31.50 per month per tap equivalent. Rates for future Commercial Water System taps were set at \$2.92/thousand gallons per month with a \$10.00 monthly minimum charge per tap equivalent.

Tap Fees. During the April 2026 rate hearing the Board also increased tap fees from \$65,000 to \$68,500. That was accomplished by raising the System Maintenance fee portion of the tap fee by \$3,500 to reflect sharply higher material and labor prices. The District chose to hold the raw water portion of the tap fee at \$45,000, as the cost of Colorado-Big Thompson Units ("CBT"), which the District has used for new potable water supplies, remained relatively flat. The total tap fee is now set at \$68,500. During the April 2026 rate hearing the Board left tap fees for commercial non potable water from the Commercial Water System unchanged @ \$10,000.00 for raw water and \$4,000.00 for the System Maintenance fee for a total of \$14,000.00.

Commercial Water System. The District moved forward in the development of a Commercial Water System, which will provide that will provide approximately 3,000 acre feet of water at cost effective rates to existing and future customers with large water demands, such as livestock related industries like dairies and feedlots. Last year the District entered its first tap agreement to provide water from the Commercial Water System to a dairy customer.

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Basic Financial Statements

The basic financial statements of the Morgan County Quality Water District include the following:

Financial statements. The financial statements display information about the reporting government as a whole.

Notes to the financial statements. The notes communicate information essential for the fair presentation of the financial statements that is not displayed on the face of the financial statements. As such, the notes are an integral part of the basic financial statements.

MORGAN COUNTY QUALITY WATER DISTRICT
Statement of Net Position
December 31, 2025

| | |
|---|-----------------------------|
| Assets | |
| Current assets | |
| Cash | \$ 1,849,975 |
| Cash with county treasurer | 1,398 |
| Investments | 5,074,243 |
| Property taxes receivable | 237,176 |
| Utility billings receivable | 305,449 |
| Current portion of notes receivable | 59,789 |
| Inventory of supplies | 346,231 |
| | <hr/> |
| Total current assets | 7,874,261 |
| Capital assets | |
| Land and improvements | 3,098,548 |
| Buildings and improvements | 895,639 |
| Machinery and equipment | 2,438,817 |
| Water system | 30,976,478 |
| Southern water supply project | 4,230,950 |
| Krause ranch water supply project | 5,582,567 |
| Brungardt farm water supply project | 283,439 |
| Mainline master project | 411,485 |
| San arroyo project | 1,886,021 |
| Snyder pump station project | 329,713 |
| Black mountain project | 586,000 |
| Construction in progress | 6,122,495 |
| Accumulated depreciation | (19,830,906) |
| | <hr/> |
| Total capital assets, net of accumulated depreciation | 37,011,246 |
| Other assets | |
| Water investments | 41,662,393 |
| Restricted investments | 5,096,766 |
| Notes receivable | 584,702 |
| Bond insurance costs, net of accumulated amortization | 93,225 |
| | <hr/> |
| Total other assets | 47,437,086 |
| Deferred outflows of resources | |
| Pension deferrals | 213,469 |
| Other post-employment benefit deferrals | 10,692 |
| | <hr/> |
| Total deferred outflows of resources | 224,161 |
| | <hr/> |
| Total assets and deferred outflows of resources | <u><u>\$ 92,546,754</u></u> |

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

| | |
|---|-----------------------------|
| Liabilities | |
| Current liabilities | |
| Accounts payable | \$ 543,636 |
| Accrued interest payable | 76,050 |
| Current portion of bonds payable | <u>550,000</u> |
| Total current liabilities | 1,169,686 |
| Long-term liabilities | |
| Accrued compensated absences | 167,458 |
| Bonds payable | 26,463,181 |
| Net pension liability | 532,152 |
| Net other post-employment benefit liability | <u>32,972</u> |
| Total long-term liabilities | <u>27,195,763</u> |
| Total liabilities | 28,365,449 |
| Deferred inflows of resources | |
| Deferred property tax revenues | 237,176 |
| Pension deferrals | 5,824 |
| Other post-employment benefit deferrals | <u>20,155</u> |
| Total deferred inflows of resources | 263,155 |
| Net position | |
| Net investment in capital assets | 51,753,683 |
| Restricted for capital purchases | 5,096,766 |
| Unrestricted | <u>7,067,701</u> |
| Total net position | <u>63,918,150</u> |
| Total liabilities, deferred inflows of resources and net position | <u><u>\$ 92,546,754</u></u> |

MORGAN COUNTY QUALITY WATER DISTRICT
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended December 31, 2025

| | |
|--------------------------|--------------|
| Operating revenues | |
| Water sales | \$ 4,713,223 |
| Miscellaneous | 109,815 |
| | <hr/> |
| Total operating revenues | 4,823,038 |
| Operating expenses | |
| Salaries | 886,637 |
| Employee benefits | 460,134 |
| Office supplies | 76,574 |
| Office utilities | 25,517 |
| Insurance | 78,791 |
| Repairs and maintenance | 488,811 |
| Vehicle and travel | 62,350 |
| Tools and supplies | 44,933 |
| Advertising | 3,376 |
| Legal and professional | 113,141 |
| Engineering | 155,159 |
| Director fees | 9,827 |
| County treasurer fees | 4,595 |
| Water leases and rents | 34,749 |
| Water expense | 193,780 |
| Power purchases | 196,585 |
| Noncapital outlay | 411,858 |
| Miscellaneous | 66,340 |
| Depreciation | 1,079,974 |
| Amortization | 3,741 |
| | <hr/> |
| Total operating expenses | 4,396,872 |
| | |
| Operating income | 426,166 |

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

| | |
|---|-----------------------------|
| Nonoperating revenues (expenses) | |
| Ad valorem charges | 24,864 |
| Excluded and included property | 1,250 |
| Interest and dividends | 558,192 |
| Pasture lease | 235,542 |
| Water rentals and leases | 2,862 |
| Property and other taxes | 247,596 |
| Reimbursements | 65,622 |
| Gain on sale of assets | 65,000 |
| Interest and fiscal charges | (766,694) |
| | <hr/> |
| Total nonoperating revenues (expenses) | 434,234 |
| | <hr/> |
| Net income before capital contributions | 860,400 |
| | <hr/> |
| Capital contributions | 1,615,935 |
| | <hr/> |
| Change in net position | 2,476,335 |
| | <hr/> |
| Net position at beginning of year | 61,441,815 |
| | <hr/> |
| Net position at end of year | <u><u>\$ 63,918,150</u></u> |

MORGAN COUNTY QUALITY WATER DISTRICT
Statement of Cash Flows
For the Year Ended December 31, 2025

| | |
|---|---------------------------|
| Cash flows from operating activities | |
| Receipts from customers | \$ 4,796,051 |
| Payments to suppliers | (2,544,644) |
| Payments to employees | (862,864) |
| | <hr/> |
| Net cash provided by operating activities | 1,388,543 |
| Cash flows from noncapital financing activities | |
| Ad valorem charges | 24,864 |
| Excluded and included property | 1,250 |
| Pasture lease | 235,542 |
| Water rentals and leases | 2,862 |
| Property and other taxes | 247,499 |
| Cash receipts on note receivable | 24,444 |
| Reimbursements | 65,622 |
| | <hr/> |
| Net cash provided by noncapital financing activities | 602,083 |
| Cash flows from capital and related financing activities | |
| Purchase of capital assets | (5,560,698) |
| Principal payments | (525,000) |
| Interest and fiscal charges | (933,600) |
| Capital contributions | 947,000 |
| | <hr/> |
| Net cash used by capital and related financing activities | (6,072,298) |
| Cash flows from investing activities | |
| Proceeds from the sale of investments | 5,300,000 |
| Interest and dividends | 9,467 |
| | <hr/> |
| Net cash provided by investing activities | 5,309,467 |
| Net increase in cash and cash equivalents | 1,227,795 |
| Cash and cash equivalents at beginning of year | <hr/> 622,180 |
| Cash and cash equivalents at end of year | <hr/> <u>\$ 1,849,975</u> |

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

| | |
|--|-----------------------------|
| Reconciliation of operating income to net cash provided by operating activities | |
| Operating income | \$ 426,166 |
| Adjustments to reconcile operating income to net cash provided by operating activities | |
| Depreciation | 1,079,974 |
| Amortization | 3,741 |
| Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources | |
| Utility billings receivable | (26,987) |
| Inventory of supplies | (16,461) |
| Pension and other post-employment deferrals | 117,400 |
| Accounts payable | (79,835) |
| Accrued compensated absences | 23,773 |
| Net pension liability | (121,660) |
| Net other post-employment benefit liability | (17,568) |
| | <u> </u> |
| Net cash provided by operating activities | <u>\$ 1,388,543</u> |
| | |
| Noncash capital financing activities | |
| Capital assets included in accounts payable | <u>\$ 468,988</u> |

MORGAN COUNTY QUALITY WATER DISTRICT

Notes to Financial Statements

Note A – Summary of significant accounting policies

This summary of the Morgan County Quality Water 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 financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to local governmental 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.

A.1 – Reporting entity

The financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The reporting entity's financial statements should present the funds of the primary government (including its blended component units, which are, in substance, part of the primary government) and provide an overview of the discretely presented component units.

The Morgan County Quality Water District has examined other entities that could be included as defined in numbers 2 and 3 above. Based on these criteria, the District has no component units.

A.2 – Basis of presentation

The basic financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. The statement of revenues, expenses and changes in fund net position presents increases (revenues) and decreases (expenses) in net total position. The statement of cash flows provides information about how the District finances and meets its cash flow needs.

A.3 – Encumbrances

Encumbrance accounting is not used by the District.

