


**Academy Water and Sanitation District**
**Colorado Springs, Colorado**

**Financial Statements**
**December 31, 2025**

**Academy Water and Sanitation District's Financial Report**
**December 31, 2025**

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McMahan and Associates, L.L.C.
*Certified Public Accountants and Consultants*

Web Site: www.McMahanCPA.com Main Office: (970) 845-8800

**INDEPENDENT AUDITOR'S REPORT**

**To the Board of Directors**
**Academy Water and Sanitation District**
**Colorado Springs, Colorado**

***Opinion***

We have audited the financial statements of the business-type activities of Academy Water and Sanitation District, (the "District"), as of and for the year ended December 31, 2025, which collectively comprise the District's basic financial statements as listed in the Table of Contents, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of Academy Water and Sanitation District as of December 31, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("U.S. 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 U.S. GAAP, 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 Academy Water and Sanitation District's ability to continue as a going concern for one year after the date that the financial statements are issued.

### *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 U.S. 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 U.S. 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*

U.S. GAAP require that the Management's Discussion and Analysis in section B 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 which 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 U.S. GAAS, 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 individual fund budgetary comparison information in section E, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

***Supplementary Information (continued)***

The individual fund budgetary comparison information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 U.S. GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McMahan and Associates, L.L.C.

**McMahan and Associates, L.L.C.**
**Avon, Colorado**
**September 16, 2026**

# Academy Water and Sanitation District

Management's Discussion and Analysis
December 31, 2025

As management of the Academy Water and Sanitation District (the “District”), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2025.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements:** The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

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

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected receivables).

There are no governmental activities of the District. The business-type activities of the District include water and sanitation services.

The government-wide financial statements can be found in Section C of this report.

**Proprietary funds:** The District maintains proprietary funds commonly known as enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses enterprise funds to account for its water and sanitation services.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found in Section C of this report.

**Notes to the financial statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found at Section D of this report.

**Other information:** The budgetary schedules found in Section E provide a detailed comparison of the District’s actual revenues and expenditures to budgeted amounts. As the District’s proprietary funds were not adopted in a manner consistent with generally accepted accounting principles (“GAAP”), those schedules are presented on a Non-GAAP basis with reconciliation to GAAP basis.

**Government-wide Financial Analysis**

**Academy Water and Sanitation District's Net Position**

| | 2025 | 2024 |
|---|---|---|
| **Assets:** | | |
| Current assets | $ 1,014,615 | $ 1,342,826 |
| Capital assets, net | 3,359,604 | 2,994,412 |
| **Total Assets** | 4,374,219 | 4,337,238 |
| **Liabilities:** | | |
| Current liabilities | 124,545 | 186,734 |
| Long-term liabilities | 2,390,503 | 2,476,250 |
| **Total Liabilities** | 2,515,048 | 2,662,984 |
| **Deferred Inflows of Resources:** | 39,184 | 37,233 |
| **Net Position:** | | |
| Net investment in capital assets | 883,354 | 434,105 |
| Restricted | 180,122 | 131,301 |
| Unrestricted | 756,511 | 1,071,615 |
| **Total Net Position** | $ 1,819,987 | $ 1,637,021 |

The District has a significant portion of its net position invested in capital assets at December 31, 2025. These capital assets are used to provide water and wastewater services to the District. The District's capital assets account for 77% of its total assets. These assets are not an available source for payment of future spending.

