Pagosa Area Water and Sanitation District

Financial Statements

December 31, 2025

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Independent Auditor's Report

Board of Directors
Pagosa Area Water and Sanitation District

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund, of Pagosa Area Water and 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 present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the 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) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and Governmental Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages iii-xi and pages 34-36, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information on pages 37-53 and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information and the schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2026, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

rfarmer, llc

July 8, 2026

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Pagosa Area Water and Sanitation District (the District) offers readers of our financial statements the following narrative overview and analysis of our financial activities for the year ended December 31, 2025.

This section provides a summary of the District's financial performance. It contains an overview and analysis of the District's financial activities for the year ended December 31, 2025. The financial statements are an integral part of this analysis and should be read in conjunction with this document.

FINANCIAL HIGHLIGHTS

1. The District's net positions total $92,449,097; this is an increase of $2,231,272 from the previous year.
2. Operating expenses of $13,996,138 exceeded operating revenues of $12,555,362 by $1,440,776.
3. General revenues total $2,333,382.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements consist of four parts: management's discussion and analysis, basic financial statements including the notes to the financial statements, required supplementary information and other supplementary information.

BASIC FINANCIAL STATEMENTS

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The government-wide financial statements present information for the governmental funds and the business-type activities.

The *Statement of Net Position* (see page 4) presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* (see page 5) presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported on the accrual basis as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements (beginning on page 6). However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. The financial statements presented for the governmental funds are the *Balance Sheet* and the *Statement of Revenues, Expenditures and Changes in Fund Balances.*

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

Proprietary Funds. Proprietary fund accounting uses the same basis of accounting as private-sector business enterprises. The District uses two enterprise funds: Water Fund and Wastewater Fund. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used.

Revenue is recorded when earned and expenses are recorded when incurred. The proprietary fund basic financial statements include a *Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows* (beginning on page 10).

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

The *Statement of Revenue, Expenses and Changes in Fund Net Position* reports the operating revenues and expenses and non-operating revenues and expenses of the District's enterprise funds for the year with the difference - the net income or loss - being combined with any capital contributions to determine the net change in position for the fiscal year. That change combined with the net position at the end of the previous year total to the net position at the end of the current fiscal year.

The *Statement of Cash Flows* reports cash and cash equivalent activities of the two enterprise funds for the fiscal year resulting from operating activities, capital and related financing activities, noncapital financing activities and investing activities. The net result of these activities added to the beginning of the year cash balance total to the cash and cash equivalent balance at the end of the current year.

The District adopts an annual appropriated budget for each of its funds. Budgetary comparison statements have been provided for the General Fund as Required Supplementary Information in the audited financial statements; budget comparisons for the Debt Service Fund, Water Fund and Wastewater Fund are presented in Other Supplementary Information in the audited financial statements to demonstrate compliance with their budgets.

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 14 to 33 of this report.

FINANCIAL POLICY PRIORITIES

As a 49-year-old water and wastewater district serving a rural community, the District's financial strategy is the capital preservation, the stewardship of long-term asset management and rate stabilization for the community. The District's core financial objective is to deliver reliable, high-quality water and wastewater services. Policies that affect financial activities are:

1. Debt service is funded from user fees and property taxes
2. Administration and operations are funded from user fees, property taxes and specific ownership taxes
3. User fees will fund a portion of capital improvement needs
4. Capital Investment Fees are earmarked for capital uses

In 2025, the District completed several construction projects and ended the year with work-in-progress carry over amounts in both of the enterprise funds. As planned, this had the effect of reducing reserves. The District expended $2,502,642 in 2025 on water projects and $7,504,864 on wastewater projects.

Past expansion and improvements have been paid with a combination of user fees, property taxes and bond issues. The District's policies also made it possible for the District to complete the year with cash and investments in all funds of $15,295,341 of which $10,007,506 is designated for future construction projects and debt retirement.

Day-to-Day Operational Control of the District

For operational control, the District had 3 funds during 2025: the General Fund, Water Fund and Wastewater Fund.

The General Fund provides for the administration of the District and also transfers monies to other funds. A total of $500,000 was transferred to other funds in 2025. The major sources of revenue are monies collected for property taxes and specific ownership taxes. In 2025, the General Fund collected $1,346,989. There was a $250,757 decrease in fund balance over the previous year. Transfers to the Water and Wastewater Enterprise Funds have been reduced or will remain constant to preserve this fund balance in light of the District's election on a referred measure. On May 3, 2016 District voters passed a measure to subject the revenue, collection and spending limits under Article X, Section 20 of the Colorado Constitution (otherwise known as the Taxpayers Bill of Rights) by repealing the ballot issue approved by District voters on May 2, 2000. This action will impact the General Fund by limiting tax revenue while it is not anticipated that General Fund expenses, other than the amount available for transfer to other funds, can be reduced. The ending fund balance in the General Fund at December 31, 2025, was $1,435,905 of this amount, $33,000 is set aside as a reserve (see note 13 on page 30 of the financial statements). Non spendable prepaids and inventories are $14,166 and the remaining balance of $1,388,739 is undesignated.

The District operates its Water and Wastewater funds as self-supporting enterprises. Revenues received from user fees and other general fund sources are sufficient to cover the day-to-day operating expenses of these funds, as well as assist in the funding of capital improvements.

The Water Fund had an increase in Net Position of $560,156 for 2025. Of this amount, the operating loss was $196,231; non-operating revenues and expenses show an increase of $735,483; and $1,020,904 was supplied from transfers and capital grant revenue. At the end of 2025, the Water Fund had a net position of $62,007,783. Of this amount, $57,382,765 is invested in capital assets, net of related debt and is not available for future appropriations and $4,625,018 is unrestricted.

The Wastewater Fund had an increase in Net Position of $1,925,234 for 2025. Of this amount, operating income was $155,520; non-operating revenues and expenses contributed $1,290,618; and $479,096 was from transfers. At the end of 2025, the Wastewater Fund has a net position of $28,682,305. Of this amount, $15,781,223 is invested in capital assets, net of related debt and is not available for future appropriations and $12,901,082 is unrestricted.

Capital projects, including infrastructure and equipment purchases, are funded from a variety of operating and non-operating revenues including bond proceeds and Capital Investment Fees. The District is consciously trying to build reserves sufficient to handle most of the infrastructure expenses that are anticipated in the next ten years.

The District's day-to-day operational control involves many levels of planning, forecasting, and budgeting. Revenues and expenses are allocated to specific functions of the District. The staff presents quarterly financial reports to the Board of Directors. The reports contain revenues and expenditures compared to the adopted budget. It is an essential tool that is critical to the District's long-range financial planning efforts.

Financial Analysis

Condensed Statement of Net Position

A Condensed Statement of Net Position for 2025 and 2024 is shown in Table A on page VI. The District's net position (the difference between assets and liabilities) is one way to measure the financial health of the District. Increases or decreases in the District's net positions are indicators of improving or deteriorating financial health. This, coupled with factors such as population growth, legislative changes or policy changes, provide an integrated assessment of the District's health.

Net positions have increased by $2,231,269 as a result of operations. The table also shows total restricted assets of $10,623,017, of this amount $10,299,911 is designated for future water and wastewater treatment related capital projects that are projected to total approximately $9,977,800. It is estimated that another $106,220,000 will be needed to address wastewater treatment needs over the next 20 years; however, that number may undergo substantial revision as a result of changing conditions or regulations in the industry. A revised Capital Improvements Plan was completed in 2024. As of December 31, 2025, governmental activities show a total net position of $1,759,009, which is a decrease of $254,120 from 2024. Net Positions in the business-type activities indicate that $17,526,100 is unrestricted and available for future appropriations. This is an increase from the prior year. Net position invested in capital assets, net of related debt, of $73,163,988 are not available for future appropriations.

On a year-to-year basis the District plans to operate within its policies. Operations are expected to produce sufficient income to allow the District to implement its long range plans.

In the capital improvements portion of the budget, annual expenditures may, at times, exceed annual revenues. This is accounted for in the long range financial planning of the District.

Condensed Statement of Revenues, Expenses and Changes in Net Position

A Condensed Statement of Revenues, Expenses and Changes in Net Position are shown in Table B detailing the revenues, expenses, and changes in net positions for 2025 and 2024. An examination of Table B for 2025 shows that the District's change in net positions in the business-type activities is $2,485,389; this is an increase from the prior year. Net income before contributions and transfers decreased by $302,251. The business-type activities show an operating loss of $339,667 for 2025. The operating loss has increased $509,487 from that of 2024 due to increased capital spending during the year.

The governmental funds use property taxes levied for general purposes to meet operating needs. Governmental activities show a decrease in net positions of $250,757.

Table A:

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Current assets	$ 2,867,133	$ 3,072,830	$ 5,979,092	$ 19,070,390	$ 8,846,225	$ 22,143,220
Restricted assets	323,106	326,468	10,299,911	5,466,073	10,623,017	5,792,541
Capital assets	-	-	129,454,190	105,201,896	129,454,190	105,201,896
Total assets	3,190,239	3,399,298	145,733,193	129,738,359	148,923,432	133,137,657
Current liabilities	207,671	211,243	266,970	333,262	474,641	544,505
Long-term debt outstanding		-	54,776,135	36,880,120	54,776,135	36,880,120
Total liabilities	207,671	211,243	55,043,105	37,213,382	55,250,776	37,424,625
Deferred Cash (In)Out flows	1,223,559	1,174,926		(4,320,278)	1,223,559	(3,145,352)
Net position:						
Invested in capital assets, net of related debt	323,106	326,468	73,163,988	62,355,253	73,487,094	62,681,721
Restricted	33,000	29,000	-	-	33,000	29,000
Unrestricted	1,402,903	1,657,661	17,526,100	25,849,446	18,929,003	27,507,107
Total net position	$ 1,759,009	$ 2,013,129	$ 90,690,088	$ 88,204,699	$ 92,449,097	$ 90,217,828

Table B:

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Charges for services (Grants/Contributions)	$ -	$ -	$ 12,555,362	$ 11,177,054	$ 12,555,362	$ 11,177,054
Total operating expenses	1,101,109	909,637	12,895,029	11,007,234	13,996,138	11,916,871
Operating income (loss)	(1,101,109)	(909,637)	(339,667)	169,820	(1,440,776)	(739,817)
General Revenues						
Property taxes and specific ownership taxes	1,276,704	1,292,620	-	-	1,276,704	1,292,620
Gain (Loss) on asset disposal	(500,000)	(500,000)	588,926	533,980	88,926	33,980
Investment earnings & Miscellaneous	70,285	20,489	897,467	745,177	967,752	765,666
General revenues	846,989	813,109	1,486,393	1,279,157	2,333,382	2,092,266
Net income before contributions and transfers	(254,120)	(96,528)	1,146,726	1,448,977	892,606	1,352,449
Capital contributions	-	-	1,338,666	61,500	1,338,666	61,500
Donated assets	-	-	-	-	-	-
Transfers:						
Construction projects	-	-	-	-	-	-
General Fund	-	-	-	-	-	-
Debt Service Fund	-	-	-	-	-	-
Special Revenue Fund	-	-	-	-	-	-
Change in net position	(254,120)	(96,528)	2,485,392	1,510,477	2,231,272	1,413,949
Beginning net position	2,013,129	2,109,657	88,204,699	86,694,222	90,217,828	88,803,879
Rounding and / or Adjustment	-	-	(3)	-	(3)	-
Beginning net assets, as corrected	2,013,129	2,109,657	88,204,696	86,694,222	90,217,825	88,803,879
Ending net position	$ 1,759,009	$ 2,013,129	$ 90,690,088	$ 88,204,699	$ 92,449,097	$ 90,217,828

BUDGETARY HIGHLIGHTS

Pagosa Area Water and Sanitation District did not amend its budget in 2025.