A.4 – Cash and cash equivalents

For the purposes of the statement of cash flows, the District considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note A – Summary of significant accounting policies (continued)

A.5 – Accounts receivable

Monthly charges for water services are included with monthly utility billings. No allowance for uncollectible accounts has been provided in the accompanying financial statements since substantially all accounts are deemed by management to be collectible.

A.6 – Inventory

Inventory, consisting principally of supplies, is recorded at the lower of cost or market using the first-in, first-out method.

A.7 – Capital assets

All capital assets with a unit cost greater than \$5,000 are capitalized at cost (or estimated historical cost, if actual cost is not available) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair value on the date received. Improvements to assets are capitalized; the cost 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.

Interest is capitalized on assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of borrowing until project completion with interest earned on invested proceeds over the same period. No interest was capitalized during the year.

All reported assets are depreciated with the exception of land costs. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

| | |
|----------------------------|-------------|
| Water system | 10-90 years |
| Buildings and improvements | 10-30 years |
| Machinery and equipment | 3-15 years |

A.8 – Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of financial position will sometimes 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(s) and so will not be recognized as an inflow of resources (revenue) until that time.

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note A – Summary of significant accounting policies (continued)

A.9 – Compensated absences

The District reports compensated absences in accordance with the provisions of GASB Statement No. 101, “Compensated Absences.”

All permanent, full-time and part-time employees are provided with vacation leave, which is earned and credited each month at a rate based on the number of years an employee has worked for the District. Permanent, full-time employees accrue vacation in accordance with the following schedule:

| <u>Years of Service</u> | <u>Accrual Rate Per Year</u> |
|-------------------------|------------------------------|
| 1-5 years | 12 days |
| 6-10 years | 15 days |
| 11-15 years | 18 days |
| 16-20 years | 21 days |
| 21 and more | 24 days |

Employees who terminate their employment with accrued but unused vacation shall be paid for unused vacation time accumulated up to 10 days at the rate of pay in effect at the time of termination.

All regular, full-time and part-time employees are entitled to leaves of absence with pay for sick leave. Sick leave shall accrue at the rate of 1.25 days per month for full-time employees and at a percentage for part-time employees. Employees who separate from employment with the District for any reason including disciplinary termination, layoff, resignation or retirement are entitled to 25% or a maximum of 30 days of sick leave pay for accrued sick leave.

District employees in supervisory positions are considered to be exempt from the Fair Labor Standards Act as executive, administrative or professional employees and are therefore not entitled, by law, to overtime compensation. However, when conditions result in necessary overtime for supervisory personnel, compensatory time, may be granted. Overtime actually worked by exempt employees may be compensated in compensatory time of one and one-half hour for each overtime hour worked. Employees who terminate their employment with accrued but unused compensatory time shall be paid for such compensatory time at the rate of pay in effect at the time of termination and, as such, is reported as a liability on the statement of net position.

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note A – Summary of significant accounting policies (continued)

A.10 – Accrued liabilities and long-term obligations

All payables, accrued liabilities and long-term obligations are reported in the financial statements. Costs related to the issuance of debt (other than insurance costs) are expensed in the period incurred.

A.11 – Net position

Net position reports the differences between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are liabilities imposed on their use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

A.12 – Operating revenues and expenses

Operating revenues are those revenues that are generated directly from the primary activity of the District. These revenues primarily consist of charges for services and water sales. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the District. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

A.13 – Extraordinary and special items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within control of the board of directors and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the year.

A.14 – Budgets and budgetary accounting

An annual budget is established for the District. The budget is adopted on a basis consistent with generally accepted accounting principles except for capital purchases and principal retirement, which are budgeted as operating expenses. The legal level of control is considered to be the entity as a whole and expenses may not exceed appropriations at this level. All budget revisions at this level are subject to final review and approval by the board of directors.

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note A – Summary of significant accounting policies (continued)

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

- On or before October 15th, the budget officer submits to the board of directors a budget which shall be a complete financial plan for the ensuing fiscal year.
- The budget is prepared using the accrual basis of accounting.
- Public hearings are conducted to obtain comments.
- Prior to December 31st, the budget is legally adopted through passage of an adoption resolution.

Note B – Cash and investments

Cash and deposits

Colorado State statutes govern the District's deposit of cash. The Public Deposit Protection Acts (PDPA) for banks and savings and loans require state regulators to certify eligible depositories for public deposits. The PDPA require eligible depositories with public deposits in excess of federal insurance levels to create a single institution collateral pool of defined eligible assets. Eligible collateral includes obligations of the United States, obligations of the State of Colorado or Colorado local governments and obligations secured by first lien mortgages on real property located in the state. The pool is to be maintained by another institution or held in trust for all uninsured public deposits as a group and not held in any individual government's name. The fair value of the assets in the pool must be at least equal to 102% of the aggregate uninsured deposits.

Custodial credit risk – deposits – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to the District. The District does not have a deposit policy for custodial credit risk. At year-end, the District had total deposits of \$1,929,457, of which \$250,000 was insured and \$1,679,457 was collateralized with securities held by the pledging institution's trust department or agent in the District's name.

Investments

Authorized investments – Investment policies are governed by Colorado State Statutes and the District's own investment policies and procedures. Investments of the District may include:

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note B – Cash and investments (continued)

- Obligations of the United States Government, such as treasury bills, notes and bonds
- Certain international agency securities
- General obligation and revenue bonds of United States local government entities
- Bankers acceptances of certain banks
- Commercial paper
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

During the year, the District invested in Colotrust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commission 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 repurchase agreements collateralized by certain obligations of U.S. government agencies. 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. As of December 31, 2025, the District had invested \$10,171,009 in COLOTRUST PLUS+, an SEC Rule 2a7-like investment pool. Investments are valued at the net asset value (NAV) of \$1.00. The investment pools are routinely monitored by the Colorado Division of Securities with regard to operations and investments.

At year-end, the District had the following investments:

| <u>Type of investment</u> | <u>Maturities</u> | <u>Fair Value</u> |
|---------------------------|--|----------------------|
| Investment in Colotrust | Weighted average not to exceed 60 days | <u>\$ 10,171,009</u> |

Credit risk – State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the highest rating from at least one nationally recognized rating agency at the time of purchase. The District has no investment policy that would further limit its investment choices. At year-end, the District’s investment in Colotrust was rated AAAm by Standard and Poor’s.

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note C – Notes receivable

The District entered into an agreement with Sandy Hills Family Dairy, LLC for the sale of 60 nonpotable tap equivalents at a total cost of \$668,935. The agreement requires monthly payments of \$6,361 to be received through July 2035, including interest at a rate of 2.68%.

The following schedule represents the amounts to be received through completion of the agreement:

| <u>Year ended December 31,</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------------------|-------------------|------------------|
| 2026 | \$ 59,789 | \$ 16,543 |
| 2027 | 61,412 | 14,920 |
| 2028 | 63,078 | 13,254 |
| 2029 | 64,790 | 11,542 |
| 2030 | 66,547 | 9,785 |
| 2031-2035 | <u>328,875</u> | <u>20,980</u> |
| Totals | <u>\$ 644,491</u> | <u>\$ 87,024</u> |

Note D – Capital assets

Capital asset activity for the year was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions/ Transfers</u> | <u>Ending Balance</u> |
|-------------------------------------|------------------------------|---------------------|---------------------------------|---------------------------|
| Land and improvements | \$ 2,852,369 | \$ 246,179 | \$ - | \$ 3,098,548 |
| Buildings and improvements | 775,887 | 119,752 | - | 895,639 |
| Machinery and equipment | 2,100,190 | 462,332 | (123,705) | 2,438,817 |
| Water system | 27,554,291 | 3,422,187 | - | 30,976,478 |
| Southern water supply project | 4,230,950 | - | - | 4,230,950 |
| Krause ranch water supply | 5,582,567 | - | - | 5,582,567 |
| Brungardt farm water supply | 283,439 | - | - | 283,439 |
| Mainline master project | 411,485 | - | - | 411,485 |
| San Arroyo project | 1,886,021 | - | - | 1,886,021 |
| Snyder pump station project | 329,713 | - | - | 329,713 |
| Black mountain project | 586,000 | - | - | 586,000 |
| Construction in progress | 5,036,995 | 1,085,500 | - | 6,122,495 |
| Accumulated depreciation | <u>(18,874,637)</u> | <u>(1,079,974)</u> | <u>123,705</u> | <u>(19,830,906)</u> |
| Capital assets, net of depreciation | <u>\$ 32,755,270</u> | <u>\$ 4,255,976</u> | <u>\$ -</u> | <u>\$ 37,011,246</u> |

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note E – Water investments

The District has purchased units of Colorado-Big Thompson Water as follows:

| <u>Year</u> | <u>Units</u> | <u>Cost</u> |
|-------------|--------------|---------------------|
| Pre-2000 | 85 | \$ 252,229 |
| 2000 | - | 1,179 |
| 2001 | 40 | 475,920 |
| 2002 | 46 | 483,070 |
| 2003 | 80 | 920,000 |
| 2004 | 80 | 920,000 |
| 2005 | 275 | 2,936,210 |
| 2006 | 185 | 1,875,140 |
| 2007 | 137 | 1,317,800 |
| 2008 | 124 | 1,215,200 |
| 2010 | 45 | 288,000 |
| 2016 | 73 | 1,965,591 |
| 2018 | 23 | 673,119 |
| 2019 | 35 | 1,995,165 |
| 2020 | <u>6</u> | <u>345,000</u> |
| Totals | <u>1,234</u> | <u>\$15,663,623</u> |

In addition, in 1989 and 1994 the District purchased a total of 344 units of Pioneer Water and Irrigation, Inc. at a cost of \$150,075.

