Cottonwood Water and Sanitation District
Douglas County, Colorado

FINANCIAL STATEMENTS

With Independent Auditors Report

December 31, 2025 and 2024

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Board of Directors
Cottonwood Water & Sanitation District
Douglas County, Colorado

Independent Auditor's Report

Opinion

We have audited the accompanying financial statements of the business-type activities of Cottonwood Water & Sanitation 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 referred to above present fairly, in all material respects, the financial position of Cottonwood Water & Sanitation District as of December 31, 2025, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). 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 opinion.

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 ("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 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 opinion. 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.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The supplemental information as listed in the table of contents is presented for the purposes of legal compliance and additional analysis and is not a required part of the financial statements. The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the financial statements as a whole.

Wipfli LLP

Wipfli LLP
Denver, Colorado

July 22, 2026

Management's Discussion and Analysis
December 31, 2025

The discussion and analysis of Cottonwood Water and Sanitation District's financial performance provides an overall review of the District's financial activities for the year ended December 31, 2025. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should review the information presented here in conjunction with the basic financial statements and the notes to financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

- Assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by $61,135,653 (net position). Of this amount, $19,958,762 (unrestricted net position) may be used to meet the government's ongoing obligations to rate payers and creditors.

- The District's total net position increased by $ 4,972,071 from the prior fiscal year, largely due to non-operating revenue and property taxes.

- Total operating revenues increased approximately 8 % from the prior year. Water demands during the summer of 2025 were higher than average due to abnormally dryer weather pattern across the Denver front range.

- Total operating expenses increased by approximately 7%, from the prior year, primarily due to repairs and maintenance for emergencies.

- Property tax revenues for 2025 increased by 20% as the result of a higher mill levy needed to serve the District's outstanding general obligation debt from the prior year.

- Tap fees collections amounted to $1,534,427, due to continued growth within the District.

- Capital expenditures totaled $1,315,747.

- Long-term debt was reduced by $1,737,598 in principal payments.

Overview of the Financial Statements

The Cottonwood Water and Sanitation District basic financial statements included in this report are those of a special-purpose government engaged in a business-type activity, providing water and sewer services. The statements are comprised of two components: 1) basic financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Basic Financial Statements. The basic 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 S*tatement of Net Position* presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between 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.

Management's Discussion and Analysis
December 31, 2025

The S*tatement of Revenues, Expenses and Changes in Net Position* presents information showing how the District'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 the 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., earned compensation). The statement reports the District's operating and nonoperating revenue by source along with operating and nonoperating expenses and capital contributions.

The S*tatement of Cash Flows* reports the District's cash flows from operating activities, investing, capital and noncapital activities.

The *Notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

A budgetary comparison schedule has been provided in the *supplemental information section* to demonstrate compliance with the budget.

Unlike the basic financial statements, the 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 District's near-term financing requirements. The fund statements of revenues, expenditures, and changes in fund balances are reconciled to facilitate a comparison between budget-basis fund statements and the basic financial statements.

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Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the District's case, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $61,135,653 at the close of the most recent fiscal year.

Statement of Net Position

	December 31, 2025	2024	2023
Current assets	$18,955,419	$15,504,102	$13,667,252
Noncurrent assets	16,206,852	15,744,163	15,187,407
Capital assets	34,628,280	34,817,619	35,690,375
Total assets	69,790,551	66,065,884	64,545,034
Deferred outflows of resources	-	-	55,806
Current liabilities	1,957,994	2,336,335	2,409,377
Noncurrent liabilities	5,718,860	5,965,548	7,561,152
Total liabilities	7,676,854	8,301,883	9,970,529
Deferred inflows of resources	978,044	1,600,419	1,353,586
Net position:			
Net investment in capital assets	30,977,882	30,253,824	29,432,640
Restricted	10,199,009	9,831,894	9,606,054
Unrestricted	19,958,762	16,077,864	14,238,031
Net position	$61,135,653	$56,163,582	$53,276,725

- The largest portion of the District's net position (approximately 51%) reflects its investment in capital assets (e.g. infrastructure, plant, water rights, investment in authorities, buildings and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

- Restricted net position consists of amounts restricted for emergencies under TABOR and amounts reserved pursuant to loan and intergovernmental agreements.

- The remaining net position of $ 19,958,762 is unrestricted and available for on-going obligations of the District.

Management's Discussion and Analysis
December 31, 2025

Changes in Net Position

	For the Years Ended December 31,		
	2025	**2024**	**2023**
Revenues			
Operating Revenue			
Water Charges	3,471,972	3,194,798	2,670,891
Wastewater Charges	2,903,570	2,771,422	2,531,220
Other Revenue	87,217	37,857	162,137
Nonoperating Rev			
Taxes	1,695,664	1,412,349	1,963,321
Other Nonoperating	1,149,634	1,044,338	720,244
Settlement Revenue	708,757	-	4,636,000
Capital Contribution			
Tap Fees, Net	1,534,427	648,024	3,826,402
Total Revenues	11,551,241	9,108,788	16,510,215
Expenses			
Operating Expenses			
Water Treatment and Utilities	1,365,460	1,248,700	866,713
Wastewater Treatment	2,113,038	1,982,823	2,128,107
Repairs, Maintenance and Operating Fees	493,555	355,501	365,319
Professional Services and Administration	850,103	870,186	769,759
Depreciation	1,505,086	1,457,523	1,200,456
Nonoperating Expenses			
Interest	152,868	176,267	219,990
Other Nonoperating	99,060	130,931	103,196
Total Expenses	6,579,170	6,221,931	5,653,540
Change In Net Position	4,972,071	2,886,856	10,856,675
Net Position - Beginning	56,163,582	53,276,726	42,420,051
Net Position - Ending	$ 61,135,653	$ 56,163,582	$ 53,276,726

Budgetary Highlights

The District prepares its budget on the modified accrual basis of accounting to recognize the fiscal impact of capital outlay and debt repayment in addition to operations and nonoperating revenue and expenses and contributions. Depreciation is not reflected in the budget since it does not affect funds available. Funds available increased $4,042,013 during 2025.