**Government-wide Financial Analysis (continued)**

**Academy Water and Sanitation District's Change in Net Position**

| | 2025 | 2024 |
|---|---|---|
| **Revenues:** | | |
| **Operating Revenues:** | | |
| Service charges | $ 780,833 | $ 765,357 |
| Late fees | 6,806 | 8,180 |
| **Total Operating Revenues:** | 787,639 | 773,537 |
| **Operating Expenses:** | | |
| Water and wastewater operations | 481,253 | 459,745 |
| Depreciation | 157,891 | 137,970 |
| **Total Operating Expenses:** | 639,144 | 597,715 |
| **Income (Loss) from Operations** | 148,495 | 175,822 |
| **Other Non-Operating Revenues (Expenses):** | | |
| Property taxes | 37,240 | 39,723 |
| Specific ownership taxes | 3,569 | 3,500 |
| Interest income | 43,384 | 52,520 |
| Interest expense | (50,413) | (52,215) |
| Treasurer's fees | (560) | (587) |
| Insurance proceeds | 80 | - |
| Capital contributions | 1,171 | 12,000 |
| **Total Non-Operating Revenues (Expenses)** | 34,471 | 54,941 |
| **Change in Net Position** | 182,966 | 230,763 |
| **Net Position - Beginning** | 1,637,021 | 1,406,258 |
| **Net Position - Ending** | $ 1,819,987 | $ 1,637,021 |

The District had an increase in net position of $182,966 in 2025. Operating revenues increased $14,102 due to increases in rates. Operating expenses increased $41,429 due to increases in depreciation from 2025 additions to capital assets, as well as increases from repairs and maintenance.

**Government-wide Financial Analysis (continued)**

**Budget variances:** The District had the following significant budget variances, detailed as follows:

| | Final Budget | Actual | Variance: Positive / (Negative) | Reason |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Water and sewer service charges | $ 808,000 | $ 780,833 | $ (27,167) | Lower water usage due to weather conditions |
| Interest and investment income | 7,500 | 43,384 | 35,884 | Conservative budgeting |
| **Expenses:** | | | | |
| Repairs and maintenance | 140,000 | 69,879 | 70,121 | Conservative budgeting, fewer major repairs than forecasted |
| Salaries | 69,900 | 27,349 | 42,551 | Vacancy in operations manager position |
| Contingency | 83,500 | - | 83,500 | Budget reserve for unexpected costs |
| Capital expenses | 410,974 | 523,083 | (112,109) | Higher project costs than expected |

**Capital assets:** The District's capital assets increased by a net $365,192 due to higher capital additions than depreciation expense. Additional information as well as a detailed classification of the District's net capital assets can be found in the Notes to the Financial Statement in Section D of this report.

**Long-term liabilities:** A detailed classification of the District's total long-term liabilities can be found in the Notes to the Financial Statements in Section D.

**Next year's budget and rates:**

The 2026 Budget expects revenues of $1,763,417 and expenses of $1,225,888 including capital outlays.

**Request for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District Manager, Academy Water and Sanitation District, 1755 Spring Valley Dr, Colorado Springs, Colorado 80921.

# FINANCIAL STATEMENTS

**Academy Water and Sanitation District**
**Statement of Net Position**
**December 31, 2025**

| | |
|---|---|
| **Assets:** | |
| **Current Assets:** | |
| Cash and cash equivalents | 65,376 |
| Investments | 812,570 |
| Accounts receivable | 68,352 |
| Property tax receivable | 39,468 |
| Prepaid expenses | 28,849 |
| **Total Current Assets** | 1,014,615 |
| **Non-current Assets:** | |
| Land | 21,938 |
| Plant and improvements | 6,528,740 |
| Vehicles, machinery and equipment | 17,012 |
| Less: Accumulated depreciation | (3,208,086) |
| **Total Non-current Assets** | 3,359,604 |
| **Total Assets** | 4,374,219 |
| **Liabilities:** | |
| **Current Liabilities:** | |
| Accounts payable | 30,256 |
| Accrued payroll and related liabilities | 288 |
| Accrued interest payable | 8,254 |
| Loan payable - due in less than one year | 85,747 |
| **Total Current Liabilities** | 124,545 |
| **Non-current Liabilities:** | |
| Loan payable - due in more than one year | 2,390,503 |
| **Total Non-current Liabilities** | 2,390,503 |
| **Total Liabilities** | 2,515,048 |
| **Deferred Inflows of Resources:** | |
| Property tax | 39,184 |
| **Total Deferred Inflows of Resources** | 39,184 |
| **Net Position:** | |
| Net investment in capital assets | 883,354 |
| Restricted for emergencies | 27,000 |
| Restricted for debt service | 153,122 |
| Unrestricted | 756,511 |
| **Total Net Position** | 1,819,987 |

