Southgate Water District

Annual Financial Report

December 31, 2025 and 2024

Haynie

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Independent Auditors' Report

Board of Directors and Management
Southgate Water District

Opinions
We have audited the accompanying financial statements of the business-type activities of Southgate Water District (the District) as of December 31, 2025 and 2024 and for the years then ended and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Southgate Water District, as of December 31, 2025 and 2024, and the respective changes in financial position and cash flows thereof for the years 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Southgate Water District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Southgate Water 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.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 generally accepted 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 Southgate Water 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 Southgate Water 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, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Southgate Water District's basic financial statements. The supplementary information section is presented for purposes of additional analysis and is not a required part of the financial statements.

The other supplementary information, as listed in the table of contents, 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Sincerely,

Haynie

Littleton, Colorado
June 24, 2026

Southgate Water District
Management Discussion and Analysis

The Southgate Water District (the "District") offers the readers of the District's financial statements this narrative overview and analysis of the District's financial performance during the Fiscal Year ended December 31, 2025. Please read it in conjunction with the financial statements.

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In addition to this Management Discussion and Analysis this annual report includes:

Independent Auditor's Report

Financial Statements- *The financial statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.*

Statement of Net Position - *The Statement of Net Position provides information about the nature and amounts of investments in resources (assets) and obligations to District creditors (liabilities). It also provides the basis for computing the rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.*

Statement of Revenues, Expenses and Changes in Net Position- *This statement measures the results of the District's operations over the past year and illustrates the manner in which it has funded its operations and activities. It is the basis for determining profitability and credit worthiness.*

Statement of Cash Flows - *The purpose of this statement is to provide information about the District's cash receipts and payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities.*

Notes to the Financial Statements explain in more detail much of the information in the financial statements.

Supplementary Information, consisting of:

Budgetary Comparison Schedule - Budgetary Basis Non-GAAP - 2025

Budgetary Comparison Schedule- Budgetary Basis Non-GAAP - 2024

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District's finances is "Is the District as a whole better off or worse off as a result of this year's activities?" The Statement of Net Position and Statement of Activities work to answer that question.

A summary of the District's Statement of Net Position is presented in the following table.

	2023	2024	2025	'24-'25 Change	'24-'25 %
Current Assets	$ 6,305,275	$ 5,822,862	$ 5,619,978	$ (202,884)	-3.48%
Property, Plant & Equipment	65,636,868	65,677,197	64,496,196	(1,181,001)	-1.80%
Noncurrent Assets	783,891	462,861	203,061	(259,800)	-56.13%
Total Assets	72,726,034	71,962,920	70,319,235	(1,643,685)	-2.28%
Current Liabilites	979,967	1,154,993	211,103	(943,890)	-81.72%
Total Liabilites	979,967	1,154,993	211,103	(943,890)	-81.72%
Net Investment in Capital Assets	66,352,525	66,140,058	64,699,257	(1,440,801)	-2.18%
Restricted-TABOR reserve	73,731	86,928	75,708	(11,220)	-12.91%
Unrestricted	5,319,811	4,580,941	5,333,167	752,226	16.42%
Total Net Position	$ 71,746,067	$ 70,807,927	$ 70,108,132	$ (699,795)	-0.99%

Current assets primarily consist of cash held in banks and liquid investments. The 2025 decrease is primarily related to cash used to fund capital activities. These amounts are used to fund cash flow needs and to cover capital improvements.

Over 90% of the District's net position reflects its investment in capital assets which are used to provide services to its customers; consequently, these assets are not available for future spending. Restricted net position reflects the required amounts pursuant to the TABOR (Taxpayer Bill of Rights) calculation. Unrestricted net position may be used to meet the District's ongoing obligations.

A summary of the District's activities and changes in net position is presented below.