The schedules of revenues and expenses, actual compared to final budget, for the General Fund are included in the required supplementary information. The General Fund budgeted to spend $1,647,189 and actually spent $1,597,746.

Budgets for the Water Fund, Wastewater Fund, and Debt Service Fund, are included in the other supplementary information.

CAPITAL ASSETS AND DEBT ACTIVITIES

During 2025, the District invested $26,355,093 in capital projects. Capital projects that were substantially completed in 2025 were:

- Snowball Water Treatment Plant Engineering
- Vista Wastewater Treatment Plant Engineering
- Pipe and service TAP replacement related to CDOT
- Lift Station #12 Upgrade
- Asphalt replacement phase 1 of office campus

The following projects were Capital projects still in process at the end of 2025:

- Snowball Water Treatment Plant Construction
- Vista Wastewater Treatment Plant Engineering
- Pipe and service TAP replacement related to CDOT

At the conclusion of 2025, the District's outstanding debt was $54,147,034 for various bond and loan issues, of which $2,046,094 is current. The District is currently drawing on authorized financing for the Snowball Water Treatment Plant Upgrade. These financings were incurred for the following construction projects:

- Enlargement of Stevens Reservoir and Dutton Ditch Pipeline Extension
- Hatcher Water Treatment Plant Improvements
- Highlands Lagoon and Collection System Improvements
- Dry Gulch Water Storage Project
- Snowball Water Treatment Plant Upgrade

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Directors and the management of Pagosa Area Water and Sanitation District consider many factors when setting the budget for 2026. Projected user fees, growth, and Capital Investment Fees are all evaluated and considered before a final budget is adopted. The 2026 budget also attempts to project new expenses associated with operating new treatment plant processes and systems. These expenses are reconciled to projected revenues. Initial estimates shows the following additional operating increases (decreases) are anticipated for the 2026 budget year.

The General Fund budgeted total expenditures $1,812,455; this is an increase of $165,266 over 2025 expenditures.

The Water Fund has budgeted $12,229,553; this is a decrease of $23,704,858 from 2025 expenditures. This decrease is primarily due to finalizing construction for the Snowball Water Treatment Plant upgrade.

The Wastewater Fund has budgeted $10,657,674; this is a decrease of $7,784,306 from 2025 expenditures. This is primarily due to substantial completion for Vista WWTP.

Capital projects which are scheduled for 2026 are as follows:

- Snowball Construction
- CDOT waterline replacement project
- Stevens Reservoir Pipeline & Booster Engineering
- Campas Asphalt Replacement
- SCADA System Upgrades
- Vista WWTP Reg 85 Construction
- Collection System Upgrades

CONTACTING THE DISTRICT'S MANAGER

This financial report is designed to provide our citizens, customers, investors, and creditors with the general overview of the District's finances and demonstrates the District's accountability for the money it receives. If you have any questions concerning this report or need additional information please contact Andrew Connor, Manager of the Pagosa Area Water and Sanitation District at 100 Lyn Avenue, Pagosa Springs, CO.

Basic Financial Statements

Pagosa Area Water and Sanitation District
Statement of Net Position
December 31, 2025

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 1,575,308	$ 3,712,527	$ 5,287,835
Receivables	1,277,659	782,782	2,060,441
Inventories	-	1,560,514	1,560,514
Prepaid expenses	14,166	(76,731)	(62,565)
Non-Current Assets:			
Restricted Cash	-	10,007,506	10,007,506
Customer accounts receivable, net	-	292,405	292,405
Capital assets, net of accumulated depreciation	323,106	64,239,054	64,562,160
Construction in progress	-	54,147,034	54,147,034
Due from other governments	-	1,693,754	1,693,754
Other assets	-	9,374,348	9,374,348
Total Non-Current Assets	323,106	139,754,101	140,077,207
Total Assets	3,190,239	145,733,193	148,923,432
LIABILITIES			
Accounts payable and accrued expenses	118,157	(18,200)	99,957
Personal Time Off and retirement	89,514	238,340	327,854
Unearned revenues	-	46,830	46,830
Long-term liabilities			
Due within one year:			
Bonds and loans payable	-	2,046,094	2,046,094
Accrued interest	-	156,584	156,584
Deposits payable	-	25,159	25,159
Due in more than one year:			
Bonds and loans payable	-	52,080,758	52,080,758
Bond premium net of discount	-	467,540	467,540
Total liabilities	207,671	55,043,105	55,250,776
Deferred inflow of resources:			
Deferred Property Taxes	1,223,559	-	1,223,559
NET POSITION			
Net investment in capital assets	323,106	73,163,988	73,487,094
Restricted for:			
TABOR	33,000	-	33,000
Unrestricted	1,402,903	17,526,100	18,929,003
Total net position	$ 1,759,009	$ 90,690,088	$ 92,449,097

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

Pagosa Area Water and Sanitation District
Statement of Activities
For the Year Ended December 31, 2025

		Program Revenue			Net (Expense) Revenue and Changes in Net Position		
					Primary Government		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**Total**
Primary government							
Governmental Activities							
General Government	$ 1,101,109	$ -	$ -	$ -	$ (1,101,109)	$ -	$ (1,101,109)
Total governmental activities	1,101,109	-	-	-	(1,101,109)	-	(1,101,109)
Business-type activities:							
Water	8,605,790	7,839,130	-	1,000,000	-	233,340	233,340
Wastewater	4,289,239	4,716,232	-	338,666	-	765,659	765,659
Total business-type activities	12,895,029	12,555,362	-	1,338,666	-	998,999	998,999
Total primary government	13,996,138	12,555,362	-	1,338,666	(1,101,109)	998,999	(102,110)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					$ 1,185,170	$ -	$ 1,185,170
Specific ownership taxes					91,534	-	91,534
Unrestricted investment earnings					67,177	897,467	964,644
Miscellaneous					3,108	88,926	92,034
Transfers					(500,000)	500,000	-
Total general revenues, special items, and transfers					846,989	1,486,393	2,333,382
Change in net position					(254,120)	2,485,392	2,231,272
Net position - beginning					2,013,129	88,204,696	90,217,825
Net position - ending					$ 1,759,009	$ 90,690,088	$ 92,449,097

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

Pagosa Area Water and Sanitation District
Balance Sheet
Governmental Funds
December 31, 2025

	General Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents	$ 1,575,310	$ 1,575,310
Taxes receivable, net	1,223,559	1,223,559
Taxes receivable, delinquent	54,100	54,100
Prepaid Expenses	14,166	14,166
Total assets	2,867,135	2,867,135
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	118,157	118,157
Accrued vacation and retirement	89,514	89,514
Total liabilities	207,671	207,671
Deferred inflow of resources:		
Deferred property taxes	1,223,559	1,223,559
Fund balances:		
Non spendable prepaid expense	14,166	14,166
Restricted - TABOR	33,000	33,000
Unassigned	1,388,739	1,388,739
Total fund balances	1,435,905	1,435,905
Total liabilities and fund balances	$ 2,867,135	$ 2,867,135

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

Pagosa Area Water and Sanitation District
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
December 31, 2025

Total fund balance, governmental funds	$	1,435,905
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.		323,104
Net Position of Governmental Activities in the Statement of Net Position	$	1,759,009

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

Pagosa Area Water and Sanitation District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2025

	General Fund	Total Governmental Funds
REVENUES		
Property Taxes	$ 1,185,170	$ 1,185,170
SO Tax	91,534	91,534
Investment earnings	67,177	67,177
Miscellaneous	3,108	3,108
Total revenues	1,346,989	1,346,989
EXPENDITURES		
Audit and compilation	29,478	29,478
Board expense	43,879	43,879
Dues and permits	14,444	14,444
Employee expense	1,063	1,063
Treasurers fees	34,384	34,384
Fringe benefits	89,805	89,805
Insurance general	37,353	37,353
Legal fees	29,966	29,966
Office expense	61,427	61,427
Office maintenance and landscape	17,267	17,267
Outside services	94,893	94,893
Payroll taxes, vacation and sick pay	41,322	41,322
Personnel	543,968	543,968
Publications and recording fees	4,431	4,431
Repairs and maintenance	2,511	2,511
Telephone and utilities	28,018	28,018
Travel and training	4,981	4,981
Total Expenditures	1,097,746	1,097,746
Excess (deficiency) of revenues over expenditures	249,243	249,243
OTHER FINANCING SOURCES (USES)		
Transfers out	(500,000)	(500,000)
Total other financing sources and uses	(500,000)	(500,000)
Net change in fund balances	(250,757)	(250,757)
Fund balances - beginning	1,686,662	1,686,662
Fund balances - ending	$ 1,435,905	$ 1,435,905

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

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

Net change in fund balances - total governmental funds:	$	(250,757)
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.		
This is the amount by which capital outlay of $18,556 was less than depreciation of $21,919 in the current period.		(3,363)
Change in net position of governmental activities	$	(254,120)

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

Pagosa Area Water and Sanitation District
Statement of Net Position
Proprietary Funds
December 31, 2025

	Enterprise Funds		
	Water Fund	Wastewater Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 398,129	$ 3,314,398	$ 3,712,527
Accounts receivable, net	475,165	307,617	782,782
Inventories	1,423,008	137,506	1,560,514
Total current assets	2,296,302	3,759,521	6,055,823
Non-current assets:			
Restricted for capital projects and debt service			
Cash	2,502,642	7,504,864	10,007,506
Customer accounts receivable, net	152,733	139,673	292,406
Prepaid expenses	-	(76,731)	(76,731)
Utility system, net of accumulated depreciation	42,744,900	21,494,154	64,239,054
Construction in progress	45,828,129	8,318,905	54,147,034
Due from other governments	-	1,693,754	1,693,754
Other assets	9,374,348	-	9,374,348
Total non-current assets	100,602,752	39,074,619	139,677,371
Total assets	102,899,054	42,834,140	145,733,194
LIABILITIES			
Current Liabilities:			
Accounts payable	(19,420)	1,220	(18,200)
Accrued interest payable	156,584	-	156,584
Other accrued expenses	125,913	112,428	238,341
Unearned revenue	40,479	6,351	46,830
Deposits	25,159	-	25,159
Bonds and loans payable, current portion	1,455,440	590,654	2,046,094
Total current liabilities	1,784,155	710,653	2,494,808
Non-current liabilities:			
Bond premiums net of discount	(1,028)	468,568	467,540
Bonds and loans payable	39,108,144	12,972,614	52,080,758
Total non-current liabilities	39,107,116	13,441,182	52,548,298
Total liabilities	40,891,271	14,151,835	55,043,106
NET POSITION			
Net investment in capital assets	57,382,765	15,781,223	73,163,988
Unrestricted	4,625,018	12,901,082	17,526,100
Total net position	$ 62,007,783	$ 28,682,305	$ 90,690,088

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

Pagosa Area Water and Sanitation District
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Year Ended December 31, 2025

	Enterprise Fund		
	Water Fund	Wastewater Fund	Total
REVENUES			
Charges for services	$ 5,962,709	$ 3,127,152	$ 9,089,861
Availability charges	394,246	363,432	757,678
Customer hookups	185,065	32,205	217,270
Late charges	16,337	2,510	18,847
Other operating revenues	622,075	380,466	1,002,541
Total operating revenues	7,180,432	3,905,765	11,086,197
OPERATING EXPENSES			
Source of Supply	666,364	-	666,364
Treatment	2,458,418	1,394,497	3,852,915
Administrative and general	1,161,452	551,367	1,712,819
Maintenance department	186,122	98,399	284,521
Distribution and collection	2,904,307	1,705,982	4,610,289
Total Operating Expenses	7,376,663	3,750,245	11,126,908
Operating income (loss)	(196,231)	155,520	(40,711)
NON-OPERATING REVENUES (EXPENSES)			
System investment fees	763,960	810,467	1,574,427
Interest income on delinquent accounts	2,079	-	2,079
Other interest and investment income	198,572	680,479	879,051
Capital grant	1,000,000	338,666	1,338,666
Capital expenditures	(191,164)	(6,630)	(197,794)
Interest expense	(1,037,440)	(532,364)	(1,569,804)
Bond discount and issue costs, net of bond premium	(524)	-	(524)
Total non-operating revenue (expenses)	735,483	1,290,618	2,026,101
Income (loss) before contributions and transfers	539,252	1,446,138	1,985,390
Transfers in	20,904	479,096	500,000
Change in net position	560,156	1,925,234	2,485,390
Total net position - beginning	61,447,627	26,757,071	88,204,698
Total net position - ending	$ 62,007,783	$ 28,682,305	$ 90,690,088