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

**Academy Water and Sanitation District**
**Statement of Revenues, Expenses and Changes in Net Position**
**For the Year Ended December 31, 2025**

| | |
|---|---|
| **Operating Revenues:** | |
| Service charges | 780,833 |
| Late fees | 6,806 |
| **Total Operating Revenues** | 787,639 |
| | |
| **Operating Expenses:** | |
| Water and wastewater operations | 481,253 |
| Depreciation | 157,891 |
| **Total Operating Expenses** | 639,144 |
| | |
| **Operating Income (Loss)** | 148,495 |
| | |
| **Non-operating Revenues (Expenses):** | |
| Property taxes | 37,240 |
| Specific ownership taxes | 3,569 |
| Interest income | 43,384 |
| Interest expense | (50,413) |
| Treasurer's fees | (560) |
| Insurance proceeds | 80 |
| | |
| **Total Non-operating Revenues (Expenses)** | 33,300 |
| | |
| **Income (Loss) Before Capital Contributions** | 181,795 |
| | |
| **Capital Contributions:** | |
| Contributions - tap fees | 1,171 |
| | |
| **Total Capital Contributions** | 1,171 |
| | |
| **Change in Net Position** | 182,966 |
| | |
| **Net Position - Beginning of Year** | 1,637,021 |
| | |
| **Net Position - End of Year** | 1,819,987 |

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

**Academy Water and Sanitation District**
**Statement of Cash Flows**
**For the Year Ended December 31, 2025**

| | |
|---|---|
| **Cash Flows From Operating Activities:** | |
| Cash received from customers and others | 784,148 |
| Cash payments for goods and services | (517,272) |
| Cash payments to directors - salaries and benefits | (29,475) |
| **Net Cash Provided (Used) by Operating Activities** | 237,401 |
| | |
| **Cash Flows From Non-capital Financing Activities:** | |
| Property and specific ownership taxes, net of collection fees | 40,251 |
| **Net Cash Provided (Used) by Non-capital Financing Activities** | 40,251 |
| | |
| **Cash Flows From Capital and Related Financing Activities:** | |
| Tap fees collected | 1,171 |
| Cash paid for capital acquisitions | (523,083) |
| Insurance proceeds | 80 |
| Interest paid on debt | (50,788) |
| Loan payments | (84,057) |
| **Net Cash Provided (Used) by Capital and Related Financing Activities** | (656,677) |
| | |
| **Cash Flows From Investing Activities:** | |
| Interest income received | 43,384 |
| Sale of investments | 232,664 |
| **Net Cash Provided (Used) by Investing Activities** | 276,048 |
| | |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | (102,977) |
| | |
| **Cash and Cash Equivalents - Beginning of Year** | 168,353 |
| | |
| **Cash and Cash Equivalents - End of Year** | 65,376 |
| | |
| **Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:** | |
| | |
| Operating income (loss) | 148,495 |
| | |
| **Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:** | |
| Depreciation | 157,891 |
| (Increase) decrease in accounts receivable | (3,491) |
| (Increase) decrease in prepaid expenses | (1,990) |
| Increase (decrease) in accounts payable | (63,525) |
| Increase (decrease) in payroll liabilities | 21 |
| **Total Adjustments** | 88,906 |
| | |
| **Net Cash Provided (Used) by Operating Activities** | 237,401 |

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

# NOTES TO THE FINANCIAL STATEMENTS

## I. Summary of Significant Accounting Policies

Academy Water & Sanitation District (the District) is a quasi-municipal corporation governed pursuant to provisions of the Colorado Special District Act. An elected five-member board of directors governs the District. The District was established to provide water and sanitation services to an area located in El Paso County, Colorado, a few miles north of the City of Colorado Springs, Colorado.

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

### A. Reporting Entity

The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Consideration is also given to other organizations, which are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria above, the District is not financially accountable for any other entity nor is the District a component unit of any other government.

### B. Accounting Policies

The District uses a proprietary fund-type, an enterprise fund, to account for its activities. Enterprise funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues and expenses are recognized in the accounts and reported in the financial statements. Financial statement presentation refers to classification of revenues by source and expenses by function.