During 2003, the District acquired two Riverside Private Rights valued at \$20,000 as a result of the service agreement and transfer of Morgan Heights Water & Sewer, Inc.'s assets. In addition, in 2015 the District purchased 15 additional units at a cost of \$373,695.

During 2020 and 2025, the District acquired water rights from Black Mountain Land Company at a cost of \$25,455,000.

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note F – Long-term debt

The following is a summary of the changes in long-term debt for the year:

| | <u>Beginning Balances</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balances</u> | <u>Due within one year</u> |
|----------------------|-------------------------------|------------------|---------------------|----------------------------|--------------------------------|
| Compensated absences | \$ 143,685 | \$ 23,773* | \$ - | \$ 167,458 | \$ - |
| Bonds payable | 23,340,000 | - | (525,000) | 22,815,000 | 550,000 |
| Bond premium | <u>4,366,669</u> | <u>-</u> | <u>(168,488)</u> | <u>4,198,181</u> | <u>-</u> |
| Totals | <u>\$ 27,850,354</u> | <u>\$ 23,773</u> | <u>\$ (693,488)</u> | <u>\$ 27,180,639</u> | <u>\$ 550,000</u> |

*The change in the compensated absences liability is presented as a net change.

The District believes that the current portion of compensated absences is negligible and is therefore not reported.

Bonds Payable

\$25,275,000 water revenue bonds, dated December 17, 2020, due in semiannual installments beginning in fiscal year 2021 ranging from \$450,000 to \$1,405,000; variable annual interest rate ranging from 3.00% To 4.00%, payable semi-annually on June 1st and December 1st.

Total bonds payable \$ 22,815,000

The following schedule represents the District’s debt service requirements to maturity for all outstanding bonded indebtedness:

| <u>Year ended December 31,</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------------------|----------------------|----------------------|
| 2026 | \$ 550,000 | \$ 912,600 |
| 2027 | 570,000 | 890,600 |
| 2028 | 595,000 | 867,800 |
| 2029 | 615,000 | 844,000 |
| 2030 | 640,000 | 819,400 |
| 2031-2035 | 3,610,000 | 3,691,600 |
| 2036-2040 | 4,390,000 | 2,909,600 |
| 2041-2045 | 5,340,000 | 1,958,800 |
| 2046-2050 | <u>6,505,000</u> | <u>801,000</u> |
| Totals | <u>\$ 22,815,000</u> | <u>\$ 13,695,400</u> |

MORGAN COUNTY QUALITY WATER DISTRICT

Notes to Financial Statements

Note G – Risk management

The Morgan County Quality Water District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; claims relating to professional liability; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from the prior year in any of the major categories of risk.

Note H – Defined benefit pension plan

Summary of significant accounting policies

Pensions. The District participates in the Local Government Division Trust Fund (LGDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position (FNP) and additions to/deductions from the FNP of the LGDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General information about the pension plan

Plan description. Eligible employees of the District are provided with pensions through the LGDTF – a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.copera.org/forms-resources/financial-reports-and-studies.

Benefits provided as of December 31, 2024. PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. Section 24-51-602, 604, 1713, and 1714.

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note H – Defined benefit pension plan (Continued)

The lifetime retirement benefit for all eligible retiring employees under the PERA benefit structure is the greater of the:

- Highest average salary multiplied by 2.5% and then multiplied by years of service credit.
- The value of the retiring employee's member contribution account plus a 100% match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

The lifetime retirement benefit for all eligible retiring employees under the Denver Public Schools (DPS) benefit structure is the greater of the:

- Highest average salary multiplied by 2.5% and then multiplied by years of service credit.
- \$15 times the first 10 years of service credit plus \$20 times service credit over 10 years plus a monthly amount equal to the annuitized member contribution account balance based on life expectancy and other actuarial factors.

In all cases the service retirement benefit is limited to 100% of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50% or 100% on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

Upon meeting certain criteria, benefit recipients who elect to receive a lifetime retirement benefit generally receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S. Subject to the automatic adjustment provision (AAP) under C.R.S. Section 24-51-413, eligible benefit recipients under the PERA benefit structure who began membership before January 1, 2007, and all eligible benefit recipients of the DPS benefit structure will receive the maximum annual increase (AI) or AI cap of 1.00% unless adjusted by the AAP. Eligible benefit recipients under the PERA benefit structure who began membership on or after January 1, 2007, will receive the lesser of an annual increase of the

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note H – Defined benefit pension plan (Continued)

1.00% AI cap or the average increase of the Consumer Price Index for Urban Wage Earners and Clerical Workers for the prior calendar year, not to exceed a determined increase that would exhaust 10% of PERA’s Annual Increase Reserve (AIR) for the LGDTF. The AAP may raise or lower the aforementioned AI cap by up to 0.25% based on the parameters specified in C.R.S. Section 24-51.413.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. For Safety Officers whose disability is caused by an on-the-job injury, the five-year service requirement is waived and they are immediately eligible to apply for disability benefits. The disability benefit amount is based on the lifetime retirement benefit formula(s) shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

Contribution provisions as of December 31, 2025. Eligible employees of the District and the State are required to contribute to the LGDTF at a rate set by Colorado statute. The contribution requirements for the LGDTF are established under C.R.S. Section 24-51-401, *et seq.* and Section 24-51-413. Employee contribution rates for the year are summarized in the table below:

| | January 1, 2024 Through <u>December 31, 2024</u> | January 1, 2025 Through <u>December 31, 2025</u> |
|--|--|--|
| Employee contribution (all employees other than Safety Officers) | 9.00% | 9.00% |
| Safety Officers | 13.00% | 13.00% |

*Contribution rates for the LGDTF are expressed as a percentage of salary as defined in C.R.S. Section 24-51-101(42).

The employer contribution requirements for all employees other than Safety Officers are summarized in the table below:

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note H – Defined benefit pension plan (Continued)

| | January 1, 2024 Through <u>December 31, 2024</u> | January 1, 2025 Through <u>December 31, 2025</u> |
|--|--|--|
| Employer contribution rate | 11.00% | 11.00% |
| Amount of employer contribution apportioned to the Health Care Trust Fund as specified in C.R.S. Section 24-51-208(1)(f) | <u>(1.02%)</u> | <u>(1.02%)</u> |
| Amount apportioned to the LGDTF | 9.98% | 9.98% |
| Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411 | 2.20% | 2.20% |
| Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. Section 24-51-411 | 1.50% | 1.50% |
| Defined Contribution Supplement as specified in C.R.S. Section 24-51-415 | <u>0.08%</u> | <u>0.11%</u> |
| Total employer contribution rate to the LGDTF | <u>13.76%</u> | <u>13.79%</u> |

*Contribution rates for the LGDTF are expressed as a percentage of salary as defined in C.R.S. Section 24-51-101(42).

The employer contribution requirements for Safety Officers are summarized in the table below:

| | January 1, 2024 Through <u>December 31, 2024</u> | January 1, 2025 Through <u>December 31, 2025</u> |
|--|--|--|
| Employer contribution rate | 14.10% | 14.10% |
| Amount of employer contribution apportioned to the Health Care Trust Fund as specified in C.R.S. Section 24-51-208(1)(f) | <u>(1.02%)</u> | <u>(1.02%)</u> |
| Amount apportioned to the LGDTF | 13.08% | 13.08% |
| Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411 | 2.20% | 2.20% |
| Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. Section 24-51-411 | 1.50% | 1.50% |
| Defined Contribution Supplement as specified in C.R.S. Section 24-51-415 | <u>0.08%</u> | <u>0.11%</u> |
| Total employer contribution rate to the LGDTF | <u>16.86%</u> | <u>16.89%</u> |

*Contribution rates for the LGDTF are expressed as a percentage of salary as defined in C.R.S. Section 24-51-101(42).

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note H – Defined benefit pension plan (Continued)

Employer contributions are recognized by the LGDTF in the period in which the compensation becomes payable to the member and the District is statutorily committed to pay the contributions to the LGDTF. Employer contributions recognized by the LGDTF from the District were \$119,097 for the year ended December 31, 2025.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

The net pension liability for the LGDTF was measured as of December 31, 2024, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2023. Standard update procedures were used to roll-forward the TPL to December 31, 2024. The District’s proportion of the net pension liability was based on the District’s contributions to the LGDTF for the calendar year 2024 relative to the total contributions of participating employers.

At year-end, the District reported a liability of \$532,152 for its proportionate share of the net pension liability.

At December 31, 2024, the District’s proportion was 0.0867 percent, which was a decrease of .0024% from its proportion measured as of December 31, 2023.

For the year, the District recognized pension expense of \$109,945. At year-end, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Difference between expected and actual experience | \$ 40,155 | \$ - |
| Changes of assumptions or other inputs | 15,705 | - |
| Net difference between projected and actual earnings on pension plan investments | 38,512 | - |
| Changes in proportion and differences between contributions recognized and proportionate share of contributions | - | 5,824 |
| Contributions subsequent to the measurement date | <u>119,097</u> | <u>-</u> |
| Total | <u>\$ 213,469</u> | <u>\$ 5,824</u> |

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note H – Defined benefit pension plan (Continued)

\$119,097 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended</u> <u>December 31,</u> | <u>Amount</u> |
|--|------------------|
| 2026 | \$ 85,218 |
| 2027 | 123,033 |
| 2028 | (86,146) |
| 2029 | <u>(33,557)</u> |
| Totals | <u>\$ 88,548</u> |

Actuarial assumptions. The December 31, 2023 actuarial valuation used the following actuarial cost method, actuarial assumptions and other inputs:

| | |
|---|---------------------|
| Actuarial cost method | Entry age |
| Price inflation | 2.30% |
| Real wage growth | 0.70% |
| Wage inflation | 3.00% |
| Salary increases, including wage inflation | |
| Members other than State Troopers | 3.20% - 11.30% |
| State Troopers | 3.20% - 12.40% |
| Long-term investment rate of return, net of pension plan investment expenses, including price inflation | 7.25% |
| Discount rate | 7.25% |
| Post-retirement benefit increases: | |
| PERA benefit structure hired prior to 1/1/07; and DPS benefit structure (compounded annually) | 1.00% |
| PERA benefit structure hired after 12/31/06: | Financed by the AIR |

¹ Post-retirement benefit increases are provided by the AIR, accounted separately within each Division Trust Fund, and subject to moneys being available; therefore, liabilities related to increases for members of these benefit tiers can never exceed available assets.