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

Pagosa Area Water and Sanitation District
Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2025

	Enterprise Fund		
	Water Fund	**Wastewater Fund**	**Total**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 7,127,456	$ 3,863,688	$ 10,991,144
Cash paid to suppliers	(2,799,797)	(1,961,176)	(4,760,973)
Cash paid for personnel and benefits	(2,212,234)	(747,233)	(2,959,467)
NET CASH FLOWS FROM OPERATING ACTIVITIES	2,115,425	1,155,279	3,270,704
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfers in from general fund	20,904	479,096	500,000
Interest on delinquent accounts	2,079	-	2,079
NET CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	22,983	479,096	502,079
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
System investment fees	763,960	810,467	1,574,427
Capital grants	1,000,000	338,666	1,338,666
Proceeds from debt	15,597,947	-	15,597,947
Long-term principal payments	(1,408,608)	(575,654)	(1,984,262)
Long-term interest payments	(1,033,844)	(548,522)	(1,582,366)
Capital assets acquired	(805,253)	(645,479)	(1,450,732)
Increase in construction in progress costs	(18,869,927)	(7,485,166)	(26,355,093)
Capital expenditures	(191,164)	(6,630)	(197,794)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(4,946,889)	(8,112,318)	(13,059,207)
CASH FLOWS FROM INVESTING ACTIVITIES			
Principal received on due from other governments	-	134,893	134,893
Interest income	198,572	680,479	879,051
NET CASH FLOWS FROM INVESTING ACTIVITIES	198,572	815,372	1,013,944
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,609,909)	(5,662,571)	(8,272,480)
Beginning of year	5,510,680	16,481,833	21,992,513
End of year	$ 2,900,771	$ 10,819,262	$ 13,720,033

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

Pagosa Area Water and Sanitation District
Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2025

	Enterprise Fund		
	Water Fund	Wastewater Fund	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	$ (196,231)	$ 155,520	$ (40,711)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:			
Depreciation	2,412,536	980,192	3,392,728
Changes in assets and liabilities			
(Increase) decrease in:			
Accounts receivable	74,345	15,420	89,765
Inventory	(96,050)	(9,783)	(105,833)
Prepaid expenses	-	1,047	1,047
Increase (decrease) in:			
Accounts payable	(53,518)	(29,219)	(82,737)
Accrued benefits	25,571	43,842	69,413
Unearned revenues	(51,228)	(1,740)	(52,968)
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 2,115,425	$ 1,155,279	$ 3,270,704

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

Note 1: **Definition of Reporting Entity**

A decree signed by the District Court for the Sixth Judicial District of Colorado on March 28, 1977, authorized the formation of a new special district, Pagosa Area Water and Sanitation District (the District), as a successor to the old district, Pagosa Water and Sanitation District. The organizational meeting of the new district was held on April 28, 1977. A Board of Directors meeting, held on January 12, 1978, accepted the conveyance of all properties and liabilities of the old district as required for dissolution.

The District's combined financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards,* include whether:

- The organization is legally separate (can sue and be sued in their own name).
- The District holds the corporate powers of the organization.
- The District appoints a voting majority of the organization's board.
- The District is able to impose its will on the organization.
- The organization has the potential to impose a financial benefit/burden on the District.
- There is fiscal dependency by the organization on the District.
- The organization is financially accountable to the District.
- The organization receives or holds funds that are for the benefit of the District; and the District has access to a majority of the funds held; and the funds that are accessible are also significant to the District.

Based on the aforementioned criteria, the District does not have any component units.

Note 2: **Summary of Significant Accounting Policies**

This summary of the Pagosa Area Water and Sanitation District's significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. The policies are considered essential and should be read in conjunction with the accompanying financial statements.

Government-Wide and Fund Financial Statements:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities for the current year.

Government-wide financial statements consist of a statement of net position and a statement of activities as well as reconciliations for these statements. These statements report all of the non-fiduciary activities of the primary government; neither fiduciary funds nor component funds that are fiduciary in nature are included. Governmental activities are reported separately from business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues whereas business-type activities are normally supported by fees and charges for services and are usually intended by management to be financially self-sustaining.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are clearly identifiable with a specific program or function. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Revenues that are not classified as program revenues, including all taxes and other items, are presented as general revenues.

The effect of interfund activity has been removed from the government-wide financial statements.

Fund financial statements consist of a series of statements focusing on information about the District's major governmental and enterprise funds. Separate financial statements are presented for the governmental and the enterprise funds.

Measurement Focus, Basis of Accounting, and Basis of Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Only current assets and liabilities are included on the balance sheet, and the fund balance includes only spendable resources. Under the modified accrual basis of accounting, revenues are recognized as soon as they are both "measurable and available." Measurable means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period except for property taxes, which have been levied to be collected in a subsequent year. Expenditures are recorded when a liability is incurred as under accrual accounting. However, debt service expenditures are reported only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources in governmental funds.

The District has the following governmental fund:

General Fund – The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The main source of revenues is from property taxes.

Proprietary Funds reported by the District are as follows:

Enterprise Funds – Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, which are considered operating revenues. Non-operating revenues consist of charges to customers which are used to fund capital improvements, interest, and other investment income. The District's two enterprise funds are the Water Fund and the Wastewater Fund.

Cash and Cash Equivalents:

The District's cash and cash equivalents include amounts that are readily convertible to known amounts of cash, are not subject to significant risk from changes in interest rates and have a maturity of three months or less from the date of acquisition. For cash and cash equivalents, the market value approximates the carrying value. Cash and cash equivalents for purposes of the cash flow statement for the Proprietary Funds, include cash in operating accounts and balances in COLOTRUST.

Deposits are stated at cost, which approximates fair value.

Receivables and Payables:

All outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles.

The District has substantial delinquent trade receivables. Options available to the District to collect delinquent accounts are disconnection, lien on property, foreclosure, and litigation. Special districts have an automatic lien that is perpetual. In addition, Senate Bill 79 substantially adds to the powers of a special district, where delinquent fees can be certified to the county treasurer and collected with property taxes. The District was first allowed to certify accounts for collection in 1990. Beginning in 2012, the District began using Colorado Central Collection Services for delinquent accounts that had not been previously "certified" to the County Treasurer for collection with property taxes. Each year, additional fees were added to the accounts that had been previously "certified" with the County. In 2017, Archuleta County Treasurer refused to accept additional certifications to those accounts. The District now utilizes Colorado Central Collection Services exclusively to collect on delinquent accounts. The District has also established a reserve for uncollectibles for any accounts not collectible under any of the above alternatives.

Receivables for tap fees are not expected to be collected within a year of billing. Payment schedules for these fees vary. Tap fees owed the District at year-end are reported in the Proprietary Fund Types. Receivables for tap fees are part of non-current assets, customer accounts receivable.

Property tax billings are considered past due after June 16 of each year, at which time the applicable property is subject to lien, and penalties and interest are assessed. An allowance for uncollectible taxes has been estimated in the General Fund based on twenty percent of the total delinquent taxes as of December 31.

Inventories:

Inventories of supplies and materials are valued at the lower of cost or market, using the first in, first out method.

Prepaid Items:

Payments made for services that will benefit periods beyond the end of the current year are recorded as prepaid items.

Restricted Assets:

Certain assets are classified as restricted on the balance sheet because their use is limited.

Assets restricted for debt service are accumulated for the purpose of retiring bond principal and interest.

Assets restricted for construction are used to fund construction projects and purchase fixed assets.

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water and wastewater lines), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Assets capitalized have an original cost of $5,000 or more and are expected to last longer than three years. Such assets are stated at cost, except for donated assets, which are stated at their fair market value at the time of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed.

Depreciation of all exhaustible capital assets except infrastructure is charged as an expense against their operations or functions, whereas the infrastructure depreciation is unallocated. Property, plant, and equipment in the primary government is depreciated using the straight-line method over the estimated useful lives as follows:

	Estimated Useful Lives in Years
Source of supply	10 – 50
Water treatment plants	30 – 50
Sewage treatment plants	30 – 50
Collection, transmission, and distribution system	30 – 50
Buildings	40 – 50
General equipment	5 – 10
Transportation equipment	5 – 10
Computer software	3 – 5

Personal Time Off and Retirement:

Personal Time Off (PTO) is earned and credited at the beginning of the first two pay periods of each month. Regular employees accrue PTO based on their length of continuous employment. During the first year of employment an employee earns 14 days annually with an accrual cap of 112 hours or 14 days. Upon completion of the first year of employment an employee earns 19 days annually with an accrual cap of 304 hours or 38 days. Upon completion of the fifth year of employment, an employee earns 24 days annually with an accrual cap of 384 hours or 48 days. Upon completion of tenth year of employment, an employee earns 29 days with an accrual cap of 464 hours or 59 days.

Employees who do not use their annual accrual of PTO time can carry it over from one year to the next until the employee reaches two (2) times the annual entitlement. Once the PTO balance reaches the accrual cap, accrual ceases until the balance has been reduced.

Instead of taking PTO, an employee can elect to be paid for up to 40 hours of PTO in any one year.

Long-Term Debt:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities fund. Long-term debt and other long-term liabilities are also reported as liabilities in the proprietary fund type statement of net position. Debt premiums or discounts are deferred and amortized over the life of the bonds using the bonds-outstanding method.

In the fund financial statements, governmental fund types recognize debt premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures in the year the debt is issued.

Net Position/Fund Balances:

The difference between assets and liabilities is "Net Position" on the government-wide and proprietary fund financial statements and "Fund Balance" on the governmental fund financial statements. Net position is divided into invested in capital assets (net of related debt), restricted, and unrestricted. Net positions are reported as restricted when constraints are placed upon them by external parties or are imposed by constitutional provisions or enabling legislation.

The District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." In the fund financial statements, the following classifications describe the relative strength of spending constraints.

<u>Non-Spendable Fund Balance</u> – The portion of the fund balance that cannot be spent because it is either not in spendable form (such as inventory and prepaid amounts) or is legally or contractually required to be maintained intact.

<u>Restricted Fund Balance</u> – The portion of fund balance constrained to being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions, or enabling legislation.

<u>Committed Fund Balance</u> – The portion of fund balance constrained for specific purposes according to the limitations imposed by the District's highest level of decision-making authority, the Board of Directors, or other individuals authorized to assign funds to be used for a specific purpose. This classification is necessary to indicate that those funds are, at a minimum, intended to be used for the purpose of that particular fund.

<u>Assigned Fund Balance</u> – The portion of fund balance set aside for planned or intended purposes but is neither restricted nor committed. The intended use may be expressed by the Board of Directors or other individuals authorized to assign funds to be used for a specific purpose. Assigned fund balances in special revenue funds will also include any remaining fund balance that is not restricted or committed. This classification is necessary to indicate that those funds are, at a minimum, intended to be used for the purpose of that particular fund.

<u>Unassigned Fund Balance</u> – The residual portion of fund balance that does not meet any of the above criteria. The District will only report a positive unassigned fund balance in the General Fund.

