

**MORRISON CREEK METROPOLITAN
WATER AND SANITATION DISTRICT**

Financial Statements and supplemental information with
Independent Auditor's Report

December 31, 2025

MORRISON CREEK METROPOLITAN WATER AND SANITATION DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Morrison Creek Metropolitan Water and Sanitation District
Oak Creek, Colorado

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of Morrison Creek Metropolitan Water and Sanitation District, as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise Morrison Creek Metropolitan Water and Sanitation District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of Morrison Creek Metropolitan 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.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a

guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS:

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

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morrison Creek Metropolitan Water and Sanitation District's basic financial statements. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying

accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) are fairly stated in all material respects in relation to the basic financial statements as a whole.

Watson Coon Ryan, LLC

CENTENNIAL, COLORADO
SEPTEMBER 8, 2026

**MORRISON CREEK METROPOLITAN WATER AND SANITATION
DISTRICT**

Statement of Net Position

December 31, 2025

Assets:

Current assets:

Cash and investments	\$ 4,493,713
Restricted cash	231,388
Accounts receivable	87,977
Property taxes receivable	602,639
Prepaid expenses and other assets	<u>55,031</u>

Total current assets 5,470,748

Noncurrent assets:

Capital assets, net	<u>11,292,293</u>
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Total assets 16,763,041

Liabilities:

Current liabilities:

Accounts payable and accrued expenses	21,384
Current portion of long term debt	113,784
Other liabilities	<u>32,866</u>

Total current liabilities 168,034

Noncurrent liabilities:

Long term debt	<u>6,071,171</u>
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Total liabilities 6,239,205

Deferred Inflows of Resources:

Deferred property tax revenues	<u>602,639</u>
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Total deferred inflows of resources 602,639

Net Position:

Net investment in capital assets 5,107,338

Restricted for:

Emergencies	48,000
Debt service reserve	199,805
Short lived asset reserve fund	31,583

Unrestricted 4,534,471

Total net position \$ 9,921,197

The notes to the financial statements are an integral part of this statement

**MORRISON CREEK METROPOLITAN WATER AND
SANITATION DISTRICT**

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

Operating revenues:	
Charges for services	\$ 888,287
Other	104,372
Total operating revenues	<u>992,659</u>
Operating expenses:	
Wages and benefits	\$ 577,749
Repairs and maintenance	71,705
Professional fees	101,439
Engineering	9,429
Electric	55,328
Supplies and operations	86,007
Outside services	74,399
Insurance	31,433
Water storage	26,886
Office	28,117
Directors fees	12,163
Other	45,651
Depreciation	378,420
Total operating expenses	<u>1,498,726</u>
Operating loss	<u>(506,067)</u>
Nonoperating revenues (expenses):	
Property taxes, net of treasurer fees and refunds	473,025
Specific ownership taxes	39,276
Grant revenue, capital purpose	187,778
Tap fees	71,840
Interest expense	(107,595)
Interest income	194,023
Total nonoperating revenues	<u>858,347</u>
Income before other revenues, expenses, gains and losses	<u>352,280</u>
Other revenues, expenses, gains and losses:	
Vault impact fees	68,000
Other revenues, expenses, gains and losses	<u>68,000</u>
Change in net position	420,280
Net position, beginning of year	<u>9,500,917</u>
Net position, end of year	<u><u>\$ 9,921,197</u></u>

The notes to the financial statements are an integral part of this statement

**MORRISON CREEK METROPOLITAN WATER AND SANITATION
DISTRICT**

**Statement of Cash Flows
For the Year Ended December 31, 2025**

Cash flows from operating activities:

Cash received from customers	\$ 1,005,297
Cash received from other sources	519,570
Cash payments to employees for services and benefits	(559,387)
Cash payments to other suppliers of goods or services	(1,108,431)
Net cash used by operating activities	<u>(142,951)</u>

Cash flows from noncapital financing activities:

Specific ownership taxes received	39,276
Taxes collected, net of treasurer fees	473,025
Net cash provided by noncapital financing activities	<u>512,301</u>

Cash flows from capital and related financing activities:

Payments to acquire, construct, or improve capital assets	(488,605)
Payments on long term debt	(112,043)
Interest payments	(107,595)
Proceeds from capital grants	187,778
Tap fees collected	71,840
Vault impact fees collected	68,000
Net cash provided by capital and related financing activities	<u>(380,625)</u>

Cash flows from investing activities:

Interest received	194,023
Net cash provided by investing activities	<u>194,023</u>

Net change in cash and cash equivalents	182,748
Cash and cash equivalents, beginning of year	4,542,353
Cash and cash equivalents, end of year	<u><u>\$ 4,725,101</u></u>