## I. Summary of Significant Accounting Policies (continued)

### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

#### 1. Measurement Focus and Basis of Accounting

Proprietary funds use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

#### 2. Financial Statement Presentation

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### D. Financial Statement Accounts and Accounting Policies

#### 1. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers cash on hand, demand deposits, U.S. government obligations and other highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

#### 2. Receivables

The District's trade accounts receivable consists of amounts due from customers for water usage, wastewater usage, and other service-related fees. User charges constitute a perpetual lien on or against property served until paid. Such liens may be foreclosed upon as provided by Statute, or certified to the El Paso County Treasurer for collection on its tax rolls, as provided by Statute. Therefore, no provision for uncollectible accounts has been made in the financial statements.

#### 3. Capital Assets

Capital assets, which include land, property, plant and equipment, are reported in the financial statements. The District defines capital assets as assets with an initial cost of more than $2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated acquisition value at the date of donation.

Capital outlay for projects is capitalized as projects are constructed. Interest incurred during the construction phase is expensed as incurred, if applicable.

## I. Summary of Significant Accounting Policies (continued)

### D. Financial Statement Accounts and Accounting Policies (continued)

#### 3. Capital Assets (continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciable capital assets are depreciated using the straight-line method over the following estimated useful lives:

| | Years |
|---|---|
| Water and wastewater systems | 30 - 50 |
| Equipment | 5 - 10 |
| Vehicles | 7 - 10 |

#### 4. Property Taxes

Property taxes are assessed in one year as a lien on the property, but not collected by the District until the subsequent year. In accordance with generally accepted accounting principles, the assessed but uncollected property taxes have been recorded as a receivable and unavailable property tax revenue.

#### 5. Net Position

Net position represents the difference between assets, liabilities, and deferred inflows (outflows) of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets and increased by any unspent proceeds from related borrowings. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position is reported as unrestricted. The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

#### 6. Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the respective life of the respective debt using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period incurred.

## I. Summary of Significant Accounting Policies (continued)

### D. Financial Statement Accounts and Accounting Policies (continued)

#### 7. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the District's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

#### 8. Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

## II. Stewardship, Compliance, and Accountability

### A. Budgetary Information

In the fall of each year, the District's Board of Directors formally adopts a budget with appropriations for the ensuing year pursuant to the Colorado Local Budget Law. The budget is adopted on a non-GAAP basis and is reconciled to GAAP in Section E of this report. Expenditures may not legally exceed appropriations at the fund level and all appropriations lapse at year-end.

As required by Colorado statutes, the District followed the following timetable in preparing, approving and enacting a budget for 2025:

(1) For the 2025 budget, prior to August 25, 2024, the County Assessor sent to the District an assessed valuation of all taxable property within the District's boundaries. The County Assessor may change the assessed valuation on or before December 10, 2024 only once by a single notification to the District.

(2) The Manager of the District submitted, on or before October 15, 2024, a recommended budget that detailed the necessary property taxes needed along with other available revenues to meet the District's operating requirements.

(3) Prior to December 15, 2024, after a required publication of "Notice of proposed Budget" and a public hearing, the District certified to the County Commissioners a levy rate that derived the necessary property taxes as computed in the proposed budget, and the District adopted the proposed budget and an appropriating resolution that legally appropriated expenditures for the upcoming year.

(4) After adoption of the budget resolution, the District may make the following changes: (a) approve supplemental appropriations to the extent of revenues in excess of estimated revenues in the budget; (b) approve emergency appropriations, and; (c) reduce appropriations for which originally estimated revenues are insufficient.

## II. Stewardship, Compliance, and Accountability (continued)

### B. TABOR Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20; commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments.

TABOR also requires local governments to establish an emergency reserve to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. The reserve is calculated at 3% of fiscal year spending. Fiscal year spending excludes bonded debt service and enterprise spending. As of December 31, 2025, the District established a reserve of $27,000.

The District believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions, including the interpretation of how to calculate fiscal year spending limits and qualification as an enterprise, will require judicial interpretation.