When both restricted and unrestricted fund balances are available for use, it is the District's policy to use restricted amounts first. Unrestricted fund balance will be used in the following order: committed, assigned and unassigned.

Property Taxes:

In the governmental fund financial statements property tax revenue is accounted for using the modified accrual basis of accounting. Property tax receivable is recognized on the levy or lien date. This receivable represents taxes certified by the county to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied in the governmental fund statements. In the government-wide financial statements, which are prepared using full accrual, the revenue is not deferred and is recognized in the current year financial statements.

The District's property taxes, levied by December 15, are due and payable in the subsequent calendar year. Assessed values are established by the county assessor. Property taxes attach as an enforceable lien on property as of January 1 of the year in which they are payable. The taxes are payable under two methods: 1) in full on or before April 30, or 2) one-half on or before February 28, and the remaining one-half on or before June 15. All unpaid taxes levied December 31, that are levied for collection in the subsequent calendar year, become delinquent June 16.

Retirement:

The District contributes to the Colorado Retirement Association, a defined contribution pension plan administered by the Colorado Retirement Association. The Colorado Retirement Association (the "Association") was established in 1968 under 24-54-101 et. seq. Colorado Revised Statutes as amended, to serve as trustee and provide continuing administration of a trust fund for retirement benefits of eligible county and municipal officers and county, municipal, and special district employees. The Board can make changes to the plan as needed.

In the defined contribution pension plan, contributions of the employers are combined with employee contributions and invested in income earning instruments for the benefit of plan participants. Any county, municipality, or special district of the State of Colorado may, with the consent of the Association, become a member of the Association and participate in the plan by adopting it for its officers and employees. Employees and officers of association members are required to participate in the plan after the completion of one year of service, but participation is optional for all elected officials. Pagosa Area Water and Sanitation District requires employee participation upon employment; elected officials do not participate in their plan.

This retirement benefit is available to all employees and is funded by a 6% contribution from the District. The District reports their contribution on behalf of the employee subject to FICA and Medicare taxes; the balance is not subject to FICA and Medicare taxes.

Net earnings or losses are allocated quarterly to plan participants. The allocation is based on each participant's balance as of the beginning of that quarter. Participants receiving benefit payments upon retirement or termination are allocated earnings through the date of the distribution.

Benefit payments are made as of the effective date of each participant's retirement or termination. At retirement, each participant has the option of receiving his or her vested balance in cash or having the Association place the funds in a bank account maintained under the joint control of the Association and the retiring individual. Any employer contribution forfeited by a participant due to termination of employment before becoming fully vested is returned to the member county, municipality, or special district.

Use of Estimates:

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

Implementation of New Accounting Standards:

The District implemented GASB Statement No. 101 – *Compensated Absences*. This statement updates the recognition and measurement guidance for compensated absences under a unified model. Specifically, the new standard clarifies that a liability should be recorded for compensated absences that are more likely than not to be paid or otherwise settled. Additionally, it amends certain existing disclosure requirements.

New Accounting Standards:

GASB issued two statements effective for fiscal years ending June 30, 2026 and December 31, 2026 that may have a significant impact on governments' financial reporting. GASB Statement No. 103 – *Financial Reporting Model Improvements* and GASB Statement No. 104 – *Disclosure of Certain Capital Assets*, are both effective for your fiscal years ending on or after December 31, 2026.

GASB Statement No. 103 – *Financial Reporting Model Improvements*. This statement is a significant update to the financial reporting model, including enhanced guidance for the management's discussion and analysis (MD&A) and required changes in subtotals for operating income/loss in proprietary fund statements. It also requires budgetary comparison schedules to be presented as required supplementary information.

GASB Statement No. 104 – *Disclosure of Certain Capital Assets*. This standard aims to improve transparency by requiring separate disclosure of lease assets and intangibles right-to-use assets recognized under GASB Statement No. 87 – *Leases*, GASB Statement No. 96 – *Subscription Based Information Technology Arrangements*, and GASB Statement No. 94 – *Public-Private and Public-Private Partnerships and Availability Payment Arrangements* by major asset class, as well as additional disclosures for capital assets held for sale.

The District will implement the standards effective December 31, 2026.

Note 3: Deposits and Investments

Deposits:

The Colorado Public Deposit Protection Act (PDPA) governs the District's cash deposits. The statutes specify eligible depositories for public cash deposits, which must be Colorado institutions and must maintain federal insurance on deposits held. Each eligible depository with deposits in excess of the insured levels must pledge a collateral pool of defined eligible assets, to be maintained by another institution or held in trust for all of its local government depositors as a group, with a market value at least equal to 102% of the uninsured deposits. The State Regulatory Commissions for banks and savings and loan associations are required by statute to monitor the naming of eligible depositories and the reporting of uninsured deposits and assets maintained in the collateral pools.

The primary objective in priority order of investment activities shall be safety, liquidity, and yield.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to it. The District's policy requires all deposits to be held in PDPA approved financial institutions. At year-end, the District's deposits were not exposed to custodial credit risk. Deposits are collateralized with securities held by the financial institution, pledged in accordance with the PDPA, and insured by the Federal Deposit Insurance Corporation (FDIC).

COLOTRUST:

The District has deposits in a local government investment pool, COLOTRUST. These investments are not subject to collateralization because they are not evidenced by physical securities.

At year-end, the District had the following amount in COLOTRUST $14,678,474.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At year-end, the District's investments in COLOTRUST were rated AAAm by Standard & Poor's (S&P). They are regulated by the Colorado Division of Securities, and the District's position in the pool is the same as the value of the pool shares.

Portfolio Type – US Treasury Securities, US Government Agencies, Purchase Agreements.
Rating – AAAm by S&P Global Ratings.
Liquidity – Same day liquidity available.
NAV Type – Stable NAV, traditional stable $1.00 NAV.

The District's investment policy is to apply the prudent person rule where investments are made as a prudent person would be expected to act. The District's investment policy limits investments in fixed income securities to U. S. Treasury Bills, Notes, and Bonds, certificates of deposit, commercial paper, money market funds and Colorado public investment pools. All investments must be made in accordance with Colorado Revised Statutes.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investment policy is to manage this risk by investing in short-term maturities.

Note 4: Cash Flow Statement

For purposes of the cash flow statement in the proprietary fund types, cash and cash equivalents are shown below:

Unrestricted Assets:	**Water**	**Wastewater**	**Total**
Cash	$ 398,129	$ 3,314,398	$ 3,712,527
Restricted Assets:			
Cash	2,502,642	7,504,864	10,007,506
Totals for Cash Flow Statement	$ 2,900,771	$ 10,819,262	$ 13,720,033

Note 5: **Interfund Transactions**

Transfers between funds represent the amounts used to offset allocations between assets and liabilities in any given year.

Operating transfers between funds during the year are as follows:

	Transfers In	Transfers Out
General Fund	$ -	$ 500,000
Water	20,904	
Wastewater Fund	479,096	-
	$ 500,000	$ 500,000

All other transactions between funds represent "due to/from other funds" caused by cash from one fund paying for expenditures or expenses of another.

Note 6: **Commitments and Construction Work in Progress**

The District's construction work in process, which is reported in the proprietary funds, consists primarily of work being done on water and wastewater lines. Construction costs that were added to construction work in process totaled $26,355,093 during the year.

Each year the District has various on-going construction projects. The costs of these projects are recorded as current year expenditures in the appropriate enterprise fund. At the end of the year, the expenses associated with each construction project are aggregated and recorded in the appropriate proprietary fund type. As the projects are completed, they are transferred into capital assets in either the Water Fund or the Wastewater Fund and depreciated over the asset's estimated useful life.

The following is a summary of the construction work in process for each enterprise fund at year-end:

	Water	Wastewater	Total
Beginning balance	$ 26,958,202	$ 833,739	$ 27,791,941
Additions	18,869,927	7,485,166	26,355,093
Less transfers to fixed assets	-	-	-
Ending balance	$ 45,828,129	$ 8,318,905	$ 54,147,034

Note 7: Capital Assets

	Governmental Activities			
	Beginning Balance	Additions	Deletions	Ending Balance
Land and improvements	$ 113,056	$ -	$ -	$ 113,056
Buildings	596,096	-	-	596,096
Capital equipment	243,358	18,566	-	261,924
Transportation equipment	66,048	-	-	66,048
Total	1,018,558	18,566	-	1,037,124
Less accumulated depreciation	(692,090)	(21,916)	-	(714,006)
Total Governmental Fixed Assets	$ 326,468	$ (3,350)	$ -	$ 323,118

	Business-Type Activities			
	Beginning Balance	Additions	Deletions	Ending Balance
Water augmentation	$ 217,639	$ -	$ -	$ 217,639
Water rights	7,334,995	-	-	7,334,995
Source of supply	11,854,196	-	(4,159)	11,850,037
Improvements	460,640	-	-	460,640
Treatment plants	34,712,987	345,467	-	35,058,454
Collection, transmission and distribution systems	66,477,306	367,227	-	66,844,533
Buildings	900,307	401,144	-	1,301,451
Capital equipment	2,039,845	-	(60,768)	1,979,077
Transportation equipment	1,406,948	414,340	(142,855)	1,678,433
Total	125,404,863	1,528,178	(207,782)	126,725,259
Less accumulated depreciation	(59,197,903)	(3,392,728)	104,426	(62,486,205)
Total Business-Type Fixed Assets	$ 66,206,960	$ (1,864,550)	$ (103,356)	$ 64,239,054

Depreciation expense was charged to functions/programs of the District as follows:

Governmental Activities	
Administrative services	$ 21,918

Business-Type Activities	
Water	$ 2,912,536
Wastewater	980,192
Total Depreciation Expense	$ 3,392,728

During 2013, the Board decided not to further develop the Dry Gulch project. As a result, the costs incurred through 2013 were reclassified as held for sale. Due to changes in the notes payable and the possibility of future development, the asset was reclassified as Other assets at a cumulative cost of $9,374,348. No depreciation has been taken on Other assets. The property is not used as collateral for any debt.

Note 8: **Accounts Payable, Accrued Liabilities and Unearned Revenues**

Accounts Payable as shown on the District's financial statements reflect amounts due to vendors for services rendered or goods purchased by year-end.

Accrued expenses consist of payroll tax liabilities, accrued personal time off, and other miscellaneous amounts due on behalf of employees.

Unearned revenues consist of capital investment fees and connection charges collected in advance for construction of residences or commercial buildings being completed.

Note 9: **Long-Term Liabilities**

Drinking Water Revenue Bond – Series 2008

On June 1, 2008, the District entered into a loan agreement with Colorado Water Resources and Power Development Authority (the Authority) for $7,158,870 to finance the costs of drinking water facilities for the District. The Authority was created to initiate, acquire, construct, maintain, repair, and operate or cause to be operated water management projects, which include water facilities, and to issue its bonds to pay the cost of such projects.

The bonds are special revenue obligations of the District, acting by and through its Water Activity Enterprise, payable from availability of service charge revenues and other revenues derived from operations.

The note constitutes an irrevocable and first lien on adjusted net revenue (net operating revenues plus availability of service charge revenues) but is not an exclusive lien.

The note is issued as a fully registered note without coupons. Interest, administrative fees, and principal are payable semiannually on each June 1 and December 1, commencing December 1, 2008.

The amount currently outstanding on this note is as follows:

Year	Principal Maturities	Interest Rate	Interest Payments	Servicing Fee	Debt Service Requirements
2026	$ 439,383	4.125%	$ 7,689	$ 84,117	$ 531,189
2027	999,107	4.250%	35,961	75,168	1,110,236
2028	1,055,080	4.250%	18,464	39,373	1,112,917
	$ 2,493,570		$ 62,114	$ 198,658	$ 2,754,342

During February 2019, the Authority lowered the interest rate to 1.75 percent. Principal payments will remain the same. The result is an interest cost savings of $289,399 over the remaining life of the loan.