The budget to actual comparison statement is presented in the supplemental information accompanying the financial statements.

Economic Factors and Next Year's Budget

- Considering that usage varies from year to year, and there is moderate growth within the District, the District has budgeted 2026 operating revenue to be similar to that of 2025.
- $200,000 for tap fees are budgeted to be received in 2026.
- The District is budgeting for significant capital improvements in 2026 ($8,151,100), to be mainly funded using existing reserves.

The District's complete budget is available on the Colorado Department of Local Affairs website.

Requests for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Cottonwood Water and Sanitation District
c/o Luis Tovar, Mulhern MRE, Inc. District Manager
58 Inverness Drive East, Suite 100
Englewood, Colorado 80112
303-649-9857

COTTONWOOD WATER AND SANITATION DISTRICT

Basic Financial Statements

COTTONWOOD WATER AND SANITATION DISTRICT

STATEMENTS OF NET POSITION
December 31, 2025 and 2024
See Independent Auditor's Report

	2025	2024
ASSETS		
Current assets		
Cash and cash equivalents	$ 15,415,945	$ 11,508,930
Cash and cash equivalents - restricted	1,868,565	1,758,137
Accounts receivable - service charges	511,966	473,916
Accounts receivable - other	66,230	56,984
Receivable - County Treasurer - restricted	11,115	10,020
Property taxes receivable	978,044	1,600,419
Prepaid expenses	65,602	57,744
JWPP operating reserve - restricted	37,952	37,952
Total current assets	18,955,419	15,504,102
Noncurrent assets		
Investment in authorities	7,876,406	7,670,406
Restricted investments	8,330,446	8,073,757
Total noncurrent assets	16,206,852	15,744,163
Capital assets		
Capital assets not being depreciated	7,976,279	7,554,479
Capital assets being depreciated, net	26,652,001	27,263,140
Total capital assets	34,628,280	34,817,619
Total assets	69,790,551	66,065,884
TOTAL ASSETS	69,790,551	66,065,884
LIABILITIES		
Current liabilities		
Accounts payable	647,176	471,243
Accrued interest	131,238	118,079
Long-term debt - current portion	1,179,580	1,747,013
Total current liabilities	1,957,994	2,336,335
Noncurrent liabilities		
Long-term debt	2,470,819	2,816,782
Settlement escrow	3,248,041	3,148,766
Total noncurrent liabilities	5,718,860	5,965,548
Total liabilities	7,676,854	8,301,883
DEFERRED INFLOWS OF RESOURCES		
Property tax revenue	978,044	1,600,419
Total deferred inflows of resources	978,044	1,600,419
NET POSITION		
Net investment in capital assets	30,977,882	30,253,824
Restricted	10,199,009	9,831,894
Unrestricted	19,958,762	16,077,864
Total net position	61,135,653	56,163,582
Total liabilities, deferred inflows of resources, and net position	$ 69,790,551	$ 66,065,882

The accompanying Notes to the Financial Statements are an integral part of these statements.

COTTONWOOD WATER AND SANITATION DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2025 and 2024

	2025	2024
OPERATING REVENUES		
Water system	$ 3,471,972	$ 3,194,798
Wastewater system	2,903,570	2,771,422
Storm sewer fees	9,421	29,141
Other	77,796	8,716
Total operating revenues	6,462,759	6,004,077
OPERATING EXPENSES		
Water treatment	807,870	737,962
Wastewater treatment	2,113,038	1,982,823
System operating fees	230,000	210,000
Repairs and maintenance	263,555	145,501
Utilities	275,450	200,881
Professional services	122,881	81,130
WISE water purchases	282,139	309,858
Administration	727,224	789,057
Depreciation	1,505,086	1,457,523
Total operating expenses	6,327,243	5,914,735
OPERATING INCOME	135,516	89,342
NONOPERATING REVENUES (EXPENSES)		
Property taxes	1,562,578	1,300,565
Specific ownership taxes	133,086	111,784
Fees in lieu of taxes	142,188	97,792
Investment income	881,844	895,874
Capital recovery fees	125,602	50,672
Settlement income	708,757	-
WISE participation	(50,000)	(50,000)
Authority participation	(35,000)	(15,000)
County Treasurer fees	(23,474)	(19,538)
CWCB interest and fiscal charges	(54,372)	(30,004)
Debt service interest and fiscal charges	(98,496)	(146,263)
Amortization of debt premium	9,415	9,414
Amortization of cost of refunding	-	(55,806)
Total nonoperating revenues (expenses)	3,302,128	2,149,490
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	3,437,644	2,238,832
CAPITAL CONTRIBUTIONS		
Tap fees received	1,534,427	648,024
Total capital contributions	1,534,427	648,024
CHANGE IN NET POSITION	4,972,071	2,886,856
NET POSITION - beginning of the year	56,163,582	53,276,726
NET POSITION - end of the year	$ 61,135,653	$ 56,163,582

The accompanying Notes to the Financial Statements are an integral part of these statements.