	2023	2024	2025	'24-'25 Change	'24-'25 %
Operating Revenue	$ 2,287,476	$ 3,034,980	$ 3,233,203	$ 198,223	6.53%
Non-Operating Revenue	320,974	276,743	170,008	(106,735)	-38.57%
Total Revenues	2,608,450	3,311,723	3,403,211	91,488	2.76%
Depreciation Expense	1,962,975	1,959,985	2,473,035	513,050	26.18%
Govt/Admin/Other Operating Expense	2,753,099	3,150,393	2,783,399	(366,994)	-11.65%
Total Expenses	4,716,074	5,110,378	5,256,434	146,056	2.86%
Income/Loss Before Contributions	(2,107,624)	(1,798,655)	(1,853,223)	(54,568)	3.03%
Capital Contributions	473,315	860,515	1,153,428	292,913	34.04%
	(1,634,309)	(938,140)	(699,795)	238,345	-25.41%
Net Position- Beginning of Year	73,380,376	71,746,067	70,807,927	(938,140)	-1.31%
Net Position - End of Year	$ 71,746,067	$ 70,807,927	$ 70,108,132	$ (699,795)	-0.99%

The District funds its activities from interest earnings, new tap sales (included in Capital Contributions), a service charge collected on the District's behalf by the Denver Water Department, and miscellaneous revenues. The District's mill levy was eliminated several years ago. Capital projects are funded by tap fees (included in Capital Contributions) augmented by existing reserve funds.

Operating revenues increase primarily due to an increase in rates and service charges. Nonoperating revenues declined slightly due to a decline in funds available for investment. Through prudent budgeting and accumulation of operational and capital reserves the District is able to maintain established programs at the optimal level of service.

Governmental and Administration Expense and Other Operating Expense reflect an increase of expenditures, due primarily to increased employee compensation and maintenance costs. "Income/Loss before Contributions" reflects the effects of expenditures exceeding revenues; and the need to use fiscal reserves. That situation is expected to recover with time and the overall health of the District remains strong as reflected in the Net Position – End of Year.

As you review the Financial Statements you will note that the District follows Government Accounting Standards Board Statement No. 40 (GASB 40) relative to disclosures of deposit and investment risk on the District's cash and investments. You will find that the District invests under the provisions and restraints of a written Investment Policy and conforms to the requirements of the Colorado Public Deposit Protection Act (PDPA) relative to use of eligible public depositories. While the District limits its investments to the more conservative and higher rated instruments allowed under the Colorado Statutes, there is opportunity for diversification and the investment portfolio has been laddered to take advantage of any up turn in the investment market.

Capital Assets

At the end of 2025, the District had invested $98.5 million, (less $34 million in accumulated depreciation), in a broad range of infrastructure, including four water reservoirs (with storage capacity of 11 million gallons), one pump station, approximately 235 miles of transmission and distribution lines, maintenance and administration facilities, vehicles, and equipment, as shown in the following table.

	2023	2024	2025	'24-'25 Change	'24-'25 %
Water System	$ 80,769,340	$ 91,406,326	$ 92,593,791	$ 1,187,465	1.30%
Pumping & Storage	5,907,943	3,071,322	3,071,322	-	0.00%
Studies	566,677	436,166	436,166	-	0.00%
Capital Equipment	1,682,126	164,483	164,483	-	0.00%
Building & Land	2,041,052	1,891,115	1,995,684	104,569	5.53%
Water Rights	237,404	237,404	237,404	-	0.00%
Easements	9,240	9,240	9,240	-	0.00%
Construction in Progress	18,574,975	-	-	-	0.00%
Subtotal	109,788,757	97,216,056	98,508,090	1,292,034	1.33%
Accumulated Depreciation	(44,151,889)	(31,538,859)	(34,011,894)	(2,473,035)	7.84%
Net Property Plant & Equipment	$ 65,636,868	$ 65,677,197	$ 64,496,196	$ (1,181,001)	-1.80%

This table reflects the results of the GASB 34 asset valuation and depreciation efforts. With completion of the pump station and reservoir improvements the capacity related projects set forth in the District's master plan have been fully satisfied. The District’s capital focus now shifts to the Yosemite Water line replacement. The annual fluctuation for the large construction project is evident.

With recognition that capital improvements are usually multi-year undertakings, (and that the schedule can be affected by many things), the District budgets for possible maximum expenditure in any given year and re-budgets the unexpended portion, (for in-progress projects), the following fiscal year to continue the capital program.