Water Treatment Plant – Loan 2023

During 2023, PAWSD entered into a loan agreement with Colorado Water Resources and Power Development Authority (CWRPDA) for the construction of a new water treatment plant. The loan is dated February 14, 2023, for $38,444,000. On the date of closing there was a $5,000,000 forgiveness of debt so the amount financed was reduced to $33,444,000. Terms of repayment call for semi-annual payments of $827,358 due on May 1 and November 1. The semi-annual amount includes principal and interest. Interest is at 2.75% and is for a term of 30 years.

There was an initial payment made May 1, 2023, with $155,005 applied to principal and $196,715 applied to interest. The November semi-annual payment of $827,358 was paid as required.

Year	Principal	Interest	Total
2026	$ 796,951	857,765	1,654,716
2027	819,019	835,697	1,654,716
2028	841,697	813,019	1,654,716
2029	865,002	789,714	1,654,716
2030	888,954	765,762	1,654,716
2031 – 2035	4,827,899	3,445,681	8,273,580
2036 – 2040	5,534,354	2,739,226	8,273,580
2041 – 2045	6,344,182	1,929,398	8,273,580
2046 – 2050	7,272,509	1,001,071	8,273,580
2051 – 2052	3,198,678	110,706	3,309,384
	$ 31,389,245	$ 13,288,039	$ 44,677,284

Security for the debt services requirements is the revenues to be earned from operations and revenues from any other sources that are a part of service revenues.

Colorado Water Conservation Board – Dry Gulch Reservoir Project

On July 21, 2008, the District entered into a loan agreement with Colorado Water Conservation Board (CWCB) for $11,217,000 to finance the costs of land acquisition for the Dry Gulch Reservoir Project. The CWCB is authorized to loan money for water projects from the CWCB Construction Fund for the benefit of the people of Colorado, provided that the borrower (Pagosa Area Water and Sanitation District) assures repayment of that money.

The note is a special revenue obligation of the District, acting by and through its Water Activity Enterprise, payable from availability of service charge revenues and other revenues derived from operations.

The note constitutes an irrevocable and first lien on adjusted net revenue (net operating revenues plus availability of service charge revenues) but is not an exclusive lien.

During 2015 the District and CWCB agreed to restructure the December 31, 2014 outstanding loan balance of $8,855,935. The new agreement separates the $8,855,930 into two separate loans. The original amount of Loan A was $4,290,930, bears interest at 1.75 percent and is for 20 years with annual payments of $256,130, which includes principal and interest. Loan B is in the amount of $4,565,000, bears interest at 3.5 percent and is for 20 years with annual payments of $321,198 with the first payment due October 1, 2035. The interest to be paid on Loan B will not begin accruing until October 1, 2034, when Loan A is paid in full.

The amount currently outstanding on Loan A is as follows:

Year	Principal Maturities	Interest Rate	Interest Payments	Debt Service Requirements
2026	$ 219,105	1.75%	$ 37,025	$ 256,130
2027	222,939	1.75%	33,191	256,130
2028	226,840	1.75%	29,290	256,130
2029	230,811	1.75%	25,320	256,131
2030	234,850	1.75%	21,281	256,131
2031 – 2034	981,225	1.75%	43,299	1,024,524
	$ 2,115,770		$ 189,406	$ 2,305,176

The original agreement between the District and CWCB included a grant of $1,000,000. As a result of restructuring the original loan as noted above, the grant will also be restructured. If the project, including any changes as approved by all parties, is not constructed within the 20-year term of Loan A, or an additional 1 to 20 years of Loan B, the $1,000,000 grant will be restructured as a loan that will have to be repaid. Interest shall be at 3.5 percent with twenty annual payments of $70,361, including principal and interest. The District may construct the project; however, the construction is dependent upon assessed need. As a result, the District will not record a note payable for the $1,000.000.

2009 ARRA Loan Agreement

On September 4, 2009, the District entered into a loan agreement with Colorado Water Resources and Power Development Authority (CWRPDA) for $6,111,224 to finance the costs of wastewater treatment projects. The CWRPDA is authorized to loan money from the Water Pollution Control Revolving Fund subject to certain terms and conditions.

The note is a special revenue obligation of the District, acting by and through its Water and Sewer Activity Enterprise, payable from availability of service charge revenues and other revenues derived from operations.

The note constitutes an irrevocable and first lien on adjusted net revenue (net operating revenues plus availability of service charge revenues) but is not an exclusive lien.

At the loan closing, CWRPDA agreed to forgive $1,309,282 of the principal amount of the loan. This loan was amended on February 11, 2010. The principal amount was changed to $8,345,823 with the forgiveness remaining at $1,309,282. At December 31, 2012, the District had drawn down all available loan proceeds. In 2009, the District recognized $669,963 as forgiveness of debt. The remaining balance of $639,320 was recognized in 2010. At December 31, 2012, the amount due was $7,211,762. Payment was scheduled to begin on May 1, 2012, based on the full loan principal balance. The amortization schedule provided below reflects the principal balance due on this loan, as well as the principal balance due on the 2009 Base Program Loan Agreement.

The annual interest rate is zero percent.

2009 Base Program Loan Agreement

On September 4, 2009, the District entered into a loan agreement with Colorado Water Resources and Power Development Authority (CWRPDA) for $3,211,129 to finance the costs of wastewater treatment projects. The CWRPDA is authorized to loan money from the Water Pollution Control Revolving Fund subject to certain terms and conditions.

The note is a special revenue obligation of the District, acting by and through its Water and Sewer Activity Enterprise, payable from availability of service charge revenues and other revenues derived from operations.

The note constitutes an irrevocable and first lien on adjusted net revenue (net operating revenues plus availability of service charge revenues) but is not an exclusive lien.

Payments were scheduled to begin on May 1, 2011, based on the full loan principal balance of $976,530. The District, as of December 31, 2012, had drawn the maximum principal amount available. The amortization schedule provided below reflects the principal balance due on this loan, as well as the principal balance due on the 2009 ARRA Loan Agreement.

The annual interest rate is 0%.

Annual debt service on the 2009 ARRA Loan Agreement and the 2009 Base Program Loan agreement is as follows:

Year	2009 ARRA Loan Agreement Principal Maturities	2009 Base Program Loan Agreement Principal Maturities	Debt Service Requirements
2026	$ 351,828	$ 48,826	$ 400,654
2027	351,827	48,826	400,653
2028	351,827	48,826	400,653
2029	351,827	48,826	400,653
2030	351,828	48,826	400,654
	$ 1,759,137	$ 244,130	$ 2,003,267

Enterprise Revenue Bonds – Series 2024

During 2024, the District issued Enterprise Revenue Bonds, Series 2024, in the amount of $11,735,000. The bonds are revenue obligations of the District, acting by and through it Water and Wastewater Activity Enterprise, payable from (a) availability of service charge revenues; and (b) other funds available in the District's Water and Wastewater Enterprise Funds from the revenues derived from the operation of the water treatment, transmission and distribution system and the wastewater collection and treatment system, which together comprise the Water and Wastewater Enterprise of the District (the "System"), after deduction of operation and maintenance expenses (the "Net Revenue") (the sum of Net Revenue plus availability of service charge revenues is the "Adjusted Net Revenue").

Proceeds from the sale of the Bonds, together with legally available moneys of the District, will be used to (a) finance the acquisition, construction and installation of wastewater treatment plant and collection system upgrades, and (b) pay the costs of issuance of the Bonds.

Interest, which varies from 4% to 5%, on the Bonds is payable semiannually on June 1 and December 1 of each year, commencing on June 1, 2025. Payments for the principal of and interest on the Bonds will be made as shown below:

Year	Principal	Interest	Total
2026	$ 190,000	$ 520,400	$ 710,400
2027	200,000	510,900	710,900
2028	210,000	500,900	710,900
2029	220,000	490,400	710,400
2030	230,000	479,400	709,400
2031 – 2035	1,340,000	2,211,750	3,551,750
2036 – 2040	1,710,000	1,841,750	3,551,750
2041 – 2045	2,180,000	1,369,500	3,549,500
2046 – 2050	2,705,000	848,000	3,553,000
2051 – 2054	2,575,000	262,800	2,837,800
	$ 11,560,000	$ 9,035,800	$ 20,595,800

Changes in Long-Term Debt:

	Business-Type Activities				
Revenue Bonds	**Beginning Balance**	**Payments**	**Additions (Deletions)**	**Ending Balance**	**Current Portion**
2008 Revenue Bond	$ 2,913,363	$ (419,793)	$ -	$ 2,493,570	$ 439,383
CWRPDA:					
ARRA & Base	2,403,917	(400,653)	-	2,003,264	400,653
2023 Snowball	32,164,774	(775,526)	-	31,389,248	796,951
Series 2024	11,735,000	(175,000)	-	11,560,000	190,000
CWCB:					
Loan A	2,331,106	(215,336)	-	2,115,770	219,105
Loan B	4,565,000	-	-	4,565,000	-
Total Long-Term Debt	$ 56,113,160	$ (1,986,308)	$ -	$ 54,126,852	$ 2,046,092

Annual Debt Requirements for all Debt (Principal Only):

2026	$ 2,046,093
2027	2,641,718
2028	2,734,270
2029	1,716,466
2030	1,738,713
2031-2035	7,164,869
20356-2040	7,244,354
2041-2045	9,665,432
2046-2050	11,118,759
2051-2055	6,914,928
2056-2057	1,141,250
Total	$ 54,126,852

Annual debt requirements are based on maximum annual payments due.

Note 10: Risk Management

The District is exposed to various risks of loss related to torts; thefts of; damages to or destruction of assets; errors or omissions; injuries to employees; or acts of God. Commercial insurance is purchased by the District to cover losses or claims arising from such matters. It is not possible to estimate any losses, which would not be covered by the commercial insurance; however, settled claims have not exceeded this commercial coverage in any of the three preceding years.

Note 11: Pension Plans

For the current year, the District's total salaries were $3,302,729 and contributions were $97,912 for both the employer and the employees, based on eligible wages of $3,263,733. The District did not have any unpaid pension contributions as of year-end.

In addition to participating in the plan, each participant may elect to contribute to a deferred compensation plan established pursuant to IRC Section 457. Through the deferred compensation plan, a member employer defers payment of a portion of an employee's current salary and deposits the deferred payment with the Association. Upon a participant's retirement or termination of employment, the Association may begin payment of this deferred amount.

All plan administrative expenses are borne by the participants.

Note 12: Leasehold Agreements

On January 3, 2008, Pagosa Area Water and Sanitation District along with San Juan Water Conservancy District (collectively called the Landlord) entered into the following lease agreements as a result of their joint purchase of the property (Sale Land) owned by Running Iron Ranch, LLC, a Colorado limited liability company (the Tenant). The property was purchased to develop a water diversion and reservoir project (the Project). The Sale land and the improvements thereon and the water yielded from the Water Shares are currently being used to raise cattle and for other agricultural purposes and is subject to an existing lease for mining of sand, gravel, and rock. Agricultural and mining activities are currently conducted on the Sale Land by Kathryn L. Weber and Donald L. Weber. The Sale Land and the improvements thereon are also used as a principal residence for Kathryn L. Weber, who is manager of the Tenant and who is one of the indirect owners of the Tenant, and her husband Donald L. Weber.

Occupancy and Agriculture Lease

Pursuant to the purchase of the property owned by the Tenant, the Landlord agreed to permit the Tenant to continue to use and occupy the Sale Land from January 3, 2008 until the date that the commencement of Landlord's physical development of the project substantially interferes with tenant's use of the sale land. The Tenant must be given advance notice of development plans at least a year in advance and then 90 days prior to the actual commencement of development. The lease terminates after 15 years unless the Landlord and Tenant agree to extend the term by mutual written consent.