**Reconciliation of operating loss to net
cash provided by activities:**

Operating loss	\$ (506,067)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation	378,420
(Increase) decrease in:	
Accounts receivable	117,010
Grants receivable	415,198
Prepaid expenses and other assets	(11,100)
Increase (decrease) in:	
Accounts payable and accrued expense	(554,774)
Other liabilities	18,362
Net cash used by operating activities	<u><u>\$ (142,951)</u></u>

The notes to the financial statements are an integral part of this statement

MORRISON CREEK METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Note 1: Summary of Significant Accounting Policies

The Morrison Creek Metropolitan Water and Sanitation District (the District) was formed in 1972 to provide water and sanitation services for the Stagecoach Development located in Routt County, Colorado. Stagecoach is a rural community of approximately 500 residents located between the Town of Oak Creek and the City of Steamboat Springs. The District was formed as a special district pursuant to Title 32 of Colorado Revised Statutes (CRS).

The District's financial statements were prepared in accordance with U.S. generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for the establishment of GAAP in governmental entities. The following summary of the more significant accounting policies of the District is presented to assist the reader in interpreting these financial statements and should be viewed as an integral part of this report.

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 does not have any component units for which it is financially accountable.

Measurement Focus and Basis of Accounting

The District engages entirely in business-type activities and the accompanying proprietary fund financial statements use a flow of economic resources measurement focus to determine net income and financial position. The accounting principles used are similar to those applicable to businesses in the private sector and this fund is maintained on the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when incurred.

Assets, Liabilities, Deferred Inflows of Resources and Net Position

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments, including reserve balance, with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

Amounts due to the District from charges for services provided are reported as accounts receivable. The District's management reviews accounts receivable periodically to consider the collectability of the balances. District management believes all accounts receivable to be fully collectible as of December 31, 2025. Therefore, no allowance for uncollectible accounts has been established.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

MORRISON CREEK METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Capital Assets

Capital assets include sewage treatment plant and distribution systems, water systems, and furniture, fixtures and equipment. Capital assets are defined by the District as assets with an initial cost of \$500 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or fair value if contributed to the District. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

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

	<u>Years</u>
Sewage treatment plant and distribution systems	30-40
Water tank	30
Furniture, fixtures and equipment	5-7

Leases and Subscription-Based IT Arrangements

Under GASB 87 and 96, the District recognizes short-term lease payments as outflows of resources based on the payment provisions of the lease contract.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District's deferred inflows of resources consist solely of property tax revenues not available until the following year.

Net Position

Net position is classified as net position and may be displayed in three components:

- Net investment in capital assets - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position - consists of net position with constraints placed on the use either by (1) external groups, such as creditors, grantors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net position - all other net position that do not meet the definition of "restricted" or "net investment in capital assets." This net position is available for future operations or distributions.

For presentation purposes when both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

MORRISON CREEK METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Operating and Nonoperating Revenues and Expenses

The proprietary fund financial statements distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses are those that result from providing services associated with the principal activities of the District. Operating expenses include the cost of ongoing operations, related administrative expenses, and depreciation expense. Nonoperating revenues and expenses are all those that do not meet the criteria described previously.

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is 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 if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and, generally, sale of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

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

Use of Estimates

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

Recently Issued Accounting Pronouncements

In December 2023, GASB issued Statement No. 102, Certain Risk Disclosures. 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, begun to occur, or is more likely than not to begin 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 did not identify any concentrations or constraints that require disclosure.

Note 2: Stewardship, Compliance and Accountability

Budgetary Information

Budgets are adopted on a non-GAAP basis wherein depreciation is not budgeted and capital expenditures are budgeted and recorded as expenditures. Additionally, loan payments and proceeds are considered revenue and expenses for budget purposes.

MORRISON CREEK METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

The District conforms to the following procedures, in compliance with CRS, Title 29, Article 1, in establishing the budgetary data reflected in the financial statements:

- Prior to October 15, the District Manager submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The budget includes proposed expenditures and the means of financing them.
- Public notice is offered by the Board of Directors to obtain taxpayer comments
- Prior to December 31, the budget is adopted by formal resolution
- Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures must be approved by the Board of Directors.
- All appropriations lapse at the end of each fiscal year.

The District did not adopt any supplemental appropriations for the year ended December 31, 2025.

Compliance

The District did not have expenditures in excess of appropriations in any fund for the year ended December 31, 2025.

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 tax spending, revenue and debt limitations which apply to the State of Colorado and all local governments, excluding enterprises. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of any expiring tax, or tax policy change directly causing a net tax revenue gain to any local government.

