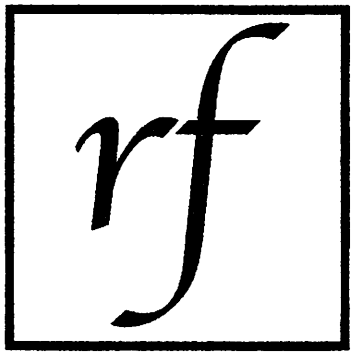


Huerfano County

Water Conservancy District

Financial Statements

December 31, 2025

Huerfano County
Water Conservancy District
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December 31, 2025

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Independent Auditor's Report

Board Members
Huerfano County Water Conservancy District
LaVeta, CO

Opinions

We have audited the financial statements of the governmental activities and each major fund of Huerfano County Water Conservancy 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 accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund, of the District as of December 31, 2025, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

The District's 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, 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 required supplementary information on pages ii through vi and page 18, 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.

rfarmer, llc

October 5, 2026

HUERFANO COUNTY WATER CONSERVANCY DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

Following are an analysis and narrative overview of the financial activities of the Huerfano County Water Conservancy District (HCWCD) for the fiscal year ending December 31, 2025.

Financial Highlights

The assets of HCWCD exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by $2,926,445 (net position). A loan agreement with Colorado Water Conservation Board is still in effect and tied to the purchase of land and water rights to satisfy the requirements of a now-adjudicated water court case for a regional water augmentation plan for junior water users on the Huerfano River.

As of the close of fiscal year 2025, HCWCD governmental fund reported an ending fund balance of $1,734,807. Funds were available for spending at the discretion of the HCWCD Board of Directors, and the unassigned fund balance was $1,708,307.

Overview of the Financial Statements

This discussion and analysis are intended to be an introduction to the basic financial statements of HCWCD. The District's basic financial statements are comprised of:

1. Government-wide financial statements
2. Fund Financial Statements
3. Notes to the financial statements

Government-wide Financial Statements

The government-wide financial statements are designed to provide a broad overview of the district's finances in much the same way a private-sector business might be characterized.

The statement of net position presents information on all the HCWCD assets and liabilities, with the difference between them reported as net position. This statement reports all of the district's current financial resources (short-term spendable resources) with capital assets and long-term obligations. Over time, increases in net position may serve as a useful indicator of whether the financial position of the HCWCD is improving or deteriorating.

The statement of activities presents information showing how the net position of HCWCD changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements distinguish functions of HCWCD that are principally supported by taxes and intergovernmental revenues (governmental activities) from those that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The HCWCD has no business-type activities.

The governmental activities of HCWCD in Huerfano County include: constructing, paying for and operating water projects; conservation and development of water resources for the greatest beneficial use; combating water development pressure. HCWCD has activities related to the lease of augmentation water in its pursuit of purchasing and owning water rights and reservoirs to keep water in Huerfano County for use by local residents. These activities are currently included in the general fund.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. HCWCD, like other state and local government agencies, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the near-term financing requirements of HCWCD.

Due to the focus of governmental funds being narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the agency's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

HCWCD maintains one governmental fund. The district adopts an annual appropriated budget for its general fund.

Notes to the Financial Statements

The notes provide additional information to help clarify the data provided in the financial statements.

Financial Information Presentation

This is the twelfth year that HCWCD has been audited. One year of financial information is available for presentation here.

Government–wide Financial Analysis

The HCWCD assets exceeded liabilities and deferred inflows by $2,926,445 at the close of fiscal year 2025. This improved position resulted from the 2020 sale of the William Craig Ranch property, less the water rights needed to satisfy the regional augmentation plan adjudicated in November 2016.

District's Net Position, Governmental Type Activities

	Governmental Activities	Total
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,685,823	$ 1,685,823
Receivables	474,337	474,337
Non-Current Assets:		
Capital asset, not being depreciated	800,121	800,121
Capital assets being depreciated	2,628,163	2,628,163
Less: Accumulated Depreciation	(440,565)	(440,565)
Total Non-Current Assets	2,987,719	2,987,719
Total Assets	5,147,879	5,147,879
LIABILITIES		
Accounts payable	19,041	19,041
Long-term liabilities:		
Due within one year:		
Loan payable	82,774	82,774
Augmentation Deposits	16,251	16,251
Due in more than one year:		
Loan payable	1,713,307	1,713,307
Total liabilities	1,831,373	1,831,373
Deferred inflow of resources:		
Deferred Property Taxes	390,061	390,061
Total deferred inflows	390,061	390,061
NET POSITION		
Net investment in capital assets	1,191,638	1,191,638
Restricted for:		
TABOR	26,500	26,500
Unrestricted	1,708,307	1,708,307
Total net position	$ 2,926,445	$ 2,926,445