The lease agreement requires the Tenant to pay $1 a year for the use of the Sale Property. The tenant has paid $15 for the complete lease term. Tenant is also responsible for any property or other business taxes due along with all utilities and insurance, which shall be purchased with liability limits of not less than $1,000,000 with Landlord, named as additional insured.

If termination of this lease occurs due to foreclosure or deed in lieu of foreclosure and the successor owner of the property terminates this lease, as a condition of the termination of this lease, Tenant shall be paid $80,000.

Sand and Gravel Lease

Landlord has agreed to purchase the Sand and Gravel Lease Contract between Donald Weber, Kathryn Weber, and Andy Weber (collectively doing business as Weber Sand and Gravel). The Sand and Gravel Lease Contract provides that, pursuant to a lease to be executed at the closing of the purchase of the Sale Land and the Sand, Gravel and Mining Lease, Tenant shall have the right to mine sand, gravel, and other related materials from the ranch properties pursuant to a new lease between Landlord and Tenant.

This lease shall continue from January 3, 2008 until the date that the commencement of landlord's physical development of the project substantially interferes with tenant's use of the Sale Land. The Tenant must be given advance notice of development plans at least a year in advance and then 90 days prior to the actual commencement of development. The lease terminates after 15 years unless the Landlord and Tenant agree to extend the term by mutual written consent.

The lease agreement requires the Tenant to pay $1 a year for the Sand and Gravel Lease. The tenant has paid $15 for the complete lease term. Tenant is also responsible for any property or other business taxes due along with all utilities and insurance, which shall be purchased with liability limits of not less than $1,000,000 with Landlord, named as additional insureds.

Note 13: Reserves, Restrictions, and Designations of Fund Balances and Net Position

As of year-end, the District had set aside the following reserves and restrictions:

General Fund	
Emergency Reserve - TABOR	$ 33,000

Note 14: Taxpayer's Bill of Rights (TABOR)

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments.

The District's financial activity provides the basis for calculation of limitations adjusted for allowable increases tied to inflation and local growth.

The amendment excludes "Enterprises" from its provisions. Enterprises, defined as government-owned business authorized to issue revenue bonds and receiving less than 10 percent of their annual revenue in grants from all state and local governments combined, are excluded from the provisions of the amendment. The District is of the opinion that the water and wastewater operations qualify for this exclusion.

Fiscal year spending and revenue limits are determined based on the prior year's spending adjusted for inflation and local growth. Revenue in excess of the limit must be refunded unless the voters approve retention of such revenue.

Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. In effect, it has been generally interpreted that fiscal year spending approximates nonexempt revenue or receipts. Spending excludes spending from certain revenue and financial sources such as federal funds, gifts, property sales, fund transfers, damage awards, and fund reserves.

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

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

The amendment requires that emergency reserves be established. These reserves must be at least three percent of Fiscal Year Spending (excluding bonded debt service) in years after 1994.

Emergency reserves as of year-end have been presented as a reservation of fund balance in the General Fund. This emergency reserve was calculated in the District's General Fund and is not a required reserve in any other funds. Under TABOR, the District is not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The amendment is complex and is subject to judicial interpretation. The District believes it is in compliance with the requirements of the amendment. However, certain interpretations in the amendment's language have been made in order to determine its compliance.

In May of 2000, Pagosa Area Water and Sanitation District asked its voters to allow the District to collect, retain, and spend all revenues and other funds collected from any source not excluded from fiscal year spending, effective January 1, 2000, and continuing thereafter. A permanent waiver of the 5.5% limitation was also requested. The requests were approved by the District's voters.

On May 3, 2016, the District's voters passed a measure to subject the revenue, collection, and spending limits under Article X, Section 20 of the Colorado Constitution (otherwise known as the Taxpayers Bill of Rights (TABOR)) by repealing the ballot measure previously approved by the District in May of 2000. The action may impact the General Fund by limiting tax revenues. It is not anticipated that General Fund expenses, other than transfers, can be reduced.

Note 15: Joint Venture

The District is a participant in the Colorado Special Districts Property and Liability Pool (The Pool). The Pool is a joint venture between the Special District Association of Colorado and various special districts in Colorado. The Pool provides property and general liability, automobile physical damage and liability, public officials' liability, inland marine, money and security, and boiler and machinery coverages to its members. Pagosa Area Water and Sanitation District has not had losses of a material amount in any of the preceding three years. The District does not know its percentage share of the joint venture.

The Pool has contracted with other third parties to operate, administer, and manage the Pool. The Pool is responsible for its own budgets. In the event aggregated losses incurred by the Pool exceed amounts recoverable from the reinsurance contracts and capital and surplus accumulated by the Pool, the Pool may require additional contributions from the Pool members.

Audited Financial Statements for the Colorado Special Districts Property and Liabilities Pool can be obtained by contacting the Pool.

Note 16: Related Party Transactions

Pagosa Area Water and Sanitation District has agreed to share the costs on specified water projects with San Juan Water Conservancy District.

Pagosa Area Water and Sanitation District has entered into three intergovernmental agreements with San Juan Water Conservancy District.

1. Memorandum of Understanding and Confidentiality Agreement – This agreement is for the acquisition, planning, permitting, design, and construction of a water resources development known as the Dry Gulch Project. As of the end of the current year, Pagosa Area Water and Sanitation District has expended funds for $9,374,348, for this project, which includes land acquisition. Because this project depends upon the growth of the community, future water demands, and public support for the project, it is not possible to estimate future costs. There were no additional costs capitalized during the current year. This asset has been reclassified as other assets.

2. Intergovernmental Agreement concerning Colorado Water Conservation Board Loan Financing for land acquisition and development of the Dry Gulch Project – This agreement is to facilitate the financing arrangements for the Dry Gulch Project. Pagosa Area Water and Sanitation District was awarded a loan of $11,217,000 from the Colorado Water Conservation Board (CWCB) for land acquisition. In December 2011, an interest payment for $322,678 was made. Pagosa Area Water and Sanitation District requested that San Juan Water Conservancy District pay a portion on the interest due in return for an increased percentage of ownership in the land. San Juan Water Conservancy agreed and paid $20,110. This increased their equity ownership from 11.21% to 11.43% and decreased Pagosa Area Water and Sanitation District's ownership from 88.79% to 88.57%. Any future payments by San Juan Water Conservancy District will further increase their ownership and decrease Pagosa Area Water and Sanitation District's ownership.

Note 17: Construction Commitments

During 2022, the board made a commitment to improve the water and wastewater systems. The board is in the process of construction and long-term financing to fund the project. The project is expected to take several years to complete. During construction, all construction costs will be recorded as construction in progress. When the project is complete, the total cost will be depreciated over its estimated useful life.

During 2024, the board approved a revenue bond, Series 2024, for the improvements to the wastewater treatment plant. The project will start during 2025 with an anticipated completion date of December 31, 2025. Due to construction delays, the project completion was pushed to 2026.

Note 18: Intergovernmental Agreement with Pagosa Springs Sanitation General Improvement District

During January, 2012, Pagosa Area Water and Sanitation District (PAWSD) and Pagosa Springs Sanitation General Improvement District (PSSGID) entered into an agreement to do a feasibility analysis and preliminary design, design development and final design, and construction phase of two segments of pipeline and two lift stations, Segment A and Segment B, and thereafter the ongoing operation and maintenance of both segments to provide for the conveyance and treatment of PSSGID raw sewage. The project has evolved from the conceptual phase in late 2012 to one actually under construction during 2014. The intergovernmental agreement that was executed in 2012 no longer reflects the full understanding of the parties and is in the process of being amended. The initial bids received for the construction of the pipeline and lift stations exceeded the engineer's estimation and were rejected. Hammerlund Construction was selected as a contractor for this project following a formal rebid process. Minutes of the PAWSD and PSSGID Boards reflect the revised understanding that PAWSD's financing of the portion of Segment B will not exceed $2,835,745. It was determined that a more accurate designation of that financing would be as a long-term receivable to PAWSD and a long-term payable by PSSGID, which the audited financial statements reflect. The original terms of the intergovernmental agreement were modified by the respective Boards during 2016. Changes included interest to be charged on loan advances and final terms of repayment.

The note receivable balance as of December 31, 2025, was $1,693,754. The note bears interest at 2.19% interest with principal and interest payments of $174,940 due November 1 of each year until paid, with the final payment due November 2036. The note was current as of December 31, 2025.

Required Supplementary Information

Pagosa Area Water and Sanitation District
Budget and Actual
General Fund
For the year ended December 31, 2025

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Variance with Final Budget - Positive (Negative)
REVENUES				
Property taxes	$ 1,180,822	$ 1,180,822	$ 1,185,170	$ 4,348
SO taxes	90,000	90,000	91,534	1,534
Investment earnings	70,000	70,000	67,177	(2,823)
Miscellaneous	5,000	5,000	3,108	(1,892)
Total revenues	1,345,822	1,345,822	1,346,989	1,167
EXPENDITURES				
Audit	26,503	26,503	29,478	(2,975)
Board expense	71,000	71,000	43,879	27,121
Contingency	31,744	31,744	-	31,744
Dues and permits	13,000	13,000	14,444	(1,444)
Employee expense	3,500	3,500	1,063	2,437
County treasurer fees	38,300	38,300	34,384	3,916
Fringe benefit	91,748	91,748	89,805	1,943
Insurance general	15,709	15,709	37,353	(21,644)
Legal fees	50,000	50,000	29,966	20,034
Office expense	48,500	48,500	61,427	(12,927)
Office maintenance and landscape	18,000	18,000	17,267	733
Outside services	124,439	124,439	94,893	29,546
Payroll taxes, vacation and sick pay	38,723	38,723	41,322	(2,599)
Personnel	527,408	527,408	543,968	(16,560)
Publications and recording fees	5,000	5,000	4,431	569
Repairs and maintenance	6,030	6,030	2,511	3,519
Telephone and utilities	30,000	30,000	28,018	1,982
Travel and training	13,335	13,335	4,981	8,354
Capital outlay	(5,750)	(5,750)	18,556	(24,306)
Total Expenditures	1,147,189	1,147,189	1,097,746	49,443
Excess (deficiency) of revenues over expenditures	198,633	198,633	249,243	50,610
OTHER FINANCING SOURCES (USES)				
Transfers out	(500,000)	(500,000)	(500,000)	-
Total other financing sources and uses	(500,000)	(500,000)	(500,000)	-
Net change in fund balances	(301,367)	(301,367)	(250,757)	50,610
Fund balances - beginning	1,750,295	1,750,295	1,686,662	(63,633)
Fund balances - ending	$ 1,448,928	$ 1,448,928	$ 1,435,905	$ (13,023)

Budgets and Budgetary Accounting:

The Board of Directors adopts an annual legal budget, which covers the General Fund, and the Water and Wastewater Enterprise Funds. The budget for the General Fund is prepared on the modified accrual basis. The budgets for the two enterprise funds are prepared on the modified accrual basis and include debt principal retirements and capital outlays as expenses. Additionally, the enterprise funds do not include depreciation as a budgetary expense. The statements comparing budget and actual amounts for these governmental funds include adjustments to those budgetary bases for the differences noted above and for certain other items, which are reported in the District's budget differently than they are reported for accounting principles generally accepted in the United States. Budgetary level of control is exercised at the departmental level. The District Manager has the authorization to make transfers of budgeted amounts within and among departments; however, any revisions that alter total expenditures for any of the funds must be approved by the Board of Directors.