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note H – Defined benefit pension plan (Continued)

As of the December 31, 2024, measurement date, the FNP and related disclosure components for the Local Government Division reflect additional payments related to the disaffiliation of Tri-County Health Department as a PERA-affiliated employer, effective December 31, 2022. The additional employer disaffiliation payment allocations to the Local Government Division Trust Fund and HCTF were \$0.468 million and \$0.020 million, respectively.

All mortality assumptions are developed on a benefit-weighted basis and apply generational mortality. Note that in all categories, displayed as follows, the mortality tables are generationally projected using scale MP-2019.

| Pre-Retirement | Mortality Table | Adjustments, as Applicable |
|--|------------------------------|---|
| Members other than Safety Officers | PubG-2010 Employee | N/A |
| Safety Officers | PubS-2010 Employee | N/A |
| Post-Retirement (Retiree), Non-Disabled | Mortality Table | Adjustments, as Applicable |
| Members other than Safety Officers | PubG-2010 Healthy Retiree | Males: 94% of the rates prior to age 80/ 90% of the rates age 80 and older Females: 87% of the rates prior to age 80/ 107% of the rates age 80 and older |
| Safety Officers | PubS-2010 Healthy Retiree | N/A |
| Post-Retirement (Beneficiary), Non-Disabled | Mortality Table | Adjustments, as Applicable |
| All Beneficiaries | Pub-2010 Contingent Survivor | Males: 97% of the rates for all ages Females: 105% of the rates for all ages |
| Disabled | Mortality Table | Adjustments, as Applicable |
| Members other than Safety Officers | PubNS-2010 Disabled Retiree | 99% of the rates for all ages |
| Safety Officers | PubS-2010 Disabled Retiree | N/A |

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note H – Defined benefit pension plan (Continued)

The actuarial assumptions used in the December 31, 2023, valuations were based on the 2020 experience analysis, dated October 28, 2020, for the period January 1, 2016, through December 31, 2019. Revised economic and demographic assumptions were adopted by the PERA Board on November 20, 2020.

Based on the 2024 experience analysis, dated January 3, 2025, for the period January 1, 2020, to December 31, 2023, revised actuarial assumptions were adopted by PERA’s Board on January 17, 2025, and were effective as of December 31, 2024. The following assumptions were reflected in the roll forward calculation of the total pension liability from December 31, 2023, to December 31, 2024.

| | |
|---|--------------|
| Salary increases, including wage inflation: | |
| Members other than Safety Officers | 3.40%-13.00% |
| Safety Officers | 3.20%-16.30% |

Salary scale assumptions were altered to better reflect actual experience.

Rates of termination/withdrawal, retirement, and disability were revised to more closely reflect actual experience.

The estimated administrative expense as a percentage of covered payroll was increased from 0.40% to 0.45%.

The adjustments for credibility applied to the Pub-2010 mortality tables for active and retired lives, including beneficiaries, were updated based on the experience. All mortality assumptions are developed on a benefit-weighted basis. Note that in all categories, displayed as follows, the mortality tables are generationally projected using the 2024 adjusted MP-2021 projected scale.

| Pre-Retirement | Mortality Table | Adjustments, as Applicable |
|------------------------------------|------------------------|-----------------------------------|
| Members other than Safety Officers | PubG-2010 Employee | N/A |
| Safety Officers | PubS-2010 Employee | N/A |

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note H – Defined benefit pension plan (Continued)

| Post-Retirement (Retiree), Non-Disabled | Mortality Table | Adjustments, as Applicable |
|--|------------------------------|---|
| Members other than Safety Officers | PubG-2010 Healthy Retiree | Males: 90% of the rates for all ages Females: 85% of the rates prior to age 85/ 105% of the rates age 85 and older |
| Safety Officers | PubS-2010 Healthy Retiree | N/A |
| Post-Retirement (Beneficiary), Non-Disabled | Mortality Table | Adjustments, as Applicable |
| All Beneficiaries | Pub-2010 Contingent Survivor | Males: 92% of the rates for all ages Females: 100% of the rates for all ages |
| Disabled | Mortality Table | Adjustments, as Applicable |
| Members other than Safety Officers | PubNS-2010 Disabled Retiree | 95% of the rates for all ages |
| Safety Officers | PubS-2010 Disabled Retiree | N/A |

The long-term expected return on plan assets is monitored on an ongoing basis and reviewed as part of periodic experience studies prepared every four years, and asset/liability studies, performed every three to five years for PERA. The most recent analyses were outlined in the 2024 Experience Study report dated January 3, 2025.

Several factors are considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note H – Defined benefit pension plan (Continued)

The PERA Board first adopted the 7.25% long-term expected rate of return as of November 18, 2016. Following an asset/liability study, the Board reaffirmed the assumed rate of return at the November 15, 2019, meeting, and again at the Board’s September 20, 2024, meeting. As of the most recent reaffirmation of the long-term rate of return, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the table as follows:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>30 Year Expected Geometric Real Rate of Return</u> |
|--------------------|--------------------------|---|
| Global equity | 51.00% | 5.00% |
| Fixed income | 23.00% | 2.60% |
| Private equity | 10.00% | 7.60% |
| Real estate | 10.00% | 4.10% |
| Alternatives | <u>6.00%</u> | 5.20% |
| Total | <u>100.00%</u> | |

Note: In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected nominal rate of return assumption of 7.25%.

Discount rate. The discount rate used to measure the TPL was 7.25%. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.00%.
- Employee contributions were assumed to be made at the member contribution rates in effect for each year, including the required adjustments resulting from the 2018 and 2020 AAP assessments. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note H – Defined benefit pension plan (Continued)

- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law for each year, including the required adjustments resulting from the 2018 and 2020 AAP assessments. Employer contributions also include current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103%, at which point the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions reflect reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial FNP, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. AIR transfers to the FNP and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the middle of the year.
- As of the December 31, 2024, measurement date, the FNP and related disclosure components for the Local Government Division reflect payments related to the disaffiliation of Tri-County Health Department as a PERA-affiliated employer, effective December 31, 2022. The additional disaffiliation payment allocations to the Local Government Division Trust Fund and HCTF were \$0.486 million and \$0.020 million, respectively.

Based on the above assumptions and methods, the LGDTF's FNP was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25% on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25%. There was no change in the discount rate from the prior measurement date.

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note H – Defined benefit pension plan (Continued)

Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

| | 1% Decrease <u>(6.25%)</u> | Current Discount <u>(7.25%)</u> | 1% Increase <u>(8.25%)</u> |
|--|-------------------------------|---------------------------------------|-------------------------------|
| Proportionate share of the net pension liability | \$ 1,164,773 | \$ 532,152 | \$ 677 |

Pension plan fiduciary net position. Detailed information about the LGDTF’s FNP is available in PERA’s ACFR which can be obtained at www.copera.org/investments/pera-financial-reports.

Payables to the pension plan

The District did not report any payables to the pension plan at year-end.

Note I – Defined contribution pension plan

Voluntary Investment Program (PERAPlus 401(k) Plan)

Plan description. Employees of the District that are also members of the LGDTF may voluntarily contribute to the Voluntary Investment Program (PERAPlus 401(k) Plan), an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available ACFR which includes additional information on the PERAPlus 401(k) Plan. That report can be obtained at www.copera.org/forms-resources/financial-reports-and-studies.

Funding policy. The PERAPlus 401(k) Plan is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. The District does not offer matching contributions to its employees. Employees are immediately vested in their own contributions, employer contributions and investment earnings. For the year, program members contributed \$10,300 for the PERAPlus 401(k) Plan.

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note J – Defined benefit other post-employment benefit (OPEB) plan

Summary of Significant Accounting Policies

OPEB. The District participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position (FNP) and additions to/deductions from the FNP of the HCTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefits paid on behalf of health care participants are recognized when due and/or payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the OPEB Plan

Plan description. Eligible employees of the District are provided with OPEB through the HCTF—a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended, and sets forth a framework that grants authority to the PERA Board to contract, self-insure, and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of the premium subsidies. Colorado State law provisions may be amended by the Colorado General Assembly. PERA issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.copera.org/forms-resources/financial-reports-and-studies.

Benefits provided. The HCTF provides a health care premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA health care plans, however, the subsidy is not available if only enrolled in the dental and/or vision plan(s). The health care premium subsidy is based upon the benefit structure under which the member retires and the member's years of service credit. For members who retire having service credit with employers in the Denver Public Schools (DPS) Division and one or more of the other four Divisions (State, School, Local Government and Judicial), the premium subsidy is allocated between the HCTF and the Denver Public Schools Health Care Trust Fund (DPS HCTF). The basis for the amount of the premium subsidy funded by each trust fund is the percentage of the member contribution account balance from each division as it relates to the total member contribution account balance from which the retirement benefit is paid.