LONG-TERM DEBT

The District has no long-term debt and does not anticipate a need to issue new debt in the foreseeable future.

BUDGETARY HIGHLIGHTS

As required by State Law, the District adopts a budget and appropriates funds for the following year by December 15 of each year. If an amendment is necessary, the Board will approve a supplemental appropriation at a public hearing and file it with the State of Colorado. Budget to actual statements are included as Supplemental Information in the audited financial statements. The 2025 budget was amended in February 2026. There were no supplemental appropriations made to the 2024 budget. The 2023 budget was amended in February 2024.

The District operates within the context of a 50-year fiscal model. The Board of Directors and Management are attentive and fiscally prudent. The District has been successful in meeting the needs of its constituents within the restraints of the tax and budgetary limitations of Colorado's TABOR Amendment.

The following table presents the District's budget and actual expenditures for 2023, 2024 and 2025:

	2023		2024		2025	
	Budget	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**
System Charges	$ 1,138,500	$ 364,479	$ 1,100,000	$ 556,280	$ 1,100,000	$ 502,228
Investment Income	300,000	320,974	200,000	276,743	200,000	170,008
Rates and Charges	2,336,426	2,276,494	3,050,667	2,984,014	3,000,000	3,160,574
Miscellaneous Income	29,000	10,982	35,000	50,966	50,000	72,629
Total Revenues	$ 3,803,926	$ 2,972,929	$ 4,385,667	$ 3,868,003	$ 4,350,000	$ 3,905,439
Admin & Operations	2,205,640	2,316,096	2,222,000	2,710,691	2,934,500	2,347,236
Professional Services	157,400	141,615	161,000	186,902	167,000	176,363
Capital Outlay	21,050,000	20,858,725	1,540,000	1,696,079	1,100,000	640,834
Total Expenditures	23,413,040	23,316,436	3,923,000	4,593,672	4,201,500	3,164,433
Revenues Less Expenditures	$ (19,609,114)	$(20,343,507)	$ 462,667	$ (725,669)	$ 148,500	$ 741,006

System Charges (tap fees) have been unpredictable in recent years due to the fluctuating market conditions and new construction. These charges were significantly impacted in the current year due to new construction. Investment yields and market valuation are similar to prior year (reflective of the overall economy), coming in slightly over budget. At Rates and Charges, you will observe the service charge collected through the Denver Water Department. It is anticipated that the service charge will increase over coming years.

While we had anticipated the need to expend monies from the District's reserves to cover operational expenses and capital improvements in 2023 and 2024: 1) 2025 expenditures increased due to the effect new construction had on capital outlay in the prior year, 2) in 2025 we anticipated increasing reserves, however due to system charges under budget and operations costs along with capital outlay over budget we were not able to. With recognition that capital improvements are usually multi-year undertakings that can be affected by many factors, the District budgets for possible maximum expenditure in any given year and re-budgets the unexpended portion, (for in-progress projects), the following fiscal year to continue the capital program.

ECONOMIC CONSIDERATIONS

The District is located in the economically attractive southeast corridor of the Denver metropolitan area and has growth potential for some time to come. Most of the District's infrastructure is in place. The District's water resource needs have been met, (through a well drafted water resource agreement with the Denver Water Department and adjudication of ground water as a backup resource).

/s/ David A. Irish,
District Manager

Note: This Discussion and Analysis contains some forward-looking statements giving our current expectations or forecasts of future events. You can identify these statements by the fact that they do not refer strictly to historical or current facts and include words such as "anticipate", "estimate", "project", "intend", "plan", "believe", "hope", and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future revenues, capital expenditures, the impact of new accounting pronouncements, and other statements regarding matters that are not historical facts or statements of current condition. There are important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. We undertake no obligation (and expressly disclaim any such obligation) to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise; except as required by law.