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

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future fiscal years.

TABOR requires local governments to establish emergency reserves. These reserves must be at least 3% of current 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. The District has reserved \$48,000 of the December 31, 2025 fund net position for this purpose.

The District's voters passed a ballot question on November 4, 2003, authorizing the District to collect, retain and spend for any lawful purpose the full revenues generated from all sources in fiscal year 2003 and in each fiscal year thereafter.

The District's management believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions may require judicial interpretation.

MORRISON CREEK METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Note 3: Cash and Investments

Deposits

As of December 31, 2025, all of the District's deposits were either held in deposit accounts insured by the Federal Deposit Insurance Corporation or in eligible depositories as required by Public Deposit Protection Act in Colorado Revised Statutes 11-10.2-107(5).

The 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. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The collateral pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must equal or exceed 102% of the aggregate uninsured deposits.

Investments

As of December 31, 2025, the District had \$4,101,727, invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) PLUS+ fund. COLOTRUST PLUS+ is a short-term money market fund organized in conformity with Part 7 of Article 75 of Title 24, CRS. The portfolio offers Colorado governmental entities a convenient and efficient means to pool their funds to take advantage of short-term investments and maximize net interest earnings. The investment objective of COLOTRUST PLUS+ is to obtain as high a level of current income as is consistent with the preservation of capital and liquidity. The investment adviser for COLOTRUST PLUS+ is Public Trust Advisors LLC, a Colorado-based investment adviser, registered with the SEC. The portfolio manager is responsible for making all of the investment decisions for the portfolio. Wells Fargo Bank, N.A. is custodian of the portfolio's securities and cash. The COLOTRUST PLUS+ portfolio invests in U.S. Treasury securities, federal instrumentality securities, agency securities, repurchase agreements, tri-party repurchase agreements, collateralized bank deposits, the highest rated commercial paper, and highly-rated corporate bonds. The portfolio's weighted average maturity to reset is kept under 60 days, which helps to enhance liquidity and limits market price exposure. The COLOTRUST PLUS+ fund holds a 'AAAm' rating from Standard and Poor's.

The District's investments are subject to interest rate risk, credit risk, and concentration of credit risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District currently invests only in investment pools which may be redeemed at any time.

Cash and investments as of December 31, 2025 are classified in the accompanying financial statements as follows:

Deposits with financial institutions	\$ 623,374
COLOTRUST	4,101,727
Cash and investments	<u>\$ 4,725,101</u>

Cash and investments and restricted cash as of December 31, 2025 are classified in the accompanying financial statements as follows:

Cash and investments	\$ 4,493,713
Restricted cash	231,388
Cash and investments and restricted cash	<u>\$ 4,725,101</u>

On December 31, 2025, the District's cash deposits had a bank balance of \$4,716,441 and a carrying balance of \$4,725,102.

MORRISON CREEK METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Interest Rate Risk

The interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The District has no investment policy that limits its investment choices other than the limitation of state law.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District places no limit on the amount the District may invest in any one issuer.

Restricted Cash

At December 31, 2025, \$199,805 represents funds required for the USDA bond agreement to maintain at least 10% of one annual payment per year for ten years until the balance of the debt service reserve account is equal to one annual loan payment. Under the USDA bond agreement, \$31,583 is required to be maintained for the repair or replacement of short-lived assets.

Note 4: Capital Assets

Capital asset activity for the year ended December 31, 2025 is summarized below:

	Beginning Balance	Additions	Deletions	Ending Balance
Non-depreciable capital assets:				
Land easement	\$ 5,538	\$ -	\$ -	\$ 5,538
Engineering plans	190,000	-	-	190,000
Total non-depreciable capital assets	195,538	-	-	195,538
Depreciable capital assets:				
Sewage treatment plant and distribution systems;	12,784,207	36,562	-	12,820,769
Water systems	3,105,544	224,692	-	3,330,236
Furniture, fixtures and equipment	658,896	227,351	-	886,247
Total depreciable capital assets	16,548,647	488,605	-	17,037,252
Less accumulated depreciation:				
Sewage treatment plant and distribution systems;	(2,735,147)	(299,378)	-	(3,034,525)
Water systems	(2,368,683)	(42,940)	-	(2,411,623)
Furniture, fixtures and equipment	(458,247)	(36,103)	-	(494,350)
Total accumulated depreciation	(5,562,077)	(378,420)	-	(5,940,497)
Net depreciable capital assets	10,986,570	110,185	-	11,096,755
Total capital assets, net	\$ 11,182,108	\$ 110,185	\$ -	\$ 11,292,293

MORRISON CREEK METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Note 5: Long-Term Debt

On July 15, 2024, the District, through its Water Activity Enterprise, issued \$6,297,000 in Sewer Revenue Bonds, Series 2024, to the United States Department of Agriculture Rural Utilities Service (USDA) to finance the construction of a wastewater treatment plant. The bonds bear interest at 1.75% and mature on July 15, 2064.