C.R.S. § 24-51-1202 *et seq.* specifies the eligibility for enrollment in the health care plans offered by PERA and the amount of the premium subsidy. The law governing a benefit recipient's eligibility for the subsidy and the amount of the subsidy differs slightly depending under which benefit structure the benefits are calculated. All benefit recipients under the PERA benefit structure and all retirees under the DPS benefit structure are eligible for a premium subsidy, if enrolled in a health care plan under PERACare. Upon the death of a DPS benefit structure retiree, no further subsidy is paid.

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note J – Defined benefit other post-employment benefit (OPEB) plan (Continued)

Enrollment in the PERACare health benefits program is voluntary and is available to benefit recipients and their eligible dependents, certain surviving spouses, and divorced spouses and guardians, among others. Eligible benefit recipients may enroll into the program upon retirement, upon the occurrence of certain life events, or on an annual basis during an open enrollment period.

PERA Benefit Structure

The maximum service-based premium subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is \$115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum service-based subsidy, in each case, is for benefit recipients with retirement benefits based on 20 or more years of service credit. There is a 5% reduction in the subsidy for each year less than 20. The benefit recipient pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

For benefit recipients who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, C.R.S. § 24-51-1206(4) provides an additional subsidy. According to the statute, PERA cannot charge premiums to benefit recipients without Medicare Part A that are greater than premiums charged to benefit recipients with Part A for the same plan option, coverage level, and service credit. Currently, for each individual PERACare enrollee, the total premium for Medicare coverage is determined assuming plan participants have both Medicare Part A and Part B and the difference in premium cost is paid by the HCTF or the DPS HCTF on behalf of benefit recipients not covered by Medicare Part A.

DPS Benefit Structure

The maximum service-based premium subsidy is \$230 per month for retirees who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is \$115 per month for retirees who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum service-based subsidy, in each case, is for retirees with retirement benefits based on 20 or more years of service credit. There is a 5% reduction in the subsidy for each year less than 20. The retiree pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

For retirees who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, the HCTF or the DPS HCTF pays an alternate service-based premium subsidy. Each individual retiree meeting these conditions receives the maximum \$230 per month subsidy reduced appropriately for service less than 20 years, as described above. Retirees who do not have Medicare Part A pay the difference between the total premium and the monthly subsidy.

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note J – Defined benefit other post-employment benefit (OPEB) plan (Continued)

Contributions. Pursuant to Title 24, Article 51, Section 208(1) (f) of the C.R.S., as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers of the State, School, Local Government, and Judicial Divisions are required to contribute at a rate of 1.02% of PERA-includable salary into the HCTF.

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the District is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the District were \$8,809 for the year ended December 31, 2025.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At year-end, the District reported a liability of \$32,972 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2024, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2023. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2024. The District’s proportion of the net OPEB liability was based on the District’s contributions to the HCTF for the calendar year 2024 relative to the total contributions of participating employers to the HCTF.

At December 31, 2024, the District’s proportion was 0.0069%, which was a decrease of 0.0002% from its proportion measured as of December 31, 2023.

For the year ended December 31, 2025, the District recognized OPEB expense of \$(3,866). At year-end, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Difference between expected and actual experience | \$ - | \$ 7,341 |
| Changes of assumptions or other inputs | 385 | 10,569 |
| Net difference between projected and actual earnings on OPEB plan investments | 82 | - |
| Changes in proportion and differences between contributions recognized and proportionate share of contributions | 1,416 | 2,245 |
| Contributions subsequent to the measurement date | <u>8,809</u> | <u>-</u> |
| Total | <u>\$ 10,692</u> | <u>\$ 20,155</u> |

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note J – Defined benefit other post-employment benefit (OPEB) plan (Continued)

\$8,809 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| <u>Year Ended</u> <u>December 31,</u> | <u>Amount</u> |
|--|--------------------|
| 2026 | \$ (5,394) |
| 2027 | (3,075) |
| 2028 | (4,264) |
| 2029 | (2,577) |
| 2030 | (1,873) |
| 2031 | <u>(1,089)</u> |
| Total | <u>\$ (18,272)</u> |

Actuarial assumptions. The December 31, 2023, actuarial valuation used the following actuarial cost method and key actuarial assumptions and other inputs:

| | |
|--|---|
| Actuarial cost method | Entry age |
| Price inflation | 2.30% |
| Real wage growth | 0.70% |
| Wage inflation | 3.00% |
| Salary increases, including wage inflation | 3.40%-11.00% |
| Long-term investment rate of return, net of OPEB plan investment expenses, including price inflation | 7.25% |
| Discount rate | 7.25% |
| Health care cost trend rates | |
| PERA benefit structure: | |
| Service-based premium subsidy | 0.00% |
| PERACare Medicare plans | 16.00% in 2024, then 6.75% in 2025, gradually decreasing to 4.50% in 2034 |
| MAPD PPO #2 | 105.00% in 2024, then 8.55% in 2025, gradually decreasing to 4.50% in 2034 |
| Medicare Part A premiums | 3.50% in 2024, gradually increasing to 4.50% in 2033 |

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note J – Defined benefit other post-employment benefit (OPEB) plan (Continued)

| | |
|-------------------------------|-------|
| DPS benefit structure: | |
| Service-based premium subsidy | 0.00% |
| PERACare Medicare plans | N/A |
| Medicare Part A premiums | N/A |

As of the December 31, 2024, measurement date, the FNP and related disclosure components for the HCTF reflect additional payments related to the disaffiliation of Tri-County Health Department (Tri-County Health) as a PERA-affiliated employer, effective December 31, 2022. The additional employer disaffiliation payment allocations to the HCTF and Local Government Division Trust Fund were \$0.020 million and \$0.486 million, respectively.

Each year the per capita health care costs are developed by plan option. As of the December 31, 2023, actuarial valuation, costs are based on 2024 premium rates for the UnitedHealthcare Medicare Advantage Prescription Drug (MAPD) PPO plan #1, the UnitedHealthcare MAPD PPO plan #2, and the Kaiser Permanente MAPD HMO plan. Actuarial morbidity factors were then applied to estimate individual retiree and spouse costs by age, gender, and health care cost trend. This approach applies for all members and is adjusted accordingly for those not eligible for premium-free Medicare Part A for the PERA benefit structure.

| Age-Related Morbidity Assumptions | | |
|-----------------------------------|------------------------|--------------------------|
| Participant Age | Annual Increase (Male) | Annual Increase (Female) |
| 65-68 | 2.2% | 2.3% |
| 69 | 2.8% | 2.2% |
| 70 | 2.7% | 1.6% |
| 71 | 3.1% | 0.5% |
| 72 | 2.3% | 0.7% |
| 73 | 1.2% | 0.8% |
| 74 | 0.9% | 1.5% |
| 75-85 | 0.9% | 1.3% |
| 86 and older | 0.0% | 0.0% |

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note J – Defined benefit other post-employment benefit (OPEB) plan (Continued)

| Sample Age | MAPD PPO #1 with Medicare Part A | | MAPD PPO #2 with Medicare Part A | | MAPD HMO (Kaiser) with Medicare Part A | |
|------------|----------------------------------|---------|----------------------------------|--------|--|---------|
| | Retiree/Spouse | | Retiree/Spouse | | Retiree/Spouse | |
| | Male | Female | Male | Female | Male | Female |
| 65 | \$1,710 | \$1,420 | \$585 | \$486 | \$1,897 | \$1,575 |
| 70 | \$1,921 | \$1,589 | \$657 | \$544 | \$2,130 | \$1,763 |
| 75 | \$2,122 | \$1,670 | \$726 | \$571 | \$2,353 | \$1,853 |

| Sample Age | MAPD PPO #1 without Medicare Part A | | MAPD PPO #2 without Medicare Part A | | MAPD HMO (Kaiser) without Medicare Part A | |
|------------|-------------------------------------|---------|-------------------------------------|---------|---|---------|
| | Retiree/Spouse | | Retiree/Spouse | | Retiree/Spouse | |
| | Male | Female | Male | Female | Male | Female |
| 65 | \$6,536 | \$5,429 | \$4,241 | \$3,523 | \$7,063 | \$5,866 |
| 70 | \$7,341 | \$6,073 | \$4,764 | \$3,941 | \$7,933 | \$6,563 |
| 75 | \$8,110 | \$6,385 | \$5,262 | \$4,143 | \$8,763 | \$6,900 |

The 2024 Medicare Part A premium is \$505 per month.

All costs are subject to the health care cost trend rates, discussed as follows.

Health care cost trend rates reflect the change in per capita health costs over time due to factors such as medical inflation, utilization, plan design, and technology improvements. For the PERA benefit structure, health care cost trend rates are needed to project the future costs associated with providing benefits to those PERACare enrollees not eligible for premium-free Medicare Part A.

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note J – Defined benefit other post-employment benefit (OPEB) plan (Continued)

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models, and industry methods developed by health plan actuaries and administrators. In addition, projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services are referenced in the development of these rates. PERACare Medicare plan rates are applied where members have no premium-free Part A and where those premiums are already exceeding the maximum subsidy. MAPD PPO #2 has a separate trend because the first year rates are still below the maximum subsidy and to reflect the estimated impact of the Inflation Reduction Act for that plan option.

The PERA benefit structure health care cost trend rates used to measure the TOL are summarized in the following table:

| Year | PERACare Medicare Plans ¹ | MAPD PPO #2 | Medicare Part A Premiums |
|-------|---|-------------|-----------------------------|
| 2024 | 16.00% | 105.00% | 3.50% |
| 2025 | 6.75% | 8.55% | 3.75% |
| 2026 | 6.50% | 8.10% | 3.75% |
| 2027 | 6.25% | 7.65% | 4.00% |
| 2028 | 6.00% | 7.20% | 4.00% |
| 2029 | 5.75% | 6.75% | 4.25% |
| 2030 | 5.50% | 6.30% | 4.25% |
| 2031 | 5.25% | 5.85% | 4.25% |
| 2032 | 5.00% | 5.40% | 4.25% |
| 2033 | 4.75% | 4.95% | 4.50% |
| 2034+ | 4.50% | 4.50% | 4.50% |

¹Increase in 2024 trend rates due to the effect of the Inflation Reduction Act.