Requests for Information

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

David Irish, District Manager
Southgate Water District
3722 East Orchard Road
Centennial, CO 80121

Basic Financial Statements

Southgate Water District
Statements of Net Position
December 31, 2025 and 2024

	2025	2024
Assets		
Current assets		
Cash and cash equivalents	$ 5,179,096	$ 5,613,800
Investments (Note 3)	-	69,367
Receivables		
Accounts receivable	277,326	-
Interest	-	385
Prepaids	52,615	46,668
Inventory	110,941	92,642
Total current assets	5,619,978	5,822,862
Property, plant and equipment		
Net of accumulated depreciation (Note 4)	64,496,196	65,677,197
Net property, plant and equipment	64,496,196	65,677,197
Noncurrent assets		
Investment in participation agreement, net (Note 5)	203,061	462,861
Total noncurrent assets	203,061	462,861
Total assets	$70,319,235	$71,962,920
Liabilities and Net Position		
Current liabilities		
Accounts and retainage payable	$ 49,481	$ 1,008,714
Accrued liabilities	80,529	84,551
Advances from developers	81,093	61,728
Total current liabilities	211,103	1,154,993
Net Position		
Net Investment in capital assets	64,699,257	66,140,058
Restricted - TABOR reserve (Note 9)	75,708	86,928
Unrestricted	5,333,167	4,580,941
Total net position	70,108,132	70,807,927
Total liabilities and net position	$70,319,235	$71,962,920

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

Southgate Water District

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2025 and 2024

	2025	2024
Operating Revenues		
Rates and service charges	$ 3,160,574	$ 2,984,014
Plan review and inspection fees	56,270	47,570
Other income	16,359	3,396
Total operating revenues	3,233,203	3,034,980
Operating expenses		
Accounting and audit	31,058	32,704
Elections	364	-
Conferences and seminars	17,617	28,299
Directors' fees	4,500	4,900
Employee compensation (Note 7)	1,026,357	1,021,521
Insurance	37,514	37,240
Legal	33,111	30,655
Office expense	139,209	164,173
Special projects	14,821	5,339
Engineering	112,194	123,543
Maintenance	1,013,790	1,348,335
Utilities	90,273	88,833
Small equipment	-	9,260
Ground water protection	2,791	2,791
Depreciation (Note 4)	2,473,035	1,959,985
Amortization (Note 5)	259,800	252,800
Total operating expenses	5,256,434	5,110,378
Operating Income (loss)	(2,023,231)	(2,075,398)
Non-operating revenue		
Investment income	170,008	276,743
Loss Before Contributions	(1,853,223)	(1,798,655)
Capital Contributions (Taps and Conveyed Facilities)	1,153,428	860,515
Change in Net Position	(699,795)	(938,140)
Net position—beginning of year	70,807,927	71,746,067
Net position—end of year	$ 70,108,132	$ 70,807,927

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

Southgate Water District
Statements of Cash Flows
For the Years Ended December 31, 2025 and 2024

	2025	2024
Cash flows from operating activities		
Cash received from customers	$ 2,956,262	$ 3,242,384
Cash paid to suppliers and others	(2,484,743)	(1,749,642)
Cash paid to employees for services	(1,026,357)	(1,021,521)
Net cash from operating activities	(554,838)	471,221
Cash flows from capital and related financing activities		
Purchases and construction of property and equipment	(640,834)	(1,696,079)
Payments (advances from) developers	19,365	55,006
Capital contributed—tap fees	502,228	556,280
Net cash from capital and related financing activities	(119,241)	(1,084,793)
Cash flows from investing activities		
Net sale of investments	69,367	1,335,675
Interest received in investment securities	170,008	276,743
Net cash from investing activities	239,375	1,612,418
Net change in cash and cash equivalents	(434,704)	998,846
Cash and cash equivalents—beginning of year	5,613,800	4,614,954
Cash and cash equivalents—end of year	$ 5,179,096	$ 5,613,800
Reconciliation of operating loss to net cash from operating activities		
Operating income (loss)	$ (2,023,231)	$ (2,075,398)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation	2,473,035	1,959,985
Amortization	259,800	252,800
Change in accounts receivable	(276,941)	207,404
Change in prepaids	(5,947)	5
Change in inventory	(18,299)	6,405
Change in accounts payable	(959,233)	94,828
Change in accrued liabilities	(4,022)	25,192
Net cash from operating activities	$ (554,838)	$ 471,221
Schedule of noncash investing, capital and financing activities		
Property contributed by developers (Note 4)	$ 651,200	$ 304,235

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

Southgate Water District
Notes to Basic Financial Statements
December 31, 2025 and 2024

1. Organization

Organization

Southgate Water District (the District) is a quasi- municipal organization established under the State of Colorado Special District Act. The District was established to develop and provide water transmission, pumping and storage facilities. The water supply is provided by the City and County of Denver. Charges for these services are billed and collected directly from District customers by the City and County of Denver.