Principal and interest are payable semi-annually from net revenues of the Enterprise's sewer system. The Bond does not constitute a debt or general obligation of the District and is not secured by taxes

The bond agreement requires the District to maintain certain restricted accounts, including a Debt Service Reserve to be funded to \$219,640 over 10 years and a Short-Lived Asset Reserve requiring annual deposits of \$31,583. The bond agreement also restricts the issuance of additional debt. Additional bonds may not be issued with a senior lien, and parity bonds require USDA consent and compliance with applicable coverage tests.

As of December 31, 2025, the required reserves were funded in accordance with the bond covenants, and the District was in compliance with all significant debt covenants. The Bond is considered a direct borrowing/direct placement. The Bond is payable solely from Net Revenue of the sewer system deposited to the Bond Account and, if necessary, amounts in the Debt Service Reserve, and the Bond constitutes a lien on Net Revenue. Events of default include failure to pay principal or interest when due, certain covenant defaults continuing after notice, and certain bankruptcy filings. While the Bond is registered in the name of the United States of America, upon an event of default USDA may declare the entire outstanding principal and accrued interest immediately due and payable.

The Bond is subject to redemption prior to maturity, at the option of the District, on any date, upon payment of par and accrued interest, without redemption premium, with notice requirements as specified in the Bond documents

Long-term debt activity for the year ended December 31, 2025 was as follows:

	Balance at December 31, 2024	Additions	Reductions	Balance at December 31, 2025	Amounts Due Within One Year
USDA Loan	\$ 6,297,000	-	(112,045)	\$ 6,184,955	\$ 113,784

Future payments for long-term debt are as follows:

	Principal	Interest	Payment
2026	\$ 113,784	\$ 107,745	\$ 221,529
2027	115,784	105,745	221,529
2028	117,819	103,710	221,529
2029	119,890	101,639	221,529
2030	121,997	99,532	221,529
2031 – 2035	642,912	464,732	1,107,644
2036 – 2040	701,434	406,209	1,107,643
2041 – 2045	765,283	342,360	1,107,643
2046 – 2050	834,945	272,698	1,107,643
2051 – 2055	910,946	196,696	1,107,642
2056 – 2060	993,867	113,775	1,107,642
2061 – 2064	746,294	26,290	772,584
Total	\$ 6,184,955	\$ 2,341,132	\$ 8,526,087

MORRISON CREEK METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Note 6: Net Position

The District has net position consisting of three components – net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding balance of debt that is attributable to the acquisition, construction, or improvement of those assets.

TABOR - the District has reserved a portion of fund balance for the TABOR emergency reserve - see footnote 2.

Debt Service Reserve - fund balance has been reserved in accordance with the loan agreement to reflect at least one tenth of the annual loan payment.

Short Lived Asset Reserve Fund – fund balance has been reserved in accordance with the loan agreement to reflect an annual deposit of \$31,583 for repair/replacement of short-lived assets.

Note 7: Grants

During 2024, the District was awarded a reimbursable grant from the U.S. Department of Agriculture for a total of \$1,702,000. As of December 31, 2025, the District met the eligibility requirements and recorded the remaining \$187,776 of this grant as revenue.

Note 8: Other Information

Intergovernmental Agreements

Stagecoach Reservoir Storage Agreement

The District entered into an agreement with the Upper Yampa Water Conservancy District (UYWCD) on December 5, 1986 to purchase annually on a “take or pay basis” 500 acre feet of storage water in Stagecoach Reservoir at a price of \$35.00 per acre foot for a term of thirty years. At the end of the thirty-year period the District has five successive 10-year options to renew the right of purchase at the same price.

Yamcolo Reservoir Storage Agreement

The District entered into an extension and amendment agreement with the UYWCD effective July 15, 2011 for 60 acre feet of storage water in the Yamcolo Reservoir for thirty years terminating July 15, 2041. The purchase price for the storage water is subject to an annual CPI increase. The District paid \$104.92 per acre foot of storage water for the year ended December 31, 2025.

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; injuries to employees, and natural disasters. The District maintains commercial insurance for these risks by participation in an insurance pool.