COTTONWOOD WATER AND SANITATION DISTRICT

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2025 and 2024
See Independent Auditor's Report

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 6,337,665	$ 6,087,830
Miscellaneous Receipts	77,796	8,716
Payments to suppliers for goods and services	(4,654,081)	(4,528,648)
Net cash provided by operating activities	1,761,380	1,567,898
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	1,561,483	1,320,149
Specific ownership taxes	133,086	111,784
Property tax equivalent	142,188	97,792
County Treasurer's fees	(23,474)	(19,536)
Net cash provided by noncapital financing activities	1,813,283	1,510,189
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Tap fees	1,534,427	648,024
Capital Recovery Fees	125,602	50,672
Wise Participation	(50,000)	(50,000)
Authority Paraticipation	(35,000)	(15,000)
Acquisition of capital assets	(1,315,747)	(584,770)
PFAS Settlement Payment	708,757	-
Proceeds from Issuance of CWCB Debt	833,616	-
Principal Paid	(1,737,598)	(1,846,174)
Settlement Escrow Payment	99,275	151,648
CWCB Interest and Fiscal Charges	(54,372)	(30,004)
Debt Service interest and fiscal charges	(98,496)	(146,263)
Net cash provided (used) by capital and related financing activities	10,464	(1,821,867)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Investment in Authorities	(206,000)	(167,916)
Net of Amounts Reinvested	638,316	610,738
Net cash provided (used) by investing activities	432,316	442,822
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,017,443	1,699,043
CASH AND CASH EQUIVALENTS - beginning of year	13,267,067	11,568,030
CASH AND CASH EQUIVALENTS - end of year	$ 17,284,510	$ 13,267,067

The accompanying Notes to the Financial Statements are an integral part of these statements.
(continued)

	2025	2024
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	$ 135,516	$ 89,342
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	1,505,086	1,503,915
Changes in assets and liabilities:		
Accounts receivable	(47,296)	92,470
Prepaid expenses	(7,858)	(3,032)
Accounts payable for operations	175,932	(114,797)
Total Adjustments	1,625,864	1,478,556
Net cash provided by operating activities	$ 1,761,380	$ 1,567,898

The accompanying Notes to the Financial Statements are an integral part of these statements.

Note 1 – Definition of Reporting Entity

The Cottonwood Water and Sanitation District (the District), a quasi-municipal corporation and political subdivision of the State of Colorado, is governed pursuant to the provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in Douglas County, Colorado. The District was organized in 1980 to provide water and sanitation services to property within the District's boundaries.

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

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

The District has no employees and is governed by an elected five-member Board of Directors.

Note 2 – Summary of Significant Accounting Policies

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

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

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.

Basis of Accounting

The District's financial statements are reported using the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets and payments on loans are recorded as reductions in liabilities.

Tap fees and contributed assets from developers are recorded as capital contributions when received or collectible.

Note 2 – Summary of Significant Accounting Policies (continued)

Basis of Accounting (continued)

Operating revenues consist of charges to customers for services provided. Operating expenses include the cost of service, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses or capital contributions.

Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers cash deposits and highly liquid investments with original maturities of three months or less from the date of acquisition, to be cash equivalents.

Accounts Receivable, Allowance for Doubtful Accounts

User fees and tap fees constitute a perpetual lien on or against property served until paid. Such liens may be foreclosed upon as provided by the State of Colorado. Therefore, no provision for uncollectible receivables has been made in the financial statements. The District collects reimbursement of engineering and design costs from developers in the District. The District believes all such reimbursable amounts are fully collectible, and therefore has not reported an allowance for uncollectible accounts in regard to engineering and design cost reimbursement receivables.

Property Taxes

Property taxes are levied based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November and December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred revenue in the year they are levied and measurable. The deferred property tax revenues are recorded as revenue in the year they are available or collected.

Capital Assets

Capital assets include land, water rights, water and sewer plants and transmission systems, buildings, and equipment, and are reported net of accumulated depreciation. Capital assets are defined by the District as those assets with an initial, individual cost of $5,000 or greater 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 acquisition value at the date of donation.

Note 2 – Summary of Significant Accounting Policies (continued)

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 capital assets, as applicable. Interest incurred during the construction phase of capital assets is not included as part of the capitalized value of the assets constructed.

Depreciation expense has been computed using the straight-line method over the following estimated economic useful lives:

Plant and improvements, buildings, collection and transmission systems	5 to 50 years
Equipment and engineering costs	3 to 30 years

Water Rights

The cost of water rights includes acquisition cost; legal and engineering costs related to the development and augmentation of those rights. Water rights have a perpetual life, thus the cost is not amortized. All other costs, including costs incurred for the protection of those rights, are expensed.

Capital Contributions

Tap fees are recorded as capital contributions when received. Water and sewer lines contributed to the District by developers are recorded as capital contribution revenue and additions to the water and sewer system when received.

Long-Term Obligations

Long-term debt and other long-term obligations are reported at face value, net of unamortized debt premiums and discounts, as liabilities in the financial statements. Debt premiums and discounts are deferred and amortized over the life of the debt using the straight-line method. The cost of refunding is reported as deferred outflows of resources and is amortized over the life of the related debt.

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 classification represents a consumption of net position that applies to a future period(s) and therefore will not be recognized as an outflow of resources (expense/expenditures) until then. The District's cost of refunding is reported as a deferred outflow of resources at December 31, 2025, and 2024.

Note 2 – Summary of Significant Accounting Policies (continued)

Deferred Outflows/Inflows of Resources (continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement classification represents an acquisition of net position that applies to a future period(s)and therefore will not be recognized as an inflow of resources (revenue) until then. The District has one item that qualifies for reporting in this category. Deferred property tax is reported as a deferred inflow of resources at December 31, 2025, and 2024.

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year-end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The total appropriation can only be modified upon completion of notification and publication requirements.

Net Position

Net position results from the accumulation of net earnings from operating income, non- operating revenues and expenses, and capital contributions and are classified in the financial statements as follows:

Net investment in capital assets consists of capital assets, net of accumulated depreciation reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets. This amounted to $30,977,882 and $30,253,824 respectively, at December 31, 2025, and 2024.

Restricted net position includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. At December 31, 2025, and 2024, the District had net position restricted as follows:

Restricted Net Position

	December 31, 2025	December 31, 2024
Emergency reserve	$ 55,136	$ 45,304
Operation and maintenance reserve	1,268,185	1,275,875
Debt service reserve	545,244	436,958
Setlement escrow	8,330,444	8,073,757
	$ 10,199,009	$ 9,831,894

Note 2 – Summary of Significant Accounting Policies (continued)

Net Position (continued)

Unrestricted net position includes the residual net position that does not meet the classification of "net investment in capital assets" or "restricted", and amounted to $ 19,958,762 and $16,077,864 at December 31, 2025 and 2024, respectively.