2. Significant Accounting Policies

General Accounting Policies

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

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

The District presents its financial statements as an enterprise fund. Enterprise funds are used to account for operations (a) which are intended to be self-supporting through user charges or (b) where the Board of Directors has determined that periodic determination of net income is appropriate for management control and accountability.

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for property and equipment are shown as increases in net assets. Tap fees, inclusion fees and contributed water lines are recorded as non-operating revenue when the permits are issued, or the services are performed.

2. Summary of Significant Accounting Policies (continued)

Fund Accounting - The District uses a proprietary fund type, as is required by the State of Colorado, and in accordance with generally accepted accounting principles.

Capital Assets- Capital assets consist of property, plant and equipment and are recorded at cost. Contributions from developers are recorded at the developers' cost or estimated fair market value. It is the District's policy to capitalize capital expenditures which exceed $5,000.

Depreciation has been charged by the straight-line method using the following estimated useful lives:

Building	25 years
External transmission lines	40 years
Pump stations and storage facilities	40 years
Water lines	40 years
Field and office equipment	3-5 years
Master plan studies	5 years

Property Tax - Property owners within the District have not been assessed property taxes for the years ended December 31, 2025 and 2024.

Budgetary Accounting - In accordance with the Colorado State Budget Law, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year.

The District's Board of Directors can modify the budget within the appropriation. The appropriation resolution may be amended only after completion of notification and publication requirements. The budget for the proprietary fund is prepared on a basis other than the financial reporting basis.

Cash Equivalents - For purposes of the statement of cash flows, the District considers cash deposits and highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

2. Summary of Significant Accounting Policies (continued)

Fair Value - Certain District investments are required to be categorized within the fair value hierarchy. Government investment pools and money market funds are not required to be categorized. The District's investments in government-sponsored enterprises, U.S. Treasuries, Municipal Bonds, and negotiable certificates of deposit are categorized as level 2 investments. Negotiable certificates of deposit are valued using a market value pricing model and U.S. Treasuries and GSEs (Government Sponsored Enterprise bonds) are priced by a computer pricing service, and for less traded issues, by utilizing a yield-based matrix pricing system.

Contributed Capital- System charges (tap fees) are recorded as revenue when received. The District, from time to time, requires developers to contract at their expense or pay the cost of certain water distribution facilities. The costs of construction are considered to be contributed capital when conveyed to the District.

Personal Leave Benefits - The District has a policy which allows employees to accumulate personal leave benefits on a monthly basis from the date of employment. Employees may accrue a maximum of 400 hours. (See Note 7, Related Party Transactions)

Inventories- Inventories are valued at the lower of cost or market and consist of expendable supplies.

Net Position - Net position represents the difference between assets and liabilities. Net investment in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. The net position amount is also adjusted by any bond issuance premiums and discounts. Net position is reported as restricted when there are limitations imposed by creditors, grantors or laws or regulations of other governments. All other net position is reported as unrestricted. The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

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

Estimates - The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. Cash Deposits, Marketable Securities and Investments

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

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

The District had cash balances on deposit with original maturities of less than three months stated at cost, which approximates market, as follows:

December 31, 2025	**Carrying**	**Bank**
Composition of cash balances:		
Cash in checking	$ 1,127,664	$ 1,229,237
December 31, 2024		
Composition of cash balances:		
Cash in checking	$ 1,128,711	$ 970,812

For deposits, custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk. As of December 31, 2025 and 2024, the District's bank balance was not exposed to custodial credit risk. Of the bank balances, $250,000 was covered by federal depository insurance for each of the years ended December 31, 2025 and 2024.