Governmental Activities

	General Fund	Total
REVENUES		
Property Taxes	$ 328,890	$ 328,890
SO Tax	34,323	34,323
Intergovernmental	10,548	10,548
Investment earnings	70,433	70,433
Augmentation Admin Fees and Certificates	51,598	51,598
Total revenues	580,068	580,068
EXPENDITURES		
Water conservation and augmentation	262,902	262,902
Debt Service:		
Principal	80,953	80,953
Interest expense	42,233	42,233
Total Expenditures	386,088	386,088
Excess (deficiency) of revenues over expenditures	193,980	193,980
OTHER FINANCING SOURCES (USES)		
Other uses	1,674	1,674
Total other financing sources and uses	1,674	1,674
Net change in fund balances	195,654	195,654
Fund balances - beginning	1,539,153	1,539,153
Fund balances - ending	$ 1,734,807	$ 1,734,807

Activities by Major Function

	2025		2024	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Water Conservation & Augmentation	$ 262,902	$ 207,366	$ 407,648	$ 291,596
Interest	42,233	42,233	44,015	44,015
	$ 220,669	$ 165,133	$ 363,633	$ 247,581

Financial analysis of the District's Funds

HCWCD uses fund accounting to comply with finance related legal requirements. The focus of the HCWCD governmental fund is to provide information on current year revenue, expenditures and balances of spendable resources. Such information is useful in assessing the HCWCD financing resources available for spending at the end of the fiscal year.

The general fund is the only governmental fund of HCWCD. As of December 31, 2025, HCWCD general fund reported an ending balance of $2,045,763, with an unassigned fund balance of $1,733,922 available for spending at the discretion of the Board of Directors.

In 2025, the district managed three grant projects, two of which were: Maria-Stevens Reservoir (MSR) Dredging Feasibility Study and Hydrologic Analysis; Bruce Canyon Reservoir (BCR) 90% Engineering Design. For the third, HCWCD renewed monitoring service for the flood emergency warning gages, installed under a DHSEM grant in 2019 to monitor the Spring Creek Fire burn scar upstream of La Veta.

HCWCD is awaiting a response from USDA-NRCS regarding designation of a PL-566 project for construction of BCR and expansion of MSR to gain 1,900 acre-feet of additional water storage capacity in the Cucharas River basin. The required preliminary investigation feasibility report was finished in late 2023.

Existing augmentation water leases were renewed, and invoiced administrative fees were received. There was one five-year augmentation lease-purchase contract in 2025, which was in its second year. One purchase application was under engineering and legal review during 2025. Leases for Tier 2 and Tier 3 augmentation water were in effect.

Capital Assets

The HCWCD investment in capital assets for its governmental activities as of December 31, 2025 amounted to $3,086,716, net of accumulated depreciation. This investment in capital assets includes land, water rights, equipment, and an augmentation reservoir.

HCWCD ASSETS (Net of Depreciation)

	2025 Governmental Activities	2024 Governmental Activities
Land & Water Rights	$ 800,121	$ 800,121
Equipment	104,016	104,016
Buildings & Improvements	2,524,147	2,524,147
Accumulated Depreciation	(440,565)	(341,568)
Total Capital Assets	$ 2,987,719	$ 3,086,716

Long-Term Debt

The Colorado Water Conservation Board (CWCB) holds a long-term loan with HCWCD for development of the Huerfano Regional Augmentation Program and construction of the Sheep Mountain Augmentation Facility. Interest only, at 2.25%, accrued until the augmentation water storage project was substantially complete on December 31, 2021. After sale of the District's William Craig Ranch, HCWCD paid CWCB $654,766 for accrued interest on the loan and part of the principal balance on December 30, 2020. The balance of the loan due on December 31, 2025 was $1,796,081.