Mortality assumptions used in the December 31, 2023, valuation for the Division Trust Funds as shown in the following table, reflect generational mortality and were applied, as applicable, in the December 31, 2023, valuation for the HCTF, but developed using a headcount-weighted basis. Note that in all categories, displayed as follows, the mortality tables are generationally projected using scale MP-2019. Affiliated employers of the State, School, Local Government, and Judicial Divisions participate in the HCTF.

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note J – Defined benefit other post-employment benefit (OPEB) plan (Continued)

| School Division | Mortality Table | Adjustments, as Applicable |
|---|------------------------------|--|
| Pre-Retirement | PubT-2010 Employee | N/A |
| Post-Retirement (Retiree), Non-Disabled | PubT-2010 Healthy Retiree | Males: 112% of the rates prior to age 80/94% of the rates age 80 and older Females: 83% of the rates prior to age 80/106% of the rates age 80 and older |
| Post-Retirement (Beneficiary), Non-Disabled | Pub-2010 Contingent Survivor | Males: 97% of the rates for all ages Females: 105% of the rates for all ages |
| Disabled | PubNS-2010 Disabled Retiree | 99% of the rates for all ages |

The following health care costs assumptions were updated and used in the roll-forward calculation for the HCTF:

- Per capita health care costs in effect as of the December 31, 2023, valuation date for those PERACare enrollees under the PERA benefit structure who are expected to be age 65 and older and are not eligible for premium-free Medicare Part A benefits were updated to reflect costs for the 2024 plan year.
- The health care cost trend rates applicable to health care premiums were revised to reflect the current expectation of future increases in those premiums. A separate trend rate assumption set was added for MAPD PPO #2 as the first-year rate is still below the maximum subsidy and also the assumption set reflects the estimated impact of the Inflation Reduction Act for that plan option.
- The Medicare health care plan election rate assumptions were updated effective as of the December 31, 2023, valuation date based on an experience analysis of recent data.

Actuarial assumptions pertaining to per capita health care costs and their related trend rates are analyzed and updated annually by PERA Board’s actuary, as discussed above.

The actuarial assumptions used in the December 31, 2023, valuations were based on the 2020 experience analysis, dated October 28, 2020, and November 4, 2020, for the period January 1, 2016, through December 31, 2019. Revised economic and demographic assumptions were adopted by PERA's Board on November 20, 2020.

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note J – Defined benefit other post-employment benefit (OPEB) plan (Continued)

Based on the 2024 experience analysis, dated January 3, 2025, for the period January 1, 2020, to December 31, 2023, revised actuarial assumptions were adopted by PERA's Board on January 17, 2025, and were effective as of December 31, 2024. The following assumptions were reflected in the roll forward calculation of the total OPEB liability from December 31, 2023, to December 31, 2024.

Salary increases, including wage inflation: 4.00%-13.40%

The following health care costs assumptions were used in the roll forward calculation for the HCTF:

- Salary scale assumptions were altered to better reflect actual experience.
- Rates of termination/withdrawal, retirement, and disability were revised to more closely reflect actual experience.
- Participation rates were reduced.
- MAPD premium costs are no longer age graded.

| <u>Plan</u> | <u>With Medicare Part A</u> | <u>Without Medicare Part A</u> |
|-------------------|---------------------------------|------------------------------------|
| MAPD PPO #1 | \$1,824 | \$6,972 |
| MAPD PPO #2 | 624 | 4,524 |
| MAPD HMO (Kaiser) | 2,040 | 7,596 |

The adjustments for credibility applied to the Pub-2010 mortality tables for active and retired lives, including beneficiaries, were updated based on the experience. Note that in all categories, the mortality tables are generationally projected using the 2024 adjusted MP-2021 project scale. These assumptions updated for the Division Trust Funds, were also applied in the roll forward calculations for the HCTF using a headcount-weighted basis. Affiliated employers of the State, School, Local Government, and Judicial Divisions participate in the HCTF.

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note J – Defined benefit other post-employment benefit (OPEB) plan (Continued)

| School Division | Mortality Table | Adjustments, as Applicable |
|---|------------------------------|---|
| Pre-Retirement | PubT-2010 Employee | N/A |
| Post-Retirement (Retiree), Non-Disabled | PubT-2010 Healthy Retiree | Males: 106% of the rates for all ages Females: 86% of the rates prior to age 85/115% of the rates age 85 and older |
| Post-Retirement (Beneficiary), Non-Disabled | Pub-2010 Contingent Survivor | Males: 92% of the rates for all ages Females: 100% of the rates for all ages |
| Disabled | PubNS-2010 Disabled Retiree | 95% of the rates for all ages |

The actuarial assumptions pertaining to per capita health care costs and their related trend rates are analyzed annually and updated, as appropriate, by the PERA Board’s actuary.

The long-term expected return on plan assets is monitored on an ongoing basis and reviewed as part of periodic experience studies prepared every four years, and asset/liability studies, performed every three to five years for PERA. The most recent analyses were outlined in the 2024 Experience Study report dated January 3, 2025.

Several factors are considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and then adding expected inflation.

The PERA Board first adopted the 7.25% long-term expected rate of return as of November 18, 2016. Following an asset/liability study, the Board reaffirmed the assumed rate of return at the November 15, 2019, meeting, and again at the Board’s September 20, 2024, meeting. As of the most recent reaffirmation of the long-term rate of return, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the table as follows:

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note J – Defined benefit other post-employment benefit (OPEB) plan (Continued)

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>30 Year Expected Geometric Real Rate of Return</u> |
|--------------------|--------------------------|---|
| Global Equity | 51.00% | 5.00% |
| Fixed Income | 23.00% | 2.60% |
| Private Equity | 10.00% | 7.60% |
| Real Estate | 10.00% | 4.10% |
| Alternatives | <u>6.00%</u> | 5.20% |
| Total | <u>100.00%</u> | |

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected nominal rate of return assumption of 7.25%.

Sensitivity of the District’s proportionate share of the net OPEB liability to changes in the Health Care Cost Trend Rates. The following table presents the net OPEB liability using the current health care cost trend rates applicable to the PERA benefit structure, as well as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates:

| | <u>1% Decrease in Trend Rates</u> | <u>Current Trend Rates</u> | <u>1% Increase in Trend Rates</u> |
|---|---------------------------------------|--------------------------------|---------------------------------------|
| Initial PERACare Medicare trend rate ¹ | 5.75% | 6.75% | 7.75% |
| Ultimate PERACare Medicare trend rate | 3.50% | 4.50% | 5.50% |
| Initial MAPD PPO #2 trend rate ¹ | 7.55% | 8.55% | 9.55% |
| Ultimate MAPD PP #2 trend rate | 3.50% | 4.50% | 5.50% |
| Initial Medicare Part A trend rate ¹ | 2.75% | 3.75% | 4.75% |
| Ultimate Medicare Part A trend rate | <u>3.50%</u> | <u>4.50%</u> | <u>5.50%</u> |
| Net OPEB Liability | \$ 32,084 | \$ 32,972 | \$ 33,977 |

¹For the January 1, 2025, plan year.

Discount rate. The discount rate used to measure the TOL was 7.25%. The basis for the projection of liabilities and the FNP used to determine the discount rate was an actuarial valuation performed as of December 31, 2023, and the financial status of the HCTF as of the current measurement date (December 31, 2024). In addition, the following methods and assumptions were used in the projection of cash flows:

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note J – Defined benefit other post-employment benefit (OPEB) plan (Continued)

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 2024, measurement date.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.00%.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date.
- Employer contributions and the amount of total service costs for future plan members were based upon a process to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Estimated transfers of dollars into the HCTF representing a portion of purchase service agreements intended to cover the costs associated with OPEB benefits.
- Benefit payments and contributions were assumed to be made at the middle of the year.
- As of the December 31, 2024, measurement date, the FNP and related disclosure components for the HCTF reflect additional payments related to the disaffiliation of Tri-County Health as a PERA-affiliated employer, effective December 31, 2022. The additional employer disaffiliation payment allocations to the HCTF and Local Government Division Trust Fund were \$0.020 million and \$0.486 million, respectively.

Based on the above assumptions and methods, the FNP for the HCTF was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25% on OPEB plan investments was applied to all periods of projected benefit payments to determine the TOL. The discount rate determination did not use the municipal bond index rate, and therefore, the discount rate is 7.25%. There was no change in the discount rate from the prior measurement date.

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate. The following table presents the proportionate share of the net OPEB liability calculated using the discount rate of 7.25%, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note J – Defined benefit other post-employment benefit (OPEB) plan (Continued)

| | 1% Decrease <u>(6.25%)</u> | Current Discount Rate <u>(7.25%)</u> | 1% Increase <u>(8.25%)</u> |
|--|-------------------------------|--|-------------------------------|
| Proportionate share of the net OPEB liability | \$ 40,408 | \$ 32,972 | \$ 26,561 |

OPEB plan fiduciary net position. Detailed information about the HCTF’s FNP is available in PERA’s ACFR which can be obtained at www.copera.org/forms-resources/financial-reports-and-studies.

Payables to the OPEB plan

The District did not report any payables to the OPEB plan at year-end.