As of December 31, 2025 and 2024, $979,237 and $720,812, respectively, were collateralized by PDPA. Deposits that are exposed to custodial credit risk are collateralized with securities held by the pledging financial institution through PDPA.

3. Cash Deposits, Marketable Securities and Investments (continued)

Investments

Investment policies are governed by Colorado statute and the District's own investment policies. Investments of the District may include the following (certain limitations apply):

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

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from prevailing market interest rates, the District's investment policy states that the weighted average maturity of the portfolio shall be no greater than 2.5 years, and all investments shall have a final maturity not exceeding 5 years from the date of purchase.

Credit Risk - 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 mutual funds and local government investment pools. The investment policy limits investments in commercial paper to be rated A-1 by Standard & Poor's, P-1 by Moody's Investors Service or F-1 by Fitch at the time of purchase. Money market mutual funds must be registered as an investment company and have a rating of AAAm by Standard & Poor's, Aaa by Moody's Investors Service or AAAN1+ by Fitch. Investments in time certificates of deposit are not rated and must be in FDIC-insured banks or collateralized in accordance with PDPA.

3. Cash Deposits, Marketable Securities and Investments (continued)

As of December 31, 2025 and 2024 the District had $-0- and $69,367, respectively, in Municipal Bonds and U.S. Treasury Notes. These Treasury Notes were rated AA+ by Standard & Poor's and Aaa by Moody's Investors Service. The Municipal bond ratings will vary based on the issuing entity and specific bond characteristics.

At December 31, 2024, the District had the following investments and maturities:

	Maturities				
Investment Type	Less than one year	1-3 years	3-5 years	Fair Value	Percent of total investments
Municipal Bonds	69,367	-	-	69,367	100%
Total	$ 69,367	$ -	$ -	$ 69,367	100%

Local Government Investment Pools - As of December 31, 2025 and 2024, the District had $4,051,432 and $4,485,089, respectively, invested in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust offers shares in three portfolios, COLOTRUST PRIME, COLOTRUST PLUS+, and COLOTRUST EDGE. The three portfolios differ in the types of the investments held, but all invest in investments allowed by Colorado statutes for local governments. COLOTRUST PRIME AND COLOTRUST PLUS+ invest in securities with a weighted average maturity of 60 days or less, while COLOTRUST EDGE invests in securities with a weighted average maturity of less than five years. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. Substantially all securities owned by COLOTRUST are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by COLOTRUST. These pools are not required to be, and are not, registered with the SEC.

COLOTRUST’s PRIME and PLUS+ funds are rated AAAm by Standard & Poor’s rating service. The COLOTRUST EDGE fund is rated AAAf/S1 by FitchRatings rating service. As of December 31, 2024, all COLOTRUST balances held by the District were invested in COLOTRUST PLUS+. COLOTRUST records its investments at net asset value and the District records its investment in COLOTRUST at fair value. There are no unfunded commitments, the redemption frequency is daily for COLOTRUST PRIME and COLOTRUST PLUS+, and weekly for COLOTRUST EDGE. There is no redemption notice period.

3. Cash Deposits, Marketable Securities and Investments (continued)

Concentration of Credit Risk - It is the intent of the District to diversify the investments within the portfolio to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. The District's policy specifies that at least 40% of the investment portfolio shall be in U.S. Treasury obligations. The maximum amount of the District's total portfolio that can be invested in federal instrumentality securities is 60%, commercial paper is 10% and 30% of the total portfolio in any combination of money market mutual funds and local government investment pools.

Investments in time certificates of deposit are allowed with maturities not exceeding five years from the trade date. The District's total portfolio was within these limits for the years ended December 31, 2025 and 2024.