Requests for Information

This financial report is designed to provide a general overview of the finances of the Huerfano County Water Conservancy District. Questions about any of the information in this report or requests for additional financial information should be addressed to:

Carol Dunn, District Administrator
PO Box 442
La Veta, CO 81055
(719) 742-5581
hcwcdistrict@gmail.com

Basic Financial Statements

Huerfano County Water Conservancy District
Statement of Net Position
December 31, 2025

	Governmental Activities	Total
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,685,823	$ 1,685,823
Receivables	474,337	474,337
Non-Current Assets:		
Capital asset, not being depreciated	800,121	800,121
Capital assets being depreciated	2,628,163	2,628,163
Less: Accumulated Depreciation	(440,565)	(440,565)
Total Non-Current Assets	2,987,719	2,987,719
Total Assets	5,147,879	5,147,879
LIABILITIES		
Accounts payable	19,041	19,041
Long-term liabilities:		
Due within one year:		
Loan payable	82,774	82,774
Augmentation Deposits	16,251	16,251
Due in more than one year:		
Loan payable	1,713,307	1,713,307
Total liabilities	1,831,373	1,831,373
Deferred inflow of resources:		
Deferred Property Taxes	390,061	390,061
Total deferred inflows	390,061	390,061
NET POSITION		
Net investment in capital assets	1,191,638	1,191,638
Restricted for:		
TABOR	26,500	26,500
Unrestricted	1,708,307	1,708,307
Total net position	$ 2,926,445	$ 2,926,445

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

Huerfano County Water Conservancy District
Statement of Activities
For the Year Ended December 31, 2025

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Primary Government: Total
Primary government					
Governmental Activities					
General Government	$ 402,458	$ 135,874	$ 10,548	$ (256,036)	$ (256,036)
Total governmental activities	402,458	135,874	10,548	(256,036)	(256,036)
Total primary government	402,458	135,874	10,548	(256,036)	(256,036)
General revenues:					
Taxes:					
Property taxes, including SO taxes				$ 328,890	$ 328,890
Franchise fees				34,323	34,323
Unrestricted investment earnings				70,433	70,433
Total general revenues, special items, and transfers				433,646	433,646
Change in net position				177,610	177,610
Net position - beginning				2,748,835	2,748,835
Net position - ending				$ 2,926,445	$ 2,926,445

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

Huerfano County Water Conservancy District
Balance Sheet
Governmental Funds
December 31, 2025

	General Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents	$ 1,685,823	$ 1,685,823
Taxes receivable, net	390,061	390,061
Other receivables	84,276	84,276
Total assets	2,160,160	2,160,160
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	19,041	19,041
Advance deposits	16,251	16,251
Total liabilities	35,292	35,292
Deferred inflow of resources:		
Deferred property taxes and augmentation	390,061	390,061
Fund balances:		
Restricted - TABOR	26,500	26,500
Unassigned	1,708,307	1,708,307
Total fund balances	1,734,807	1,734,807
Total liabilities and fund balances	$ 2,160,160	$ 2,160,160

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

Huerfano County Water Conservancy District
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
December 31, 2025

Total fund balance, governmental fund	$	1,734,807
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.		2,987,719
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.		(1,796,081)
Net Position of Governmental Activities in the Statement of Net Position	$	2,926,445

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

Huerfano County Water Conservancy District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2025

	General Fund	Total Governmental Funds
REVENUES		
Property Taxes	$ 328,890	$ 328,890
SO Tax	34,323	34,323
Intergovernmental	10,548	10,548
Investment earnings	70,433	70,433
Augmentation Admin Fees and Certificates	51,598	51,598
Total revenues	580,068	580,068
EXPENDITURES		
Water conservation and augmentation	262,902	262,902
Debt Service:		
Principal	80,953	80,953
Interest expense	42,233	42,233
Total Expenditures	386,088	386,088
Excess (deficiency) of revenues over expenditures	193,980	193,980
OTHER FINANCING SOURCES (USES)		
Other uses	1,674	1,674
Total other financing sources and uses	1,674	1,674
Net change in fund balances	195,654	195,654
Fund balances - beginning	1,539,153	1,539,153
Fund balances - ending	$ 1,734,807	$ 1,734,807

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

Huerfano County Water Conservancy District
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2025

Net change in fund balances - total governmental funds:	$	195,654
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlay of $0 was less than depreciation of $98,997 in the current period.		(98,997)
Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceeded proceeds.		80,953
Change in net position of governmental activities	$	177,610

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

Huerfano County Water Conservancy District
Notes to Basic Financial Statements
December 31, 2025

Note 1 Summary of Significant Accounting Policies

The Huerfano County Water Conservancy District (the "District") was formed in 1971, for the administration of water conservation issues related to the Huerfano and the Cucharas River.

Reporting Entity

The reporting entity, for financial purposes, is defined as the primary government (Huerfano County Water Conservancy District) and its component units. The District has no component units; the financial statements are comprised of the funds and account groups more fully described in subsequent information contained in the footnotes.