The District is a member in the Colorado Special Districts Property and Liability Pool (the Pool). The Pool creates an opportunity for members to control their own insurance costs through the joint pooling of resources, making it possible to self-insure property, liability and workers’ compensation insurance. The Pool is member-

MORRISON CREEK METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

owned, and all surplus revenues support the stabilization of rates, coverage enhancements, innovation, and technology to bring the most value to its members. The Pool provides property, liability, workers' compensation and associated coverage, and claims and risk management services to its members. The District has not had losses of a material amount in any of the preceding three years.

The Pool has contracted with a third party to operate, administer and manage the Pool. In the event aggregated losses incurred by the Pool exceeds amounts recoverable from the reinsurance contracts and capital and surplus accumulated by the Pool, the Pool may require additional contributions from its members.

Retirement Plan

District employees may voluntarily contribute to a deferred compensation plan, an Internal Revenue Code Section 457 defined contribution plan administered by Lincoln Financial Group. The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Plan assets are held in trust for the exclusive benefit of participating employees and are not accessible by the District or its creditors. Plan provisions and contribution requirements are established and may be amended by the District.

The District's contribution for each employee and investment earnings allocated to the employee's account are fully vested. The District contributes up to 6% of full-time employees' wages. The District's contributions to the plan were \$22,165 during the years ended December 31, 2025.

Contingencies

The District is a defendant in two pending legal matters. The first matter includes asserted claims related to alleged nuisance and requests for injunctive relief. Certain claims in that matter have been dismissed; however, allegations related to noise and odor remain pending, and the District has appealed certain rulings and obtained a stay. Counsel has advised that the District's potential tort exposure related to the nuisance claim is estimated to range from \$0 to \$1,195,000, with any loss expected to be closer to the low end of that range. Any amount paid out as a result of this matter would be covered in full by the District's insurance. Counsel has also advised that any potential injunctive relief may not be subject to the statutory tort limitation.

The second matter includes an asserted inverse condemnation claim related to alleged impacts from light, noise, odor, and possible well-water contamination. The District has filed motions to dismiss and intends to vigorously defend the matter. Counsel has advised that the potential loss, if any, related to the inverse condemnation claim cannot currently be estimated without discovery.

Based on the current status of these matters and consultation with legal counsel, management believes an unfavorable outcome is reasonably possible but not probable. Accordingly, no liability has been recorded in the accompanying financial statements. Management will continue to monitor the progress of the litigation and will record any adjustments as necessary in accordance with applicable accounting standards.

Note 9: Subsequent Events

Events occurring subsequent to the statement of net position date have been evaluated for financial statement impact or disclosure through the date of the report which is when financial statements were available to be issued. No events requiring disclosure were identified.

MORRISON CREEK METROPOLITAN WATER AND SANITATION DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Basis)
For the Year Ended December 31, 2025

	Original and Final Budget	Actual	Variance
Revenues:			
Charges for services	\$ 944,959	\$ 888,287	\$ (56,672)
Other	53,700	104,372	50,672
Tap fees	50,000	71,840	21,840
Vault impact fees	17,000	68,000	51,000
Property taxes, net of treasurer fees and refunds	534,811	473,025	(61,786)
Specific ownership taxes	31,000	39,276	8,276
Grant revenue, capital purpose	-	187,778	187,778
Interest income	60,000	194,023	134,023
Total revenue	<u>1,691,470</u>	<u>2,026,601</u>	<u>335,131</u>
Expenses:			
Wages and benefits	610,200	577,749	32,451
Repairs and maintenance	150,000	71,705	78,295
Professional fees	230,000	101,439	128,561
Engineering	45,000	9,429	35,571
Electric	53,000	55,328	(2,328)
Supplies and operations	84,600	86,007	(1,407)
Outside services	75,000	74,399	601
Insurance	26,450	31,433	(4,983)
Water storage	23,000	26,886	(3,886)
Office	26,000	28,117	(2,117)
Directors fees	12,500	12,163	337
Interest expense	400	107,595	(107,195)
Loan repayment	220,000	112,043	107,957
Other	183,142	45,651	137,491
Capital improvements	200,000	488,605	(288,605)
Total expenses	<u>1,939,292</u>	<u>1,828,549</u>	<u>110,743</u>
Change in net position-budgetary basis	<u>\$ (247,822)</u>	<u>\$ 198,052</u>	<u>\$ 224,388</u>
Adjustments to GAAP basis:			
Capital improvements		488,605	
Depreciation		(378,420)	
Loan repayments		<u>112,043</u>	
Change in net position - GAAP basis		420,280	
Net position, beginning of year		<u>9,500,917</u>	
Net position, end of year		<u>\$ 9,921,197</u>	