Cash deposits and investments, as reflected on the December 31, 2025 statement of net position, are as follows:

Cash & cash equivalents	$ 5,179,096
Total	$ 5,179,096

Cash deposits and investments, as reflected on the December 31, 2024 statement of net position, are as follows:

Cash & cash equivalents	$ 5,613,800
Investments - current	69,367
Total	$ 5,683,167

4. Property, Plant and Equipment

In accordance with the policy established by the Board of Directors, the District capitalizes items with a useful life greater than one year. An analysis of the changes in property and equipment for the year ended December 31, 2025 follows:

	Balance December 31, 2024	Additions	Retirements/ Transfers	Balance December 31, 2025
Capital assets, not being depreciated:				
Land	$ 70,864	$ -	$ -	$ 70,864
Water rights	237,404	-	-	237,404
Easements	9,240	-	-	9,240
Total capital assets, not being depreciated	317,508	-	-	317,508
Capital assets, being depreciated:				
Water system	91,406,326	1,187,465	-	92,593,791
Pumping and storage	3,071,322	-	-	3,071,322
Special projects/studies	436,166	-	-	436,166
Capital equipment	164,483	-	-	164,483
Buildings and improvements	1,820,251	104,569	-	1,924,820
Total capital assets, being depreciated	96,898,548	1,292,034	-	98,190,582
Total capital assets	97,216,056	1,292,034	-	98,508,090
Accumulated depreciation	(31,538,859)	(2,473,035)	-	(34,011,894)
Total capital assets, net	$ 65,677,197	$ (1,181,001)	$ -	$ 64,496,196

4. Property, Plant and Equipment (continued)

A summary of changes in property, plant and equipment for the year ended December 31, 2024 is as follows:

	Balance December 31, 2023	Additions	Retirements/ Transfers	Balance December 31, 2024
Capital assets, not being depreciated:				
Land	$ 70,864	$ -	$ -	$ 70,864
Water rights	237,404	-	-	237,404
Easements	9,240	-	-	9,240
Construction in progress	18,574,975	1,667,730	(20,242,705)	-
Total capital assets, not being depreciated	18,892,483	1,667,730	(20,242,705)	317,508
Capital assets, being depreciated:				
Water system	80,769,340	20,512,052	(9,875,066)	91,406,326
Pumping and storage	5,907,943	-	(2,836,621)	3,071,322
Special projects/studies	566,677	-	(130,511)	436,166
Capital equipment	1,682,126	28,348	(1,545,991)	164,483
Buildings and improvements	1,970,188	34,889	(184,826)	1,820,251
Total capital assets, being depreciated	90,896,274	20,575,289	(14,573,015)	96,898,548
Total capital assets	109,788,757	22,243,019	(34,815,720)	97,216,056
Accumulated depreciation	(44,151,889)	(1,959,985)	14,573,015	(31,538,859)
Total capital assets, net	$ 65,636,868	$ 20,283,034	$ (20,242,705)	$ 65,677,197

During 2025 and 2024, the developers contributed $651,200 and $304,235, respectively, for water lines, easements and water rights.

During 2024, capital assets and the related accumulated depreciation of $14,573,015 were retired since they were fully depreciated and not in use.

5. Investment in Participation Agreement to Provide Water System Capacity

On January 26, 1982, the District entered into a participation agreement with the Denver Water Board for the construction of transmission, pumping and storage facilities to provide water services to the District. In consideration of the participation charges paid by the District, recorded at a cost of $11,815,510, the Denver Water Board has reserved a total system capacity capable of supporting 15,740 equivalent 3/4-inch taps.

The Denver Water Board controls the availability of taps. Accumulated amortization on the above costs at December 31, 2025 and 2024 is $11,612,450 and $11,352,650, respectively. Amortization expense for each of the years ended December 31, 2024 and 2023 is $259,800 and $259,800, respectively.

6. Employee Retirement Benefits

In 1980, the Southgate Sanitation District adopted a defined contribution money purchase pension plan administered by a third-party trustee. The administrator is responsible for establishing plan benefits, contributions and other provisions and for approving all plan amendments. The plan covers all employees of the District who are age 18 and have entered the plan on January 1 following the date of initial employment and other contribution eligibility criteria. The District amended the plan on October 6, 2009, to allow plan entry for employees who are age 18 on the first day of the month following 6 months of employment.