Use of Estimates

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

Adoption of New Accounting Standard

In December 2023, the GASB issued statement No. 102, Certain Risk Disclosures ("Statement 102"). Statement 102 requires note disclosure when (a) a concentration or constraint is known prior to issuance of the financial statements, (b) it makes the reporting unit vulnerable to the risk of a substantial impact, and (c) an event associated with the concentration or constraint has occurred, has begun to occur, or is more likely to occur, or more likely to occur within 12 months of issuance. The district adopted the requirements of the guidance effective January 1, 2025 and has elected to apply the provisions of this standard to the beginning of the period of adoption. Management performed the analysis required under Statement 102 and did not identify any concentrations or constraints that require disclosure.

Note 3 – Cash and Investments

Cash and investments are reflected on December 31, 2025, and 2024 Statements of Net Position as follows:

	December 31, 2025	December 31, 2024
Cash and cash equivalents	$ 15,415,945	$ 11,508,930
Cash and cash equivalents - restricted	1,868,565	1,758,137
	$ 17,284,510	$ 13,267,067

Cash and investments as of December 31, 2025 and 2024 consist of the following:		
Deposits with financial institutions	$ 322,904	$ 327,331
Investments	16,961,606	12,939,736
Total cash and investments	$ 17,284,510	$ 13,267,067

Note 3 – Cash and Investments (continued)

Deposits with Financial Institutions

At December 31, 2025, and 2024, the District's cash deposits had bank balances of $453,861 and $382,171, respectively, and carrying balances of $322,904 and $327,331, respectively.

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. As of December 31, 2025 and 2024, the federal insurance limits were $250,000. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least 102% of the aggregate uninsured deposits.

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

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 it. The District has not adopted a deposit policy for custodial credit risk. None of the District's deposits at December 31, 2025 were exposed to credit risk. As of December 31, 2025, and 2024, the District's bank balances and carrying balances were insured or collateralized as follows:

	2025	2024
Bank Balances		
Federally Insured	$ 250,000	$ 250,000
Collaterized	203,861	132,171
Total Bank Balances	$ 453,861	$ 382,171
Carrying Balances		
Federally Insured	$ 250,000	$ 250,000
Collaterized	72,904	77,331
Total Carrying Balances	$ 322,904	$ 327,331

Note 3 – Cash and Investments (continued)

Investments

The District's investment policy restricts investments to only those permitted by state statutes.

The District primarily limits its investments to certain U.S. government agency securities, money market funds and local government investments pools, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to custodial credit risk for investments that are in the possession of another party.

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

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

- Obligations of the United States, certain U.S. government agency securities and securities of the World Bank
- General obligation and revenue bonds of U.S. local government entities
- Certain securities lending agreements
- Certain certificates of participation
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities

- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

Fair Value Measurement and Application

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds (PFM Funds Governmental Select series), money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee), CSAFE which is recorded at amortized cost, and COLOTRUST which is recorded at net asset value.

As of December 31, 2025, and 2024, the District had the following investments:

Investment	**Maturity**	**2025**	**2024**
Colorado Liquid Assets Trust (Colotrust)	Weighted average under 60 days	$16,961,606	$12,939,736

Note 3 – Cash and Investments (continued)

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust ("COLOTRUST" or the "Trust") is rated AAAm by Standard & Poor's with a weighted average maturity of under 60 days. COLOTRUST is an investment trust/joint venture established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST PLUS+ using the net asset value method. The Trust operates similarly to a money market fund with each share maintaining a value of $1.00. Investments consist of U.S. Treasury bills and notes 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. Designated custodian banks provide safekeeping and depository services to the trusts. Substantially all securities owned by the Trust are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians' internal records identify the investments owned by COLOTRUST. At December 31, 2025, and 2024, the District had $16,961,606 and $12,939,736 invested in COLOTRUST.

Restricted Cash and Investments

Restricted cash and investments consist of amounts for operating & maintenance reserves, and debt service reserves as required by the District's loans and revenue bonds, and restricted project funds.

In accordance with the terms of the Colorado Water Resource and Power Development Authority Loan, the District is required to maintain an operating reserve equal to three months of operations and maintenance expenses budgeted for the then-current fiscal year. As of December 31, 2025, and 2024, the required operating reserve of $1,268,185 and $1,275,875 respectively, was restricted by the District.

In accordance with bonded debt obligations, property taxes collected in excess of the required debt service payments are to be reserved to pay future debt obligations. As of December 31, 2025, and 2024, the District had $545,244 and $436,958, respectively, restricted for debt service.

At December 31, 2025, and 2024, the District restricted $55,136 and $45,304, respectively, for emergency reserves (Note 10).

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Note 4 – Capital Assets

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

	December 31, 2024	Additions	Deletions	December 31, 2025
Capital assets, not being depreciated				
Land	$ 405,270	$ -	$ -	$ 405,270
Water rights	7,121,036	-	-	7,121,036
Construction in progress	28,173	1,315,747	(893,947)	449,973
Total capital assets, not being depreciated	7,554,479	1,315,747	(893,947)	7,976,279
Capital assets being depreciated				
Water system	41,052,534	499,582	-	41,552,116
Wastewater system	7,569,709	58,484	-	7,628,193
Engineering studies	249,484	-	-	249,484
Sewage treatment rights	2,236,609	335,881	-	2,572,490
Equipment	129,786	-	-	129,786
Total capital assets being depreciated	51,238,122	893,947	-	52,132,069
Less accumulated depreciation for				
Water system	17,582,638	1,254,672	-	18,837,310
Wastewater system	5,670,991	129,971	-	5,800,962
Engineering studies	236,029	10,880	-	246,909
Sewage treatment rights	355,538	109,563	-	465,101
Equipment	129,786	-	-	129,786
Total accumulated depreciation	23,974,982	1,505,086	-	25,480,068
Total capital assets being depreciated, net	27,263,140	(611,139)	-	26,652,001
Capital assets, net	$ 34,817,619	$ 704,608	$ (893,947)	$ 34,628,280