The accounting policies of the District conform to generally accepted accounting principles applicable to governmental units. The following is a summary of significant accounting policies.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the District's legally separate component units for which the District is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The District is comprised of one governmental fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash

flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, fees, leases, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

General Fund – This fund is the District's primary operating fund. It accounts for all financial resources of general government.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the time of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvement are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and Improvements	20-40
Equipment	5-20

Budgets and Budgetary Accounting

The District has set procedures to be followed in establishing the budgetary data reflected in the financial statements:

1. Prior to October 1, a proposed operating budget for the fiscal year commencing on the following January 1 is developed. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to December 31, the budget is legally enacted through passage of an ordinance or resolution.
4. A budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP).

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of formal budgetary integration in the General Fund.

Property Taxes

Property taxes represent ad valorem taxes levied by the District, which are payable to the County Treasurer, and are recognized as revenue by the District in the year for which they are levied.

Property taxes are levied in December for collection in the subsequent year.

Property taxes attach as an enforceable lien on property as of January 1. Taxes may be paid without penalty in either of two ways: (a) Full payment by April 30, or (b) First half must be paid by last day of February, and second half must be paid by June 15.

Use of Estimates

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

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, banker's acceptances, and mutual funds composed of otherwise legal investments. Investments are recorded at cost.

Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position and the balance sheet 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/expenditure) until then.

In addition to liabilities, the statement of financial position and the balance sheet 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.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period incurred.

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

GASB Statement No. 54

The Government Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54).* This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories below:

1. Nonspendable such as fund balances associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).
2. Restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
3. Committed fund balance classification includes amounts that can only be used for the specific purposes determined by the formal action of the District's board of directors. (The District's highest level of decision-making authority).
4. Assigned fund balance classification is intended to be used by the District for specific purposes that are neither restricted nor committed.

5. Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications.

Fund Balance Classification Policies and Procedures

Committed Fund Balance Policy:

The District's Committed Fund Balance is fund balance reporting required by the Board, either because of a Board Policy in the Board Policy Manual, or because of motions that passed at Board meetings.

Assigned Fund Balance Policy:

The District's Assigned Fund Balance is fund balance reporting occurring by Board Administration authority, under the direction of the Chief Business Officer.

Order of Fund Balance Spending Policy

The District's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance.

First, non-spendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including non-spendable amounts). Then unrestricted fund balances are determined following the order of committed, assigned, and unassigned.

Note 2 Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land and Water Rights	$ 800,121	$ -	$ -	$ 800,121
Total	800,121	-	-	800,121
Capital assets being depreciated:				
Augmentation Facility	2,524,147	-	-	2,524,147
Equipment	104,016	-	-	104,016
Total	2,628,163	-	-	2,628,163
Less accumulated depreciation for:				
Augmentation Facility	(252,414)	(84,138)	-	(336,552)
Equipment	(89,154)	(14,859)	-	(104,013)
Total accumulated depreciation	(341,568)	(98,997)	-	(440,565)
Capital assets being depreciated, net	2,286,595	(98,997)	-	2,187,598
Total Capital Assets	$ 3,086,716	$ (98,997)	$ -	$ 2,987,719

Note 3 **Reconciliation of Government-Wide and Fund Financial Statements**

The governmental funds balance sheet includes reconciliation between fund balances – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. Additionally, the governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net change in fund balances – total government funds and changes in net position of governmental activities as reported in the government-wide statement of activities.

These reconciliations detail items that require adjustment to convert from the current resource measurement and modified accrual basis for governmental fund statements to the economic resources measurement and full accrual basis used for government-wide statements.

Note 4 **Risk Management**

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

The District maintains commercial insurance for all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Note 5 **Cash and Deposits**

The District's deposits at year end were covered by federal depository insurance or secured under the Colorado Public Deposit Protection Act (PDPA), whereby the custodial bank pledges collateral for amounts on deposit in excess of the amount guaranteed by the FDIC for governmental activities. At year-end the District had $1,670,154 in COLOTRUST.

	Bank Balance
Insured	$ 9,621
Cash with County Treasurer	6,048
Cash Equivalent – COLOTRUST	1,670,154
Total Cash & Deposits	$ 1,685,823

COLOTRUST pools are a 2a7-like investment pool. The following facts are relevant for 2a7-like investments pools:

- Credit risk: COLOTRUST Portfolios are rated AAAm by S&P.
- Custodial credit risk: COLOTRUST participants' investments in the pool are evidenced by shares of the pool. Investments in pools should be disclosed but not categorized because they are not evidenced by securities that exist in physical or book-entry form. The public entity's investment is with the pool, not the securities that make up the pool; therefore, no disclosure is required.
- Concentration of credit risk: Pooled investments are excluded from the 5 percent disclosure requirement.