## III. Detailed Notes on All Funds

### A. Deposits and Investments

The District's deposits are entirely covered by the Federal Deposit Insurance Corporation ("FDIC") or by collateral held under Colorado's Public Deposit Protection Act ("PDPA"). The FDIC insures depositors up to $250,000 for all accounts. As of December 31, 2025, all deposits in excess of FDIC coverage were protected under PDPA.

At December 31, 2025, the District had the following cash and investments:

| | Standard & Poors Rating | Carrying amount | Maturities less than one year |
|---|---|---|---|
| Interest bearing checking | Not rated | $ 65,376 | 65,376 |
| Investment pool | AAAm | 812,570 | 812,570 |
| Total cash and investments | | $ 877,946 | 877,946 |

*Fair Value of Investments*

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

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

## III. Detailed Notes on All Funds (continued)

### A. Deposits and Investments (continued)

At December 31, 2025 the District had the following assets measured at Net Asset Value:

| Investments Measured at Net Asset Value | Total |
|---|---|
| Colotrust | $ 812,570 |

The investment pool represents investments in the Colorado Liquid Asset Trust ("COLOTRUST"), which are 2a7-like pools, each have a rating of AAAm. The fair value of these pools is determined by the pools' share price. The District has no regulatory oversight for these pools.

The District follows Colorado statutes regarding its investments.

**Interest Rate Risk**

Colorado Revised Statutes limit the District's investment maturities to five years or less from the date of purchase. This limit on investment maturities is a means of limiting exposure to fair values arising from changes in interest rates. As a result of the limited length of maturities, the District has limited its interest rate risk.

**Credit Risk**

Colorado statutes specify instruments in which local governments may invest, including:

- Obligations of the U.S. and certain U.S. governmental agency securities
- Certain international agency securities
- General obligation and revenue bonds for U.S. local governmental 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.

## III. Detailed Notes on All Funds (continued)

### B. Capital Assets

Capital asset activity for 2025 was as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 21,938 | - | - | $ 21,938 |
| Total capital assets, not being depreciated | 21,938 | - | - | 21,938 |
| Capital assets, being depreciated: | | | | |
| Plant and equipment | 6,005,657 | 523,083 | - | 6,528,740 |
| Vehicles | 17,012 | - | - | 17,012 |
| Total capital assets, being depreciated | 6,022,669 | 523,083 | - | 6,545,752 |
| Less accumulated depreciation for: | | | | |
| Plant and equipment | (3,039,988) | (154,488) | - | (3,194,476) |
| Vehicles | (10,207) | (3,403) | - | (13,610) |
| Total accumulated depreciation | (3,050,195) | (157,891) | - | (3,208,086) |
| Total capital assets, being depreciated, net | 2,972,474 | 365,192 | - | 3,337,666 |
| Total capital assets, net | $ 2,994,412 | 365,192 | - | 3,359,604 |

*(Remainder of page is intentionally left blank)*

## III. Detailed Notes on All Funds (continued)

### C. Long-Term Obligations

On March 12, 2018, the District entered into a loan agreement with Colorado Water Resources and Power Development Authority ("CWRPDA") in the amount of $3,000,000 to finance a wastewater connection project. The loan has a 30-year term, maturing on November 1, 2048, accrues interest at 2%, and is payable semiannually. The loan is to be paid from and is secured by pledged property, which is the net revenue of the District.

The loan agreement contains various restrictive covenants and requirements, including maintenance of a three-month operating and maintenance reserve. The District has restricted $153,122 of net position at December 31, 2025 for this purpose, which are the approximate required reserves. If the operations and maintenance reserve falls below this requirement, the shortfall must be made up in 24 substantially equal monthly installments beginning the second month after such shortfall. In addition, the loan agreement requires the District to establish service rates at a level sufficient to cover operating expenses, as defined in the agreement, 110% of the current year debt service costs on this loan, debt service for the current year on any subordinated debt, and any other amounts to be paid out of current year operations. The District may prepay the loan, in whole or in part without penalty, upon prior written notice to CWRPDA.