Note K – Commitments and contingencies

Taxpayer Bill of Rights

In November 1992, Colorado voters passed an amendment, commonly known as the Taxpayer’s Bill of Rights (TABOR), to the State Constitution (Article X, Section 20) which limits the revenue raising and spending abilities of state and local governments. The Amendment contains tax, spending, revenue and debt limitations that apply to the State of Colorado, all local governments and special districts.

Morgan County Quality Water District considers itself to be an enterprise as defined by TABOR, thus being exempt from the provisions of the Amendment.

In addition, the District’s electorate approved a ballot issue in May of 1996 that would allow the District (if it should be determined that the District does not qualify as an enterprise) to retain, appropriate, and utilize any and all revenues generated in 1993, 1994 and 1995 in excess of the limits imposed by Article X, Section 20 of the Colorado Constitution, and be authorized to retain, appropriate, collect and utilize, by retention for reserve, carryover fund balance, or expenditure, the full proceeds and revenues received from every source whatsoever, without limitation, in 1996 and all subsequent years.

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to Financial Statements

Note K – Commitments and contingencies (Continued)

Federal and state funding

The District receives revenues from various federal and state grant programs which are subject to final review and approval by the grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Note L – Unrestricted net position – designated for capital improvements

In 1983, the Board of Directors approved a long-term expansion and upgrade plan as submitted by their engineering consultant. The plan provides for capital projects to be implemented in future years in order to maintain, develop and expand the current water system. The Capital Improvement Plan is reviewed annually along with the budget and adjusted as necessary. The current Capital Improvement budget exceeds \$21.3 million.

Note M – Northern integrated supply project

During 2004, the District entered into an agreement with Northern Colorado Water Conservancy District (NCWCD), acting by and through its Northern Integrated Supply Project (NISP) Water Activity Enterprise. NISP is a collaborative effort between NCWCD and 15 northern Front Range municipalities and water districts to increase the quantity and reliability of their water supplies. As of December 31, 2025, the District has paid \$6,122,495 to enter into this project, which has been classified as construction in progress. On March 13, 2026, the District decided it was no longer practical to continue its association with NISP and forfeited its 1,300 units, effectively removing itself from the effort.

Note N – Morgan Heights Water and Sewer

The District is continuing to proceed toward consummation of the contract of sale and transfer with Morgan Heights Water & Sewer, Inc. (Morgan Heights) in exchange for water service to their area. During 2003, all physical assets, rights-of-way and easements, Riverside water rights and cash of \$79,255 were acquired from Morgan Heights in exchange for the sale of tap fees. As of December 31, 2025, the District has not consummated the actual purchase of the water system nor assumed the corresponding debt. This transaction is contingent upon USDA Rural Utility Services' (RUS) approval, which is still pending. The land underlying some of the above transferred assets is collateralized by the mortgage note payable to RUS. Currently, the District bills for water provided through the Morgan Heights system and then remits the collections to the RUS. Neither revenues nor remittances to RUS are recorded in the District's financial statements.

Required Supplementary Information

Required supplementary information includes financial information and disclosures that are required by the Governmental Accounting Standards Board but are not considered a part of the basic financial statements. Such information includes:

- Schedule of the District's Proportionate Share of the Net Pension Liability – PERA's Local Government Division Trust Fund
- Schedule of District Contributions – PERA's Local Government Division Trust Fund
- Schedule of the District's Proportionate Share of the Net OPEB Liability – PERA's Health Care Trust Fund
- Schedule of District Contributions – PERA's Health Care Trust Fund

MORGAN COUNTY QUALITY WATER DISTRICT
Schedule of the District's Proportionate Share of the Net Pension Liability
PERA's Local Government Division Trust Fund
December 31, 2025

| | 2025 | 2024 | 2023 | 2022 |
|--|------------|------------|------------|-------------|
| District's proportion of the net pension liability | 0.0867% | 0.0891% | 0.0859% | 0.0903% |
| District's proportionate share of the net pension liability (asset) | \$ 532,152 | \$ 653,812 | \$ 860,795 | \$ (77,456) |
| District's covered payroll | \$ 832,234 | \$ 782,500 | \$ 702,884 | \$ 672,217 |
| District's proportionate share of the net pension liability as a percentage of its covered payroll | 63.94% | 83.55% | 122.47% | -11.52% |
| Plan fiduciary net position as a percentage of the total pension liability | 90.45% | 88.03% | 82.99% | 101.49% |

* The amounts presented for each fiscal year were determined as of December 31 of the prior year.

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|----|-------------|-------------|--------------|--------------|--------------|-------------|
| | 0.0911% | 0.0921% | 0.0921% | 0.0933% | 0.0906% | 0.0900% |
| \$ | 474,725 | \$ 673,692 | \$ 1,158,490 | \$ 1,038,750 | \$ 1,223,335 | \$ 991,406 |
| \$ | 643,084 | \$ 634,322 | \$ 604,389 | \$ 588,531 | \$ 549,116 | \$ 511,122 |
| | 73.82% | 106.21% | 191.68% | 176.50% | 222.78% | 193.97% |
| | 90.88% | 86.26% | 75.96% | 79.37% | 73.60% | 76.90% |

MORGAN COUNTY QUALITY WATER DISTRICT
Schedule of District Contributions
PERA's Local Government Division Trust Fund
December 31, 2025

| | <u>2025</u> | <u>2024</u> | <u>2023</u> | <u>2022</u> |
|---|------------------|------------------|------------------|-----------------|
| Contractually required contribution | \$ 119,097 | \$ 114,516 | \$ 107,516 | \$ 94,622 |
| Contributions in relation to the contractually required contribution | <u>(119,097)</u> | <u>(114,516)</u> | <u>(107,516)</u> | <u>(94,622)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered payroll | \$ 863,652 | \$ 832,234 | \$ 782,500 | \$ 702,884 |
| Contributions as a percentage of covered payroll | 13.79% | 13.76% | 13.74% | 13.46% |

| <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| \$ 88,733 | \$ 83,154 | \$ 80,432 | \$ 76,637 | \$ 74,626 | \$ 69,628 |
| <u>(88,733)</u> | <u>(83,154)</u> | <u>(80,432)</u> | <u>(76,637)</u> | <u>(74,626)</u> | <u>(69,628)</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| \$ 672,217 | \$ 643,084 | \$ 634,322 | \$ 604,389 | \$ 588,531 | \$ 549,116 |
| 13.20% | 12.93% | 12.68% | 12.68% | 12.68% | 12.68% |

MORGAN COUNTY QUALITY WATER DISTRICT
Schedule of the District's Proportionate Share of the Net OPEB Liability ¹
PERA's Health Care Trust Fund
December 31, 2025

| | 2025 | 2024 | 2023 | 2022 |
|---|------------|------------|------------|------------|
| District's proportion of the net OPEB liability | 0.0069% | 0.0071% | 0.0069% | 0.0070% |
| District's proportionate share of the net OPEB liability | \$ 32,972 | \$ 50,540 | \$ 56,554 | \$ 60,558 |
| District's covered payroll | \$ 832,234 | \$ 782,500 | \$ 702,884 | \$ 672,217 |
| District's proportionate share of the net OPEB liability as a percentage of its covered payroll | 3.96% | 6.46% | 8.05% | 9.01% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 59.83% | 46.16% | 38.57% | 39.40% |

* The amounts presented for each fiscal year were determined as of December 31 of the prior year.

¹ Until a full 10-year trend is compiled, the District will present information for those years for which information is available.

| <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|-------------|-------------|-------------|-------------|-------------|
| 0.0070% | 0.0071% | 0.0071% | 0.0072% | 0.0070% |
| \$ 66,080 | \$ 79,294 | \$ 97,225 | \$ 94,212 | \$ 90,166 |
| \$ 643,084 | \$ 634,322 | \$ 604,389 | \$ 588,531 | \$ 549,116 |
| 10.28% | 12.50% | 16.09% | 16.01% | 16.42% |
| 32.78% | 24.49% | 17.03% | 17.53% | 16.72% |

MORGAN COUNTY QUALITY WATER DISTRICT
Schedule of District Contributions
PERA's Health Care Trust Fund
December 31, 2025

| | <u>2025</u> | <u>2024</u> | <u>2023</u> | <u>2022</u> |
|--|----------------|----------------|----------------|----------------|
| Contractually required contribution | \$ 8,809 | \$ 8,489 | \$ 7,982 | \$ 7,169 |
| Contributions in relation to the contractually required contribution | <u>(8,809)</u> | <u>(8,489)</u> | <u>(7,982)</u> | <u>(7,169)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered payroll | \$ 863,652 | \$ 832,234 | \$ 782,500 | \$ 702,884 |
| Contributions as a percentage of covered payroll | 1.02% | 1.02% | 1.02% | 1.02% |

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| | \$ 6,857 | \$ 6,559 | \$ 6,470 | \$ 6,165 | \$ 6,003 | \$ 5,601 |
| | <u>(6,857)</u> | <u>(6,559)</u> | <u>(6,470)</u> | <u>(6,165)</u> | <u>(6,003)</u> | <u>(5,601)</u> |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| | \$ 672,217 | \$ 643,084 | \$ 634,322 | \$ 604,389 | \$ 588,531 | \$ 549,116 |
| | 1.02% | 1.02% | 1.02% | 1.02% | 1.02% | 1.02% |

MORGAN COUNTY QUALITY WATER DISTRICT
Notes to the Required Supplementary Information

Note A – Factors affecting trends in amounts reported in the pension and OPEB schedules

Information about factors that significantly affect trends in the amounts reported in the Schedules of the District's Proportionate Share of the Net Pension and OPEB Liabilities and the Schedules of District Contributions is available in PERA's comprehensive annual financial report which can be obtained at www.copera.org/forms-resources/financial-reports-and-studies.