Depreciation expense for the year ended December 31, 2025 was charged to District programs as follows:

Water system	$ 1,254,672
Wastewater system	239,534
Administration	10,880
Total	$ 1,505,086

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Note 4 – Capital Assets (continued)

Capital asset activity for the year ended December 31, 2024, was as follows:

	December 31, 2023	Additions	Deletions	December 31, 2024
Capital assets, not being depreciated				
Land	$ 405,270	$ -	$ -	$ 405,270
Water rights	7,099,945	21,091	-	7,121,036
Construction in progress	686,743	584,770	(1,243,340)	28,173
Total capital assets, not being depreciated	8,191,958	605,861	(1,243,340)	7,554,480
Capital assets being depreciated				
Water system	40,046,818	1,005,716	-	41,052,534
Wastewater system	7,491,147	78,562	-	7,569,708
Engineering studies	249,484	-	-	249,484
Sewage treatment rights	2,098,641	137,968	-	2,236,609
Equipment	129,786	-	-	129,786
Total capital assets being depreciated	50,015,876	1,222,246	-	51,238,122
Less accumulated depreciation for				
Water system	16,351,874	1,230,764	-	17,582,638
Wastewater system	5,543,638	127,353	-	5,670,991
Engineering studies	225,149	10,880	-	236,029
Sewage treatment rights	267,012	88,526	-	355,538
Equipment	129,786	-	-	129,786
Total accumulated depreciation	22,517,459	1,457,523	-	23,974,982
Total capital assets being depreciated, net	27,498,417	(235,277)	-	27,263,140
Capital assets, net	$ 35,690,376	$ 370,584	$ (1,243,340)	$ 34,817,619

Water system	$ 1,230,764
Wastewater system	215,879
Administration	10,880
Total	$ 1,457,523

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Note 5 – Long-Term Debt

Following is a summary of long-term debt transactions for the year ended December 31, 2025:

	Balance December 31, 2024	Additions	Reductions	Balance December 31, 2025	Due Within One Year
Bonds Payable:					
Series 2019 GO Refunding Bonds	$ 622,000	$ -	$ 622,000	$ -	$ -
Direct Placement Borrowings:					
2016 GO Refunding Loan	970,000	-	480,000	490,000	490,000
2006B CWRPDA Loan	1,972,823	-	615,477	1,357,346	659,440
2014 CWCB Loan - Note A	261,196	-	11,642	249,554	11,992
2014 CWCB Loan - Note B	309,136	-	8,479	300,657	8,733
2014 CWCB Loan - Note C	282,384	833,616	-	1,116,000	-
2014 CWCB Loan - Note D	127,427	-	-	127,427	-
Total direct placement borrowings	3,922,966	833,616	1,115,598	3,640,984	1,170,165
Total long-term obligations	4,544,966	833,616	1,737,598	3,640,984	1,170,165
Bond premium, net	18,830	-	9,415	9,415	9,415
Total	$ 4,563,796	$ 833,616	$ 1,747,013	$ 3,650,399	$ 1,179,580

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Note 5 – Long-Term Debt (continued)

Following is a summary of long-term debt transactions for the year ended December 31, 2024:

	Balance December 31, 2023	Additions	Reductions	Balance December 31, 2024	Due Within One Year
Bonds Payable:					
Series 2019 GO Refunding Bonds	$ 1,228,000	$ -	$ 622,000	$ 606,000	$ 622,000
Direct Placement Borrowings:					
2016 GO Refunding Loan	1,440,000	-	470,000	970,000	480,000
2006B CWRPDA Loan	2,571,814	-	598,991	1,972,823	615,477
2014 CWCB Loan - Note A	272,499	-	11,303	261,196	11,642
2014 CWCB Loan - Note B	317,368	-	8,232	309,136	8,479
2014 CWCB Loan - Note C	282,384	-	-	282,384	-
2014 CWCB Loan - Note D	127,427	-	-	127,427	-
Total direct placement borrowings	5,011,493	-	1,088,526	3,922,966	1,115,598
Total long-term obligations	6,239,493	-	1,710,526	4,528,966	1,737,598
Bond premium, net	28,244	-	9,414	18,830	9,415
Total	$ 6,267,737	$ -	$ 1,719,940	$ 4,547,796	$ 1,747,013

Series 2019 GO Refunding Bonds

On September 27, 2008, the District issued Series 2008A General Obligation Refunding Bonds in the amount of $6,730,000 to refund the District's Series 1998A General Obligation Refunding Bonds. Principal and interest payments were due semi- annually on June 1 and December 1 through December 1, 2027. Interest accrues at rates ranging from 4% to 5% per annum. The Bonds maturing on and after December 1, 2017 were subject to redemption prior to maturity, in whole or in part, in such a manner as the District may determine on December 1, 2018, or on any interest payment date thereafter, without any redemption premium. On June 3, 2019, the District refunded the Series 2008A GO Refunding Bonds with the issuance of $4,000,000 GO Refunding Bond, Series 2019 (the "Note"). The Note proceeds along with monies from the debt service fund were used to currently refund and pay-off the Series 2008A GO Refunding Bonds. This refunding resulted in net present value savings of interest in the amount of $297,601. Principal and interest payments are due annually on September 1, through September 1, 2025. Interest accrues at 2.61%. The Series 2019 GO Refunding Bonds were paid off on September 1, 2025.

Note 5 – Long-Term Debt (continued)

Series 2016 GO Refunding Loan

On November 9, 2016, the District obtained a loan in the amount of $4,500,000, titled Series 2016 General Obligation Refunding Loan with BOKF, NA, dba Colorado State Bank and Trust, to currently refund the District's Series 2006A

General Obligation Refunding Bonds. The loan proceeds along with monies from the debt service fund were used to refund and pay-off the 2006A GO Refunding Bonds in order to obtain an interest savings of approximately $55,000. Principal and interest payments are due semi-annually on June 1 and December 1, commencing on June 1, 2017 through December 1, 2026. Interest accrues at 1.86% per annum. The Loan is not subject to redemption prior to maturity.