The following discloses the District's compliance with debt covenants:

| | |
|---|---|
| Total Budgeted expenditures | $ 1,279,962 |
| Less: Contingency | (83,500) |
| Capital Improvements | (410,974) |
| Debt Service | (135,000) |
| Expenses paid with taxes | (38,000) |
| Operation and maintenance expenses | 612,488 |
| 110% of current debt service | 148,330 |
| Total gross revenue required | $ 760,818 |
| Total current gross revenues | $ 873,083 |
| Three Month's Reserve | $ 153,122 |

The pledged property is free and clear of any pledge, lien, charge, or encumbrance. No additional bonds or debt are issued.

The District had the following changes in debt for the year ended December 31, 2025:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| CWRPDA Loan | $ 2,560,307 | - | (84,057) | 2,476,250 | 85,747 |
| | $ 2,560,307 | - | (84,057) | 2,476,250 | 85,747 |

## III. Detailed Notes on All Funds (continued)

### C. Long-Term Obligations (continued)

Debt repayment requirements at December 31, 2025, were as follows:

| Year | Principal | Interest | Total |
|---|---|---|---|
| 2026 | $ 85,747 | 49,098 | 134,845 |
| 2027 | 87,471 | 47,375 | 134,846 |
| 2028 | 89,229 | 45,617 | 134,846 |
| 2029 | 91,022 | 43,823 | 134,845 |
| 2030 | 92,852 | 41,994 | 134,846 |
| 2031-2035 | 493,015 | 181,212 | 674,227 |
| 2036-2040 | 544,595 | 129,632 | 674,227 |
| 2041-2045 | 601,572 | 72,655 | 674,227 |
| 2046-2048 | 390,747 | 13,790 | 404,537 |
| Total | $ 2,476,250 | 625,196 | 3,101,446 |

## IV. Other Information

### A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance.

### B. Commitments and Contingencies

The District is subject to numerous statutes and regulations of the State of Colorado, its subdivisions, and the federal government. Some of these statutes and regulations pertain to the District's right or duty to appropriate and use water and to treat and discharge water and wastewater. The District's right to appropriate water may be contingent upon a decree of the water court adjudicating the District's right and ranking such rights as to priority relative to rights of other water users. The District's rights may be junior to various other users. If there are owners of senior priorities, they might, under some circumstances, be able to require the District to cease its pumping of water. The District would then be forced to purchase water rights from other sources to allow it to continue pumping from its wells or to purchase the actual water itself from sources other than its own wells for distribution. The District's inability, if any, to pump and distribute water on a normal basis, would directly affect its future revenues and expenses, as well as property owners in the District.

The District developed a water augmentation plan for which it obtained approval through the District Court for Water, Division No. 2. The water augmentation plan does not require the District to purchase any other water rights and allows the District to continue pumping in the quantities and at the times consistent with its recent historical usage. Augmentation plans are subject to the continuing jurisdiction of the Court, however, and are subject to modification based upon new data. An Application for Finding of Reasonable Diligence with respect to its conditional water rights was filed by the District in 2019, approved by the Court, and the District is required to file another such application in 2026.

## IV. Other Information

### B. Commitments and Contingencies (continued)

The District successfully amended the current augmentation plan in 2022, obtaining Court approval for a conditional appropriative right of substitution and exchange of the location where replacement water is delivered under the augmentation plan. Maintenance of this conditional water right requires another filing with the Court in 2028. The District and Donala Water and Sanitation District ("Donala") signed an Intergovernmental Service Agreement ("IGA") in 2015 to allow the District to convey all of its wastewater to Donala for treatment. Construction of the new wastewater lift station and service connection for that purpose was completed in 2018 and the District no longer operates a wastewater treatment facility.

The District discovered that certain portions of its utility lines or other facilities may not lie within any dedicated or recorded public right of way or easement or within any tract to which it has title or an easement or right of way. The District continues to conduct a thorough survey of its facilities and the public and private records to determine the extent of this matter. The District has received cooperation from various landowners and will continue to obtain necessary easements or grants of title to document its rights as it discovers any lack of recorded easement. The District may use its powers of eminent domain, but that has so far not been necessary.