Note 6 Contingencies – Tax, Spending and Debt Limitations

In November 1992, the voters of Colorado approved Amendment 1, commonly known as the Taxpayer's Bill of Rights (TABOR), which adds a new Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue, and debt limitations which apply to the State of Colorado and all local governments.

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR.

The initial base for local government spending and revenue limits is 1992 Fiscal Year Spending. Future spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 1% of Fiscal Year Spending (excluding bonded debt service) in 1993, 2% in 1994 and 3% thereafter. Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

TABOR requires, with certain exceptions, voter approval prior to imposing new taxes, increasing a tax rate, increasing a mill levy above that for the prior year, extending an expiring tax, or implementing a tax policy change directly causing a net tax revenue gain to any local government.

In November 2013, District voters passed a ballot issue that authorized the District "without creating or imposing any new tax and without increasing its tax rates or its existing mill levy" to "collect, retain and spend all revenues, funds and incomes from any and all sources during 2013 and in each fiscal year, thereafter, that are in excess of the revenue, spending or any other limitations imposed upon the District by Article X, Section 20 of the Colorado Constitution".

Except for bond refinancing at lower interest rates or adding employees to existing pension plans, TABOR specifically prohibits the creation of multiple-fiscal year debt or other financial obligations without voter approval or without irrevocable pledging present cash reserves for all future payments.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending Limits (and qualifications as an Enterprise) will require judicial interpretation.

Note 7 Long-Term Debt

On December 12, 2013, the District entered into a loan contract with Colorado Water Conservation Board to provide the resources for a Regional Augmentation Project that consists of purchasing land and water rights and developing them. The loan was approved in the amount of $2,666,400 at an interest rate of 2.25% with a 20 year repayment period. Principal and interest will be paid in equal loan payments beginning one year from payment initiation

date. That is the date that the Colorado Water Conservation Board determines that the project is substantially complete. Loan amortization follows:

	Principal	Interest	Total
2026	$ 82,774	$ 40,412	$ 123,186
2027	84,636	38,550	123,186
2028	86,541	36,645	123,186
2029	88,488	34,698	123,186
2030	90,479	32,707	123,186
2031	92,515	30,671	123,186
2032	94,596	28,590	123,186
2033	96,725	26,461	123,186
2034	98,901	24,285	123,186
2035	101,126	22,060	123,186
2036	103,402	19,784	123,186
2037	105,728	17,458	123,186
2038	108,107	15,079	123,186
2039	110,540	12,646	123,186
2040	113,027	10,159	123,186
2041	115,570	7,616	123,186
2042	118,170	5,016	123,186
2043	104,756	2,357	107,113
	$ 1,877,034	$ 447,427	$ 2,324,461

Following is the change to long-term debt for the year ended December 31, 2025:

	Beginning Balance	Drawn	Paid	Ending Balance	Current Portion
Colorado Water Conservation Board Loan	$ 1,956,205	$ -	$ (80,953)	$ 1,796,081	$ 82,774

Required Supplementary Information

Huerfano County Water Conservancy District
Budget and Actual
General Fund
For the year ended December 31, 2025

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
REVENUES			
Property taxes	$ 331,002	$ 331,002	$ 328,890
SO taxes	89,000	89,000	34,323
Intergovernmental	1,667,250	1,667,250	10,548
Charges for services	38,850	38,850	84,276
Investment earnings	58,000	58,000	70,433
Miscellaneous	307,498	307,498	51,598
Total revenues	2,491,600	2,491,600	580,068
EXPENDITURES			
Water conservation and augmentation	251,268	251,268	262,902
Debt Service:			
Principal	36,938	36,938	80,953
Interest	86,248	86,248	42,233
Capital outlay	2,195,060	2,195,060	-
Total Expenditures	2,569,514	2,569,514	386,088
Excess (deficiency) of revenues over expenditures	(77,914)	(77,914)	193,980
OTHER FINANCING SOURCES (USES)			
Other uses	-	-	1,674
Total other financing sources and uses	-	-	1,674
Net change in fund balances	(77,914)	(77,914)	195,654
Fund balances - beginning	1,167,159	1,167,159	1,539,153
Fund balances - ending	$ 1,089,245	$ 1,089,245	$ 1,734,807