Pledged Revenues 2016 and 2019 – The above bonds and loan are payable solely from revenues of the District's ad valorem property tax mill levy sufficient to pay the debt service requirements. During the years ended December 31, 2025 and 2024, property and specific ownership tax revenues of $1,695,664 and $1,412,349, respectively, plus existing debt fund balances from the previous year were available to pay the annual debt service of $1,136,186 and $1,134,922, respectively.

2006 Colorado Water Resources and Power Development Authority (CWRPDA) Loan

On November 1, 2006, the District obtained a loan in the amount of $9,996,005 from the Colorado Water Resources and Power Development Authority (the "Authority") to finance a water project. Principal and interest payments are due semi-annually on February 1 and August 1, through August 1, 2027. Interest accrues at 3.54% per annum.

The water project consists of the District's undivided interest in the Joint Water Purification Plant constructed by the District, Arapahoe County Water and Wastewater Public Improvement District, and the Arapahoe County Water and Wastewater Authority pursuant to an intergovernmental agreement, including production wells, a pumping station and transmission pipelines.

Pledged Revenues – The District and Authority agree that the amounts payable under this loan agreement are payable solely from pledged property, as defined as ad valorem taxes without limitation as to rate, on all taxable property in the District, in an amount necessary to pay the loan payments but not to exceed$1,100,000, and that nothing shall be deemed to prevent the District from repaying the loan amounts from any other legally available source. During the years ended December 31, 2025, and 2024, property and specific ownership tax revenues of $1,695,664 and $1,412,349, respectively were available to pay the annual debt service of $703,538 and $700,194, respectively.

Covenants and Remedies of Default – CWRPDA Loan – The District has committed to various covenants that must be maintained to avoid events of default. The most significant covenant is for the District to establish rates and fees in amounts sufficient to pay loan and operating requirements. Failure to pay any amounts owed under the loan agreement constitute an event of default. In the event of a default, the lender has the option to take any action pursuant to the loan agreement. Including declaring that all amounts are immediately due and payable, or to take legal action to require the District to appointment of a receiver of the systems of the District.

Note 5 – Long-Term Debt (continued)

2014 Colorado Water Conservation Board (CWCB) Loan

On November 17, 2014, the District entered into a loan agreement with the CWCB for an amount not to exceed $4,508,640 and later amended on December 1, 2019, to $2,220,507 for costs related to the District's participation in the Water Infrastructure and Supply Efficiency Authority (WISE) project. The District's draws and repayment obligation will be evidenced by four separate promissory notes as follows:

Note A – an amount not to exceed $381,780 for the District's share of the costs of a portion of the East Cherry Creek Valley Water and Sanitation District's Western Pipeline,

Note B – an amount not to exceed $2,636,100 (amended to $347,967) for the District's share of costs related to Phase 1 Infrastructure - a pipeline that will connect Denver Water's treated distribution system to Denver International Airport and Aurora's Prairie Water's pipeline,

Note C – an amount not to exceed $ 1,127,160 for the District's share of the costs of certain Phase 2 Infrastructure – Binney Connection, and

Note D – an amount not to exceed $363,600 for the District's share of costs of DIA Connection.

Each promissory note will include a 1% loan service fee. Interest accrues at 3% per annum for each individual promissory note commencing on the date of the initial note draw. Interest payments will commence 1 year from the date of initial note draw. Principal payments will not commence until the entire amount of an individual promissory note has been drawn, or the District communicates to the CWCB that no additional draws will be taken on the promissory note, at which time a repayment schedule will be established by the CWCB. During the year ended December 31, 2019, Note B, was substantially complete, and the District began paying principal and interest on Note B. During the year ended December 31, 2018, Note A, was substantially complete, and the District began paying principal and interest on Note A.

Covenants and Remedies of Default – CWCB Loan

The District has committed to various covenants that must be maintained to avoid events of default. The most significant covenant is for the District to establish rates and fees in amounts sufficient to pay loan and operating requirements. Failure to pay any amounts owed under the loan agreement constitute an event of default. In the event of a default, the lender has the option to take any action pursuant to the loan agreement, including imposing a 5% late payment charge and suspending loan disbursements pending corrective action by the District. There is no provision in the contract to accelerate loan payments.

Notes to Financial Statements
December 31, 2025 and 2024
See Independent Auditor's Report

Note 5 – Long-Term Debt (continued)

Annual debt service requirements for the District's outstanding bonds and loans at December 31, 2025 are as follows:

Year Ended Dec 31	Principal	Interest	Total
2026	$ 1,170,165	$ 64,025	$ 1,234,190
2027	719,253	6,096	725,349
2028	21,987	15,244	37,231
2029	22,647	14,585	37,232
2030	23,326	13,905	37,231
2031 - 2035	127,556	58,600	186,156
2036 - 2040	147,872	38,283	186,155
2041 - 2045	98,762	17,559	116,321
2046 - 2049	65,990	5,022	71,012
Unknown Amortization Terms	1,369,070	-	1,369,070
	$ 3,766,628	$233,319	$ 3,999,947

Annual debt service requirements for the District's outstanding bonds and loans at December 21, 2024 are as follows:

Year Ended Dec 31	Principal	Interest	Total
2025	$ 1,737,598	$177,821	$ 1,915,419
2026	1,170,164	64,025	1,234,189
2027	719,253	6,096	725,349
2028	21,987	15,244	37,231
2029	22,647	14,585	37,232
2030 - 2034	123,841	62,315	186,156
2035 - 2039	143,565	42,590	186,155
2040 - 2044	114,796	21,003	135,799
2045 - 2048	81,304	7,462	88,766
Unknown Amortization Terms	489,442	-	489,442
	$ 4,624,597	$411,141	$ 5,035,738

Note 5 – Long-Term Debt (continued)

The unknown amortization terms balance represents the balance of the 2014 CWCB Loans C and D, based on amounts remaining to be drawn down under these loans to determine the amortization terms of each loan.