### C. Intergovernmental Service Agreement

The District and neighboring Donala Water and Sanitation District signed an intergovernmental service agreement on December 8, 2015 in order to establish terms and conditions for Donala to provide wastewater management services for conveyance and treatment of the District's wastewater. The District constructed a lift station and wastewater service connection to Donala which was placed in service in 2018. The District owns these assets and will provide the maintenance and repair. The District paid a plant investment fee of $889,700 to Donala in 2018, which is considered to be a capital contribution to Donala. The District pays monthly user fees to Donala for wastewater service provided for the District's customers. Fees were $162,948 in 2025. Donala will operate and maintain conveyance facilities in its service areas and maintain adequate capacity for the management and treatment of the District's wastewater under the agreement.

**SUPPLEMENTARY INFORMATION**

**Academy Water and Sanitation District**
**Schedule of Revenues, Expenses, and Changes in Net Position**
**Budget (Non-GAAP Basis) and Actual with Reconciliation to GAAP Basis**
**For the Year Ended December 31, 2025**

| | Original Budget | Final Budget | Actual | Final Budget Variance Positive (Negative) |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Water and sewer service charges | 782,000 | 808,000 | 780,833 | (27,167) |
| Property taxes | 35,000 | 35,000 | 37,240 | 2,240 |
| Specific ownership taxes | 3,000 | 3,000 | 3,569 | 569 |
| Interest and investment income | 7,500 | 7,500 | 43,384 | 35,884 |
| Late fees | - | - | 6,806 | 6,806 |
| Insurance proceeds | - | - | 80 | 80 |
| Tap fees | - | - | 1,171 | 1,171 |
| Miscellaneous | 300 | 300 | - | (300) |
| **Total Revenues** | 827,800 | 853,800 | 873,083 | 19,283 |
| **Expenses:** | | | | |
| **Water and Wastewater Service:** | | | | |
| Accounting, billing, and auditing | - | 59,200 | 58,248 | 952 |
| Lab testing | 4,000 | 4,000 | 5,948 | (1,948) |
| Insurance | 26,400 | 26,400 | 27,951 | (1,551) |
| Legal fees | 10,000 | 10,000 | 4,664 | 5,336 |
| Licenses and fees | - | - | 800 | (800) |
| Miscellaneous | 15,000 | 15,000 | 71 | 14,929 |
| Office expense | 39,000 | 39,000 | 23,646 | 15,354 |
| Repairs and maintenance | 140,000 | 140,000 | 69,879 | 70,121 |
| Director expense | 8,000 | 8,000 | 6,000 | 2,000 |
| Salaries | 69,900 | 69,900 | 27,349 | 42,551 |
| Payroll tax expense | 5,488 | 5,488 | 2,147 | 3,341 |
| Treasurer's fees | 900 | 900 | 560 | 340 |
| Contracted services | 51,000 | 43,600 | 36,595 | 7,005 |
| Utilities and telephone | 51,000 | 51,000 | 49,660 | 1,340 |
| Engineering | 15,000 | 15,000 | 5,347 | 9,653 |
| Wastewater usage fees | 163,000 | 163,000 | 162,948 | 52 |
| Contingency | 83,500 | 83,500 | - | 83,500 |
| Capital outlay | 410,974 | 410,974 | 523,083 | (112,109) |
| Loan principal and interest | 135,000 | 135,000 | 134,470 | 530 |
| **Total Expenses** | 1,228,162 | 1,279,962 | 1,139,366 | 140,596 |
| **Excess (Deficiency) of Revenues Over Expenses - Budgetary Basis** | (400,362) | (426,162) | (266,283) | 159,879 |
| **Reonciliation to GAAP Basis:** | | | | |
| Capitalized assets | | | 523,083 | |
| Depreciation | | | (157,891) | |
| Loan principal | | | 84,057 | |
| **Total Reconciling Items** | | | 449,249 | |
| **Change in Net Position per Statement of Revenues, Expenses and Changes in Net Position** | | | 182,966 | |