The Budgetary Comparison Schedules included in the required supplementary information present a comparison of budgetary data to actual results of operations for the General Fund, for which an annual operating budget is legally adopted. This fund utilizes the same basis of accounting for both budgetary purposes and actual results, with the following exception:

The General Fund recognizes an expenditure for the increase in the Emergency Reserve in its budget basis expenditures. Generally accepted accounting principles treat this as a reserve of fund balance.

Annual budgets are established for all funds of the District as required by Colorado law.

Expenditures may not legally exceed appropriations at the fund level. Budget amounts included in the financial statements are based on the final amended budget. After budget approval, the District's Board of Directors may approve supplemental appropriations if an occurrence, condition, or need exists which was not known at the time the original budget was adopted. There was a supplemental appropriation made during the year.

The following is a summary of the 2025 budget appropriations and expenditures by fund:

	Original Budget	Final Budget	Expenditures (Budgetary) Basis	Variance Favorable (Unfavorable)
General Fund	$ 1,647,189	$ 1,647,189	$ 1,597,746	$ 49,443
Water Fund	35,934,411	35,934,411	27,265,059	8,673,352
Wastewater Fund	18,441,980	18,441,980	12,015,343	6,426,837
Totals	$ 56,023,580	$ 56,023,580	$ 40,874,148	$ 15,149,432

On or before October 15th of each year, the District's budget officer must prepare and submit a proposed budget to the Board for the next fiscal year. Thereupon, notice must be published stating, among other things, that the budget is open to inspection by the public and that interested electors may file or register any objection to the budget. Subject to certain exceptions and exclusions discussed hereafter, the District must submit a request for property tax increases in excess of the statutory limitation to the Division of Local Government (if within TABOR limits) or submit the question of an increased levy directly to the electors of the District at a general or special election. State law requires that the District adopt a budget prior to the certification of its mill levy to the county and file a certified copy of its budget with the Division of Local Government within 30 days of such adoption. Failure to do so can result in the County Treasurer withholding future property tax revenues pending compliance by the District. The District filed the certified copy of its budget timely for the current year.

Budget appropriations lapse at the end of each year.

The encumbrance method of accounting is not used.

Other Supplementary Information

Pagosa Area Water and Sanitation District
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual (Budgetary Basis)
Enterprise Fund - Water Fund
For the Year Ended December 31, 2025

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Availability charges	$ 450,000	$ 450,000	$ 394,246	$ (55,754)
Customer hookups	250,000	250,000	185,065	(64,935)
Other Water Sales	300,000	300,000	299,809	(191)
Capital investment fee	1,000,000	1,000,000	763,960	(236,040)
Service fees	5,609,336	5,609,336	5,962,710	353,374
Other Revenues/Grants	200,000	200,000	88,925	(111,075)
Inclusion Fee	5,000	5,000	7,739	2,739
Affordable Housing Surcharge	197,823	197,823	193,195	(4,628)
Irrigation	66,150	66,150	60,088	(6,062)
Affordable Housing Credits	-	-	(27,681)	(27,681)
Late charges and interest	16,538	16,538	16,337	(201)
Current tax interest	4,961	4,961	2,077	(2,884)
Interest income - CIF	50,000	50,000	81,618	31,618
Interest on delinquent taxes	500	500	1	(499)
Other interest	300,000	300,000	116,954	(183,046)
Transfer from general fund	-	-	20,904	20,904
Capital grant	-	-	1,000,000	1,000,000
CDPHE loan proceeds	25,000,000	25,000,000	15,597,947	(9,402,053)
	33,450,308	33,450,308	24,763,894	(8,686,414)
Expenses				
Sources of Supply				
Ditches	2,000	2,000	4,834	(2,834)
Reservoirs	105,000	105,000	84,658	20,342
Raw water line - Jackson Mt	20,000	20,000	10,000	10,000
Raw water line - San Juan	80,000	80,000	38,769	41,231
Power Trujillo booster	59,000	59,000	87,223	(28,223)
Power SJ River booster	44,000	44,000	59,501	(15,501)
Power Lake Forest	1,750	1,750	1,307	443
Power Running Iron Ranch	3,500	3,500	936	2,564
Power Dutton Ditch	800	800	607	193
	316,050	316,050	287,835	28,215
Water Treatment Plant				
Hatcher WTR plant chemicals/lab	230,000	230,000	249,949	(19,949)
Snowball WTP chemicals/lab	100,000	100,000	61,056	38,944
San Juan WTP chemicals/lab	140,000	140,000	75,575	64,425
Health insurance	75,598	75,598	72,030	3,568
Retirement	22,820	22,820	24,657	(1,837)
Hatcher WTP fuel & power	206,500	206,500	151,566	54,934
Snowball WTP fuel & power	35,500	35,500	57,033	(21,533)
San Juan WTP fuel & power	52,000	52,000	59,093	(7,093)
Insurance	19,148	19,148	20,135	(987)
Payroll taxes	29,863	29,863	30,789	(926)

Pagosa Area Water and Sanitation District
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual (Budgetary Basis)
Enterprise Fund - Water Fund
For the Year Ended December 31, 2025

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
Personnel	392,212	392,212	399,188	(6,976)
Vehicle maintenance	13,746	13,746	4,268	9,478
Hatcher WTP maintenance	230,000	230,000	168,491	61,509
Snowball WTP maintenance	46,500	46,500	39,049	7,451
San Juan maintenance	74,000	74,000	67,885	6,115
Training	5,107	5,107	1,758	3,349
	1,672,994	1,672,994	1,482,522	190,472
Distribution Systems				
Health insurance	107,398	107,398	116,359	(8,961)
Retirement	39,772	39,772	47,041	(7,269)
Fire hydrant maintenance	10,000	10,000	3,141	6,859
Fuel & power mission booster	750	750	-	750
Fuel & power pump stations	44,000	44,000	37,107	6,893
Town fill station - fuel & power	1,350	1,350	780	570
Trails fill station - fuel & power	1,250	1,250	336	914
Insurance	33,372	33,372	34,729	(1,357)
Payroll taxes	53,953	53,953	62,003	(8,050)
Personnel	701,840	701,840	783,530	(81,690)
Town fill station - maintenance	1,500	1,500	883	617
Trails fill station - maintenance	1,500	1,500	1,364	136
Water tank maintenance	51,000	51,000	57,541	(6,541)
Vehicle maintenance	21,306	21,306	16,365	4,941
Training	21,562	21,562	5,367	16,195
Uniforms	18,000	18,000	18,426	(426)
Water line maintenance	580,500	580,500	661,222	(80,722)
	1,689,053	1,689,053	1,846,194	(157,141)
Maintenance Department				
Building maintenance	10,000	10,000	804	9,196
Health insurance	12,401	12,401	6,188	6,213
Retirement	4,905	4,905	3,362	1,543
Vehicle maintenance	3,291	3,291	2,067	1,224
Equipment maintenance	33,000	33,000	16,067	16,933
Training	1,306	1,306	-	1,306
Gas, diesel and oil	75,000	75,000	51,053	23,947
Insurance	3,734	3,734	3,771	(37)
Operating supplies	27,000	27,000	28,200	(1,200)
Payroll taxes	6,642	6,642	4,414	2,228
Personnel	83,548	83,548	54,527	29,021
Tools and small equipment	23,120	23,120	13,346	9,774
Utilities	5,500	5,500	2,325	3,175
	289,447	289,447	186,124	103,323

Pagosa Area Water and Sanitation District
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual (Budgetary Basis)
Enterprise Fund - Water Fund
For the Year Ended December 31, 2025

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Billing				
Bad debts	50,000	50,000	77,476	(27,476)
Data processing	20,000	20,000	20,997	(997)
Health insurance	58,806	58,806	53,035	5,771
Retirement	14,258	14,258	13,897	361
Insurance	720	720	1,178	(458)
Payroll taxes	17,790	17,790	16,988	802
Personnel	241,098	241,098	226,065	15,033
Postage	23,000	23,000	24,345	(1,345)
Training	4,991	4,991	-	4,991
	430,663	430,663	433,981	(3,318)
Administration				
Water model	-	-	1,438	(1,438)
Audit	3,118	3,118	3,468	(350)
Dues and permits	7,000	7,000	5,940	1,060
Employee miscellaneous	2,380	2,380	856	1,524
Health insurance	34,442	34,442	32,725	1,717
Retirement	15,605	15,605	17,040	(1,435)
Vehicle maintenance	2,468	2,468	895	1,573
Insurance - general	130,329	130,329	128,931	1,398
Legal fees	34,000	34,000	20,377	13,623
Office expense	29,240	29,240	41,770	(12,530)
Maintenance of office building	13,000	13,000	8,012	4,988
Landscaping	3,500	3,500	1,828	1,672
Outside services	19,080	19,080	7,569	11,511
Payroll taxes/vac/sick leave	20,090	20,090	21,465	(1,375)
Publications	4,000	4,000	2,333	1,667
Vacation pay		-	25,571	(25,571)
Personnel	261,073	261,073	273,972	(12,899)
Telephone	15,000	15,000	13,937	1,063
Utilities	5,500	5,500	4,201	1,299
Trash removal	5,000	5,000	4,246	754
Training	9,067	9,067	2,670	6,397
Inclusion expense	1,000	1,000	-	1,000
Computer support & upgrades	83,667	83,667	108,226	(24,559)
	698,559	698,559	727,470	(28,911)
Capital Expenditures				
Connections	200,000	200,000	177,627	22,373
Water rights	2,000	2,000	-	2,000
CIF Water Model	1,000	1,000	-	1,000
CIF Water SCADA System	22,848	22,848	-	22,848
CIF WTP upgrades	20,800,000	20,800,000	18,869,927	1,930,073
CIF Distribution system upgrades	645,563	645,563	-	645,563

Pagosa Area Water and Sanitation District
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual (Budgetary Basis)
Enterprise Fund - Water Fund
For the Year Ended December 31, 2025

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
CIF - Reservoirs/Watershed	310,000	310,000	-	310,000
Water SCADA system	91,392	91,392	-	91,392
Shared Buildings & Improvements	296,820	296,820	282,593	14,227
Distribution system upgrades	124,500	124,500	325,041	(200,541)
Capital Equipment	183,644	183,644	50,554	133,090
Transportation Equipment	154,251	154,251	147,066	7,185
WTP Upgrades	5,561,500	5,561,500	-	5,561,500
	28,393,518	28,393,518	19,852,808	8,540,710
Principal, CWPDA loan	419,793	419,793	419,793	-
Interest, CWPDA loan	24,000	24,000	24,000	-
Administrative fee - CWPDA Loan	89,486	89,486	89,486	-
Principal - CWCB loan	215,337	215,337	215,336	1
Interest, CWCB loan	40,795	40,795	40,794	1
Principal, CWPDA loan-2023	775,480	775,480	775,479	1
Interest, CWPDA loan-2023	879,237	879,237	879,237	-
Total debt retirement principal and interest	2,444,128	2,444,128	2,444,125	3
Total expenses	35,934,412	35,934,412	27,261,059	8,673,353
Excess of revenues over (under) expenses	(2,484,104)	(2,484,104)	(2,497,165)	$ (13,061)
Beginning Net Position	8,930,174	8,930,174	61,447,627	
Ending Net Position Budgetary Basis	$ 6,446,070	$ 6,446,070		

continued on following page

Pagosa Area Water and Sanitation District
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual (Budgetary Basis)
Enterprise Fund - Water Fund
For the Year Ended December 31, 2025

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
Reconciliation of Budgetary Basis to GAAP Basis Financial Statements				
Increase (Decrease) in Revenues and Other Financing Sources				
Unappropriated surplus			(61,447,627)	
Net (Decrease) in Revenues and Other Financing Sources			(61,447,627)	
(Increase) Decrease in Revenues and Other Financing Uses (Sources)				
Capital outlay costs			19,675,180	
Principal payments on CWDPA loan			419,793	
Principal payments on CWCB loan			215,336	
Principal payments on CWPDA loan			775,479	
Interest accrual adjustment			(17,984)	
CDPHE loan proceeds			(15,597,947)	
Depreciation			(2,412,536)	
Other Financing Sources to GAAP Basis			3,057,321	
Excess of revenues over expenses			560,156	
Ending Net Position			$ 62,007,783	