Note 6 – Intergovernmental Agreements

The District participates in various intergovernmental agreements, the more significant agreements being as noted below.

Arapahoe County Water and Wastewater Authority

On June 18, 2003, the District entered into an agreement with Arapahoe County Water and Wastewater Authority (ACWWA) to mutually construct and operate a water treatment facility known as the Joint Water Purification Plant (JWPP). The JWPP facility began operations in 2010. In 2014, the District and ACWWA executed an agreement for operations and maintenance of, and improvements to the JWPP.

Under the original agreement, ACWWA operated the JWPP facility. The District paid its share of operating expenses each year. The agreement required two reserves be established, an operating reserve and capital replacement reserve. At December 31, 2025, and 2024, ACWWA held the District's portion of these reserves in the amount of $37,952.

The August 2018 amendment defined responsibilities related to the future construction of improvements to the JWPP and establish a commitment to use a contract plant operator after the completion of the improvements. The amended agreement required each District to deposit an amount into a COLOTRUST account to be held for these improvements. Plant operations were turned over to a contract operator in May 2019.

Cherry Creek Project Water Authority

On October 14, 2005, the Cherry Creek Project Water Authority (Cherry Creek Authority) was created by a Water Project Agreement between the District, Inverness Water and Sanitation District, ACWWA, and Denver Southeast Suburban Water and Sanitation District. On November 17, 2005, the Cherry Creek Authority purchased certain water rights, well rights, facilities and storage rights at a bankruptcy action for $15,225,000 plus closing costs. The District contributed $1,175,680 towards this purchase. The District's share of participation is 7.14%, which had a value of $3,135,394 at December 31, 2025, and 2024, which is reported as Investment in Authorities in the financial statements. During 2021, Cherry Creek Authority began construction on the Walker Reservoir project, Phase I and II for a total of $1,386,363, with both phases of the Project completed as of December 31, 2024. For a copy of the Cherry Creek Authority's financial statements, contact the Cherry Creek Authority.

Note 7 – Cost Sharing Agreement – WISE Partnership

On March 31, 2013, the District entered into an amended WISE Negotiations and Cost Sharing Participation Agreement with South Metro Water Supply Authority (SMWSA) that amends the method of cost sharing. In the amended agreement the costs will be shared based on the participants' pro-rata share of the annual subscription amount in relation to the total of all annual subscription amounts. The District has committed to subscribing to 400-acre feet (4.0%) out of a total of 10,000-acre feet (previously 7,225) of renewable water to be delivered annually from the WISE Partnership. In December of 2013, the District along with other members of the WISE Partnership entered into the WISE Partnership-Water Delivery Agreement between the City and County of Denver, acting by and through its Board of Water Commissioners, the City of Aurora acting by and through its Utility Enterprise, and the South Metro WISE Authority. The Water Delivery Agreement is the overarching agreement that defines the terms under which Denver and Aurora will deliver water to the South Metro WISE Authority members.

Pursuant to the WISE Agreements, the District pays its proportionate share of WISE capital costs, operations and maintenance costs, and the cost of water delivered. During the years ended December 31, 2025, and 2024, the District analyzed its investment in WISE and adjusted the amounts to $4,737,115 and $4,531,115, respectively, which is reported as Investment in Authorities in the financial statements. The District received its first water deliveries from the WISE project in 2017. For the years ended December 31, 2025, and 2024, the District's water purchases were $282,139 and $309,858, respectively. WISE CIP assessments for 2025 was $206,000. There were no WISE CIP assessments in 2024.

Note 8 – Settlement

During 2023, the District and ACWWA, together, reached a $7,600,000 settlement (the Settlement) with a contractor related to construction failures incurred in 2018 at a joint project. ACWWA and the District entered into a Memorandum of Understanding (MOU), which states that the funds, together with interest, are to be maintained in a reserve escrow account, which is held by the District. Funds are to be used to improve the existing RO concentrate biological treatment system at the JWWP, with either district allowed to enter into construction contracts with the Authority's approval. The MOU states that any funds remaining in the escrow account, following necessary JWPP biological system improvements, are to be divided between ACWWA and the District in the same ratio as the contribution to the original funding mechanism implemented for the 2018 JWPP Improvements Project (the Contract). ACWWA contributed 39% and the District contributed 61% of the original Contract. Accordingly, the District recognized 61% of the Settlement amount as revenue, as well as 61% of the interest earnings on the escrow account.

The District has restricted the entire escrow account balance ($8,330,445 and $8,073,757 at December 31, 2025 and 2024, respectively) and has presented ACWWA's 39% of the escrow reserve ($3,248,041 and $3,148,766 at December 31, 2025 and 2024, respectively) as a noncurrent liability.

Note 9 – PFAS Settlement

During 2024, a District Court in South Carolina found 3M and Dupont, including some of their subsidiaries responsible for contaminating most of the country's waterways, directly or indirectly, with cancerous chemical compounds known for their long-lasting presence in the environment. As an affected water supply provider, the District qualified to receive money from the settlement. In 2025, the District received $708,757. There are other lawsuits pending, hence additional settlement funds may occur

Note 10 – Risk Management

Public Entity Risk Pool

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets. The District plans to provide for or restore the economic damages of those losses through risk transfer. The District participates in the Colorado Special Districts Property and Liability Pool and Workmen's Compensation Pool (the "Pool").

The purposes of the Pool are to provide members with defined liability, property, and workers compensation coverage and to assist members in preventing and reducing losses and injuries to property and to persons or property which might result in claims being made against members of the Pool, their employees and officers. Settled claims have not exceeded this coverage in any of the past three fiscal years.