Other Supplementary Information

Supplementary information includes financial schedules not required by the Governmental Accounting Standards Board, are not a part of the basic financial statements, but are presented for purposes of additional analysis.

MORGAN COUNTY QUALITY WATER DISTRICT
Budgetary Comparison Schedule
For the Year Ended December 31, 2025

| | Budgeted Amounts | | Actual | Variance with Final Budget Favorable (Unfavorable) |
|--------------------------|------------------|--------------|--------------|---|
| | Original | Final | | |
| Operating revenues | | | | |
| Water sales | \$ 4,791,400 | \$ 4,791,400 | \$ 4,713,223 | \$ (78,177) |
| Miscellaneous | 44,500 | 44,500 | 109,815 | 65,315 |
| Total operating revenues | 4,835,900 | 4,835,900 | 4,823,038 | (12,862) |
| Operating expenses | | | | |
| Capital purchases | 20,868,050 | 20,868,050 | 5,303,950 | 15,564,100 |
| Salaries | 895,000 | 895,000 | 886,637 | 8,363 |
| Employee benefits | 393,400 | 393,400 | 481,962 | (88,562) |
| Office supplies | 85,000 | 85,000 | 76,574 | 8,426 |
| Office utilities | 34,000 | 34,000 | 25,517 | 8,483 |
| Insurance | 69,000 | 69,000 | 78,791 | (9,791) |
| Repairs and maintenance | 619,520 | 619,520 | 488,811 | 130,709 |
| Vehicle and travel | 92,000 | 92,000 | 62,350 | 29,650 |
| Tools and supplies | 37,150 | 37,150 | 44,933 | (7,783) |
| Advertising | 6,000 | 6,000 | 3,376 | 2,624 |
| Legal and professional | 169,100 | 169,100 | 113,141 | 55,959 |
| Engineering | 122,000 | 122,000 | 155,159 | (33,159) |
| Director fees | 12,000 | 12,000 | 9,827 | 2,173 |
| County treasurer fees | 7,000 | 7,000 | 4,595 | 2,405 |
| Water leases and rents | 40,000 | 40,000 | 34,749 | 5,251 |
| Water expense | 183,000 | 183,000 | 193,780 | (10,780) |
| Power purchases | 313,000 | 313,000 | 196,585 | 116,415 |
| Noncapital outlay | | | 411,858 | (411,858) |
| Miscellaneous | 97,800 | 97,800 | 66,340 | 31,460 |
| Contingency reserve | (569,023) | (569,023) | | (569,023) |
| Total operating expenses | 23,473,997 | 23,473,997 | 8,638,935 | 14,835,062 |
| Operating loss | (18,638,097) | (18,638,097) | (3,815,897) | 14,822,200 |

| | Budgeted Amounts | | Actual | Variance with |
|--|------------------------|------------------------|----------------------|--|
| | Original | Final | | Final Budget Favorable (Unfavorable) |
| Nonoperating revenues (expenses) | | | | |
| Ad valorem charges | 25,000 | 25,000 | 24,864 | (136) |
| Excluded and included property | 5,000 | 5,000 | 1,250 | (3,750) |
| Interest and dividends | 945,000 | 945,000 | 558,192 | (386,808) |
| Pasture lease | 237,000 | 237,000 | 235,542 | (1,458) |
| Water rentals and leases | 12,000 | 12,000 | 2,862 | (9,138) |
| Property and other taxes | 228,663 | 228,663 | 247,596 | 18,933 |
| Reimbursements | 250,000 | 250,000 | 65,622 | (184,378) |
| Proceeds from sale of assets | 15,000 | 15,000 | 65,000 | 50,000 |
| Loan proceeds | 316,591 | 316,591 | | (316,591) |
| Principal payments | (525,000) | (525,000) | (525,000) | - |
| Interest and fiscal charges | (933,600) | (933,600) | (766,694) | 166,906 |
| Total nonoperating revenues (expenses) | 575,654 | 575,654 | (90,766) | (666,420) |
| Net loss before capital contributions | (18,062,443) | (18,062,443) | (3,906,663) | 14,155,780 |
| Capital contributions | 1,890,000 | 1,890,000 | 1,615,935 | (274,065) |
| Change in net position | <u>\$ (16,172,443)</u> | <u>\$ (16,172,443)</u> | (2,290,728) | <u>\$ 13,881,715</u> |
| Adjustments to GAAP Basis | | | | |
| Deduct depreciation | | | (1,079,974) | |
| Deduct amortization | | | (3,741) | |
| Add pension and OPEB expense | | | 21,828 | |
| Add capital purchases | | | 5,303,950 | |
| Add principal payments | | | 525,000 | |
| Change in net position - GAAP Basis | | | 2,476,335 | |
| Net position at beginning of year | | | 61,441,815 | |
| Net position at end of year | | | <u>\$ 63,918,150</u> | |

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Debt Compliance Schedules

MORGAN COUNTY QUALITY WATER DISTRICT
Debt Service Coverage

| | <u>2025</u> |
|--|----------------------------|
| Gross revenues | |
| Operating revenue | \$ 4,823,038 |
| Nonoperating revenue | 1,200,928 |
| Capital contributions | <u>1,615,935</u> |
| Total gross revenues | 7,639,901 |
| Operation and maintenance expenses (excluding depreciation and amortization) | <u>3,313,157</u> |
| Net revenue | <u><u>\$ 4,326,744</u></u> |
| Maximum annual debt service | <u><u>\$ 1,462,800</u></u> |
| Maximum annual debt service coverage | <u><u>295.79%</u></u> |

Source: The District.

MORGAN COUNTY QUALITY WATER DISTRICT
2025 Total Customers and Tap Equivalents by Classification

| Classification | Number of Customers | Total Tap Equivalents |
|-----------------------------|---------------------|-----------------------|
| Residential | 2,783 | 2,952 |
| Agriculture | 7 | 26 |
| Car wash | 3 | 7 |
| Church | 9 | 11 |
| Community building | 6 | 6 |
| Dairy | 37 | 393 |
| Feedlot | 10 | 26 |
| Fire Department | 3 | 3 |
| Golf course | 4 | 4 |
| Greenhouse | 3 | 6 |
| Hog farm | 11 | 30 |
| Hotel and motel | 2 | 20 |
| Industrial | 17 | 60 |
| Parks and recreation | 4 | 13 |
| Pasture | 38 | 44 |
| Poultry | 1 | 2 |
| Restaurant and café | 6 | 7 |
| RV park | 1 | 9 |
| Schools | 4 | 13 |
| Shops and facilities | 23 | 28 |
| Trailer park | 6 | 19 |
| Wholesale and retail | 67 | 93 |
| Total | 3,045 | 3,772 |
| Log Lane Village | 1 | 327 |
| Town of Hillrose | 1 | 64 |
| Uninstalled | 99 | 111 |
| Total number of taps | 3,146 | 4,274 |

Source: The District.

MORGAN COUNTY QUALITY WATER DISTRICT
2025 Water Usage and Revenue by Class of Customer

| <u>Class of Customer</u> | <u>Water Consumption (Gallons)</u> | <u>Percent of Total Consumption</u> | <u>Total Revenues Collected</u> | <u>Percent of Total Billed</u> |
|--------------------------|------------------------------------|-------------------------------------|---------------------------------|--------------------------------|
| Single family | 397,113,000 | 51.27% | \$ 2,413,469 | 50.12% |
| Livestock | 279,852,000 | 36.13% | 1,805,947 | 37.50% |
| Municipalities | 56,934,000 | 7.35% | 326,441 | 6.78% |
| Business | 37,931,000 | 4.90% | 216,746 | 4.50% |
| Multi-family | 2,512,000 | 0.32% | 10,859 | 0.23% |
| Temporary meter | 253,000 | 0.03% | 3,486 | 0.07% |
| Uninstalled | - | 0.00% | 38,315 | 0.80% |
| Totals | <u>774,595,000</u> | <u>100.00%</u> | <u>\$ 4,815,263</u> | <u>100.00%</u> |

Source: The District.

MORGAN COUNTY QUALITY WATER DISTRICT
2025 Largest Customers of the System

| <u>Class of Customer</u> | <u>Annual Consumption (Gallons)</u> | <u>Percent of Total Consumption</u> | <u>Revenues Collected</u> | <u>Percent of Total Revenue</u> |
|--------------------------|-------------------------------------|-------------------------------------|---------------------------|---------------------------------|
| Dairy | 53,594,000 | 6.92% | \$ 260,239 | 5.40% |
| Dairy | 49,582,000 | 6.40% | 313,489 | 6.51% |
| Dairy | 38,257,000 | 4.94% | 312,955 | 6.50% |
| Community master meter | 31,068,000 | 4.01% | 162,793 | 3.38% |
| Dairy | 29,989,000 | 3.87% | 188,208 | 3.91% |
| Dairy | 21,222,000 | 2.74% | 258,288 | 5.36% |
| Grow lot | 16,717,000 | 2.16% | 82,804 | 1.72% |
| Dairy | 14,966,000 | 1.93% | 64,949 | 1.35% |
| Dairy | 9,077,000 | 1.17% | 41,247 | 0.86% |
| Dairy | 8,718,000 | 1.13% | 41,090 | 0.85% |
| Total | <u>273,190,000</u> | <u>35.27%</u> | <u>\$ 1,726,062</u> | <u>35.84%</u> |

Source: The District.

MORGAN COUNTY QUALITY WATER DISTRICT
2025 Tap Fees

| Year | Tap Equivalents Sold | Tap Fee Revenue Collected |
|------|----------------------------|---------------------------------|
| 2025 | 15 | \$ 947,000 |

Source: The District.