Pagosa Area Water and Sanitation District
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual
(Budgetary Basis)
Enterprise Fund - Wastewater Fund
For the Year Ended December 31, 2025

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Availability charges	$ 446,918	$ 446,918	$ 363,432	$ (83,486)
Customer hookups	35,000	35,000	32,205	(2,795)
Capital Investment fees	1,250,000	1,250,000	858,971	(391,029)
Affordable housing credits	-	-	(48,504)	(48,504)
Service fees	2,982,227	2,982,227	2,840,162	(142,065)
Municipal wastewater treatment	200,000	200,000	210,496	10,496
Interest PSSGID	20,024	20,024	20,024	-
Interest PSSGID CIF	20,024	20,024	20,024	-
Inclusion fee	-	-	5,378	5,378
Waste hauling	182,000	182,000	149,841	(32,159)
Interest income - CIF	50,000	50,000	481,483	431,483
Interest on delinquent taxes	250	250	880	630
Penalty & interest delinquent accounts	1,800	1,800	2,625	825
Current tax interest	1,250	1,250	661	(589)
Other interest	120,000	120,000	157,296	37,296
Affordable Housing Surcharge	174,998	174,998	212,571	37,573
Other Revenue	7,000	7,000	14,751	7,751
Short term rentals	70,000	70,000	74,419	4,419
2024 Revenue Bond Proceeds	12,000,000	12,000,000	-	(12,000,000)
Capital grant	-	-	338,666	338,666
Transfer from general fund	500,000	500,000	479,096	(20,904)
	18,061,491	18,061,491	6,214,477	(11,847,014)
Expenses				
Wastewater Collection				
Health insurance	61,192	61,192	62,021	(829)
Retirement	24,692	24,692	27,333	(2,641)
Uniforms	9,500	9,500	9,268	232
Fuel and power lift stations	73,000	73,000	56,624	16,376
Insurance	13,250	13,250	14,138	(888)
Payroll taxes	33,563	33,563	34,954	(1,391)
General and pumps lift stations	60,000	60,000	21,297	38,703
Personnel	435,824	435,824	441,219	(5,395)
Wastewater line maintenance/repair	520,000	520,000	357,955	162,045
Vehicle maintenance	12,594	12,594	9,592	3,002
Training	17,088	17,088	4,564	12,524
	1,260,703	1,260,703	1,038,965	221,738
Wastewater Treatment				
Health insurance	73,941	73,941	62,605	11,336
Retirement	23,281	23,281	22,388	893
Lab supply & testing	130,000	130,000	103,068	26,932
Fuel, power & water Vista WWTP	293,000	293,000	224,714	68,286
Insurance	12,493	12,493	13,248	(755)
Payroll taxes	30,603	30,603	28,428	2,175

Pagosa Area Water and Sanitation District
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual
(Budgetary Basis)
Enterprise Fund - Wastewater Fund
For the Year Ended December 31, 2025

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
Personnel	400,178	400,178	367,348	32,830
Maintenance Vista WWTP	203,000	203,000	139,077	63,923
Vehicle maintenance	12,874	12,874	4,020	8,854
Sludge removal	90,000	90,000	115,357	(25,357)
Training	5,453	5,453	1,070	4,383
	1,274,823	1,274,823	1,081,323	193,500
Maintenance Department				
Building maintenance	7,500	7,500	1,973	5,527
Vehicle maintenance	1,549	1,549	964	585
Equipment maintenance	20,000	20,000	8,834	11,166
Health insurance	5,836	5,836	2,912	2,924
Retirement	2,308	2,308	1,582	726
Gas, diesel and oil	35,000	35,000	21,875	13,125
Insurance	1,237	1,237	1,265	(28)
Operating supplies	13,000	13,000	13,650	(650)
Payroll taxes	3,126	3,126	2,077	1,049
Personnel	39,317	39,317	25,660	13,657
Tools and small equipment	10,880	10,880	8,563	2,317
Training	614	614	-	614
Utilities	3,600	3,600	9,042	(5,442)
	143,967	143,967	98,397	45,570
Billing				
Bad debts	50,000	50,000	57,036	(7,036)
Data processing	6,000	6,000	5,130	870
Health insurance	27,674	27,674	23,969	3,705
Retirement	6,710	6,710	6,293	417
Insurance	339	339	554	(215)
Payroll taxes	8,372	8,372	7,676	696
Personnel	113,458	113,458	102,263	11,195
Postage	10,500	10,500	11,457	(957)
Training	2,349	2,349	-	2,349
	225,402	225,402	214,378	11,024
Administration				
Audit	1,559	1,559	1,735	(176)
Inclusion expense	1,000	1,000	-	1,000
Employee expense	1,120	1,120	340	780
Health insurance	16,208	16,208	15,400	808
Retirement	7,344	7,344	8,019	(675)
Dues and permits	9,000	9,000	9,406	(406)
Insurance - general	59,069	59,069	59,169	(100)
Legal fees	14,000	14,000	9,589	4,411
Office expense	13,760	13,760	19,657	(5,897)
Maintenance of office building	6,350	6,350	3,770	2,580

Pagosa Area Water and Sanitation District
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual
(Budgetary Basis)
Enterprise Fund - Wastewater Fund
For the Year Ended December 31, 2025

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
Landscaping	1,870	1,870	860	1,010
Outside services	16,920	16,920	7,232	9,688
Payroll taxes/vac/sick leave	9,454	9,454	10,101	(647)
Personnel	122,858	122,858	128,928	(6,070)
Vacation pay		-	952	(952)
Publications	2,500	2,500	1,098	1,402
Vehicle maintenance	1,162	1,162	421	741
Telephone	8,000	8,000	7,377	623
Utilities	2,500	2,500	1,747	753
Trash removal	1,000	1,000	1,219	(219)
Training	4,267	4,267	1,256	3,011
Computer support & upgrades	39,372	39,372	48,711	(9,339)
	339,313	339,313	336,987	2,326
Capital Expenditures				
Connections	9,000	9,000	6,630	2,370
Collection System Upgrades	1,394,500	1,394,500	307,249	1,087,251
Shared Buildings & Improvements	139,680	139,680	269,023	(129,343)
Capital Equipment	144,656	144,656	-	144,656
Transportation Equipment	72,589	72,589	69,207	3,382
Wastewater model	5,000	5,000	-	5,000
Wastewater SCADA system	43,008	43,008	-	43,008
Wastewater treatment plants	2,499,800	2,499,800	-	2,499,800
CIF - SCADA System	10,752	10,752	-	10,752
CIF - Wastewater Treatment Plant	8,480,000	8,480,000	7,485,166	994,834
CIF - Collection Sys Upgrades	1,317,500	1,317,500	-	1,317,500
	14,116,485	14,116,485	8,137,275	5,979,210
Debt Service				
2024 Revenue Bond-Principal	175,000	175,000	175,000	-
2024 Revenue Bond-Interest	505,632	505,632	532,364	(26,732)
Principal - 09 base loan-Interest	48,827	48,827	48,827	-
Principal - 09 ARRA loan	351,828	351,828	351,827	1
	1,081,287	1,081,287	1,108,018	(26,731)
Total Expenses	18,441,980	18,441,980	12,015,343	6,426,637
Excess of revenues over (under) expenses	(380,489)	(380,489)	(5,800,866)	$ (5,420,377)
Beginning Net Position	4,439,182	4,439,182		
Ending Net Position Budgetay Net Basis	4,058,693	4,058,693	26,757,071	
Change in Net Position (Budgetary Basis)	$ 3,678,204	$ 3,678,204	20,956,205	

Pagosa Area Water and Sanitation District
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual
(Budgetary Basis)
Enterprise Fund - Wastewater Fund
For the Year Ended December 31, 2025

	Budgeted Amounts Original	Final	Actual Amounts Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
Reconciliation of Budgetary Basis to GAAP Basis Financial Statements				
Increase (Decrease) in Revenues and Other Financing Uses (Sosurces)				
Capital outlay costs			8,130,638	
Principal payments on debt			175,000	
Principal payments on debt			48,827	
Principal payments on debt			351,827	
Depreciation			(980,192)	
Net (Decrease) in revenues and Other Financing Sources to GAAP basis			7,726,100	
Change in Net Position GAAP Basis			$ 28,682,305	

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

Board of Directors
Pagosa Area Water and Sanitation District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund, of Pagosa Area Water and 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, and have issued our report thereon dated July 8, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

rfarmer, llc

July 8, 2026

Single Audit

Pagosa Area Water and Sanitation District
Schedule of Findings & Questioned Costs
For the year ended December 31, 2025

Section I: Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **unmodified**

Internal control over financial reporting:		
• Material weakness(es) identified?	____ Yes	_X_ No
• Significant deficiency(ies) identified?	____ Yes	_X_ None Reported
Noncompliance material to financial statements noted?	____ Yes	_X_ No

Federal Awards

Internal control over major federal programs:			
• Material weakness(es) identified?		____ Yes	_X_ No
• Significant deficiency(ies) identified?		____ Yes	_X_ None Reported
Type of auditor's report issued on compliance for major federal programs:		**unmodified**	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?		____ Yes	_X_ No
Identification of major federal programs:			
Assistance Listing Number(s):	66.468	Name of Federal Program or Cluster:	EPA Capitalization Grants for Drinking Water
Dollar threshold used to distinguish between type A and type B programs:		$1,000,000	
Auditee qualified as a low-risk auditee?		_X_ Yes	____ No

Section II: Financial Statement Findings

There are not any findings to report.

Section III: Federal Awards Findings

There are not any findings to report.

Pagosa Area Water and Sanitation District
Schedule of Expenditures of Federal Awards
for the year ended December 31, 2025

GRANT TITLE ENVIRONMENTAL PROTECTION AGENCY (EPA)	PASS THRU AGENCY	FEDERAL ALN NUMBER	AMOUNT OF AWARD EXPENDED	
Capitalization Grants for Drinking Water State Revolving Funds	Colo. Water Resources and Power Development Authority	66.468	$ 1,913,175	
TOTAL FEDERAL FINANCIAL AWARDS				$ 1,913,175

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Pagosa Area Water and Sanitation District and is presented on the accrual basis of accounting.

The District does not use the federal indirect cost rate.

The District did not have any sub-recipients during 2025.

Pagosa Area Water and Sanitation District
Notes to Schedule of Expenditures of Federal Awards
December 31, 2025

General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the Pagosa Area Water and Sanitation District (the "District"). The District's reporting entity is defined in Note I to the general-purpose financial statements. All federal financial assistance received by the primary government directly from federal agencies, as well as federal financial assistance passed through other government agencies, including the State of Colorado, is included on the schedule.

Note 1 Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the District under programs of the federal government for the year ended December 31, 2025. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

The District received federal awards indirectly through pass-through entities. Federal financial assistance provided to a sub-recipient, if any, is treated as an expenditure when it is paid to the sub-recipient.

The District has elected not to use the 10 percent de minim is indirect cost rate allowed under the Uniform Guidance.

Note 2 Federal Financial Assistance Listing

Federal Financial Assistance Listing (ALN) is managed and administered by the General Services Administration, formerly known as the Catalog of Federal Domestic Assistance (CFDA).

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Independent Auditor's Report

Board of Directors
Pagosa Area Water and Sanitation District

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Pagosa Area Water and Sanitation District's (the District) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2025. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each

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major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

rfarmer, llc

July 8, 2026