It is the intent of the members of the Pool to create an entity in perpetuity which will administer and use funds contributed by the members to defend and indemnify, in accordance with the bylaws, any member of the Pool against stated liability of loss, to the limit of the financial resources of the Pool.

It is also the intent of the members to have the Pool provide continuing stability and availability of needed coverage at reasonable costs.

All income and assets of the Pool shall be at all times dedicated to the exclusive benefit of its members. The Pool is a separate legal entity and the District does not approve budgets nor does it have the ability to significantly affect the operations of the Pool.

The District pays annual premiums to the Pool for liability, property and public officials' liability. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

Note 11 – Tax, Spending and Debt Limitations

Article X, Section 20 of the Colorado constitution, commonly known as the Taxpayer's Bill of Rights (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 District's management believes a significant portion of its operations qualifies for this exclusion.

Spending and revenue limits are determined based on the prior year's fiscal year spending as adjusted for allowable increases for inflation and local growth. Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenues in excess of the fiscal year spending limit must be refunded unless retention of such revenue has been approved by the voters.

TABOR requires local governments to establish emergency reserves. These reserves must be at least 3% of fiscal year spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls or salary or benefit increases. At December 31, 2025, and 2024, an emergency reserve of $55,136 and $45,304, respectively, was reported as a restricted net position in the statement of net position.

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 qualification as an Enterprise will require judicial interpretation.

On May 23, 2022, voters in the District authorized the issuance of $10,500,000 of general obligation bonds or other multiple fiscal year financial obligations, to be used for renewable water supply projects, water storage, water treatment, and water infrastructure improvements. No amounts were issued during 2025 or through the date of the auditor's report. As of December 31, 2025 and 2024, the District's general obligation bonding capacity remained at $10,500,000.

--*End of Notes to Financial Statements* ---

Supplemental Information

COTTONWOOD WATER AND SANITATION DISTRICT

Statement of Revenues, Expenditures, and Changes in Funds Available – Budget and Actual (Budgetary Basis) Enterprise Fund For the Year Ended December 31, 2025

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Operating			
Charges for services			
Water system	$ 2,806,000	$ 3,471,972	$ 665,972
Wastewater system	2,846,000	2,903,570	57,570
Storm Sewer fees	9,100	9,421	321
Miscellaneous	80,000	77,796	(2,204)
Total operating revenues	5,741,100	6,462,759	721,659
Nonoperating			
Tap fees	200,000	1,534,427	1,334,427
Bond proceeds	1,742,000	833,616	(908,384)
Investment income	80,000	878,593	798,593
Capital recovery fees	15,000	125,602	110,602
Settlement income	-	708,757	708,757
Total nonoperating revenues	2,037,000	4,080,995	2,043,995
Total revenues	7,778,100	10,543,754	2,765,654
Expenditures			
Operating			
Water treatment	693,000	807,870	(114,870)
Wastewater treatment	2,120,200	2,113,038	7,162
System operating fees	220,500	230,000	(9,500)
Repairs and maintenance	210,000	263,555	(53,555)
Utilities	213,200	275,450	(62,250)
Professional services	35,000	122,881	(87,881)
WISE water purchases	642,640	282,139	360,501
Adminstration			
Insurance	63,800	56,456	7,344
Management fees	181,500	181,416	84
Accounting and billing	196,200	163,859	32,341
Audit	8,500	14,840	(6,340)
Legal	90,000	130,077	(40,077)
Miscellaneous	165,200	151,935	13,265
Water conservation rebates	60,000	28,641	31,359
Contingency	200,000	-	200,000
Total operating expenditures	5,099,740	4,822,157	277,583
Nonoperating			
Capital outlay	7,305,500	1,315,747	5,989,753
CWCB debt service	81,000	74,493	6,507
WISE participation and capital	403,000	256,000	147,000
Authority participation and capital	110,000	35,000	75,000
Total nonoperating expenditures	7,899,500	1,681,240	6,218,260
Total expenditures	12,999,240	6,503,397	6,495,843
Net changes in funds available	(5,221,140)	4,040,357	9,261,497
Funds available - beginning of year	17,843,164	17,843,164	-
Funds available - end of year	$ 12,622,024	$ 21,883,521	$ 9,261,497

COTTONWOOD WATER AND SANITATION DISTRICT

Statement of Revenues, Expenditures, and Changes in Funds Available – Budget and Actual (Budgetary Basis)
Debt Fund
For the Year Ended December 31, 2025

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes	$ 1,555,264	$ 1,562,578	$ 7,314
Specific ownership taxes	150,000	133,086	(16,914)
Fees in lieu of taxes	137,685	142,188	4,503
Interest income	16,500	3,251	(13,249)
Total revenues	1,859,449	1,841,103	(18,346)
Expenditures			
County Treasurer's fees	23,000	23,474	(474)
Debt service 2006B	703,600	685,942	17,658
Debt service 2016	498,100	497,298	802
Debt service 2019	638,250	632,733	5,517
Total expenditures	1,862,950	1,839,447	23,503
Net changes in funds available	(3,501)	1,656	5,157
Funds available - beginning of year	372,672	372,672	-
Funds available - end of year	$ 369,171	$ 374,328	$ 5,157

COTTONWOOD WATER AND SANITATION DISTRICT

Reconciliation of Actual (Budgetary Basis) to Statement of Revenues, Expenses and Net Position
For the Year Ended December 31, 2025

Revenues (total budgetary basis)	$	12,384,857
Proceeds from long-term debt issuance		(833,616)
Total revenues per Statement of Revenues, Expenses and Changes in Net Position	$	11,551,241
Expenditures (total budgetary basis)		8,342,844
Depreciation and amortization		1,505,086
Capital outlay		(1,315,747)
WISE capital contributions		(206,000)
Principal payments		(1,737,598)
Bond premium		(9,415)
		6,579,170
Change in net position per Statement of Revenues, Expenses and Changes in Net Position	$	4,972,071