Employees are fully vested after five years of service. The District contributes 7.5% of total employee compensation. There is no employee contribution required. The District's portion of the contribution attributable to 2025 and 2024 salaries was $59,778 and $57,010, respectively. There is no liability on the part of the District beyond the annual contribution. (See Note 7, Related Party Transactions)

7. Related Party Transactions

The District has an agreement to reimburse Southgate Sanitation District for costs of services provided by Southgate Sanitation District's employees on behalf of the District. These costs include salaries, payroll expenses and employee benefits. For the years ended December 31, 2025 and 2024, reimbursements under the above agreements were $1,026,357 and $1,021,521, respectively. Related-party accounts payable was $0 at December 31, 2025 and 2024.

7. Related Party Transactions (continued)

The District acquired a one-half interest in the building and related office equipment of Southgate Sanitation District under a capital lease which contained a purchase option under which the District purchased an undivided one-half interest in the building and equipment for $1 at August 15, 1994.

Subsequent to exercising this purchase option, the District entered into a Joint Use Agreement with Southgate Sanitation District which provides for the joint use or right of use to certain assets and property, regardless of how these assets are titled.

8. Risk Management

The District is exposed to various risks of loss related to workers compensation, general liability, unemployment, torts, theft of, damage to, and destruction of assets, and errors and omissions. The District has elected to participate in the Colorado Special Districts Property and Liability Pool ("the Pool"). The Pool is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for auto, public official's liability, property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula. During the years ended December 31, 2025 and 2024, the Pool has made no distributions nor required additional contributions from the District.

In addition, the District has completed a vulnerability assessment and updated the emergency response plan as required by the Environmental Protection Agency of the United States government.

9. Tax Spending and Debt Limitation

In 1992, Colorado voters approved Amendment 1, commonly known as the Taxpayer Bill of Rights (TABOR), which adds a new Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments. Enterprises, defined by TABOR as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR.

9. Tax Spending and Debt Limitation (continued)

TABOR establishes 1992 as the initial base for spending and revenue limits. Future spending and revenue limits can be adjusted for inflation and local growth without voter approval. TABOR requires the establishment of Emergency Reserves that must be at least 3% of spending (excluding bonded debt service). Excess funds within the spending and revenue limits can be reserved for general use and, when spent in subsequent years, are not subject to the spending limits mentioned above. The District's TABOR reserve at December 31, 2025 and 2024 is $75,708 and $86,928, respectively.

TABOR requires, with certain exceptions, voter approval prior to imposing new taxes, increasing taxes or spending above the limits prescribed above, increasing a mill levy, extending an expiring tax or implementing a tax policy change directly causing a net tax revenue gain to any local government. Multiple fiscal year debt requires voter approval, except for bond refinancing at lower interest rates or adding employees to existing pension plans.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and many of the provisions, including the calculation of fiscal year spending limits, growth factors and qualifications as an Enterprise, will require judicial interpretation.

Supplementary Information

Southgate Water District

Schedule of Revenues and Expenditures with Budget Comparison

For the Year Ended December 31, 2025

	Original Budget	Final Budget	Actual Amounts	Variance Favorable (Unfavorable)
Revenue				
System charges	$ 1,100,000	$ 1,100,000	$ 502,228	$ (597,772)
Investment income	200,000	200,000	170,008	(29,992)
Rates and service charges	3,000,000	3,000,000	3,160,574	160,574
Plan review /inspection	45,000	45,000	56,270	11,270
Miscellaneous income	5,000	5,000	16,359	11,359
Total revenue	4,350,000	4,350,000	3,905,439	(444,561)
Expenditures				
Operating expenditures and capital outlay				
Accounting and audit	45,000	45,000	31,058	13,942
Elections	100,000	100,000	364	99,636
Conferences and seminars	40,000	40,000	17,617	22,383
Directors' fees	7,500	7,500	4,500	3,000
Employee compensation	1,211,000	1,211,000	1,026,357	184,643
Insurance	45,000	45,000	37,514	7,486
Legal	32,000	32,000	33,111	(1,111)
Office expense	40,000	40,000	838	39,162
Network administrative maintenance	123,000	123,000	76,458	46,542
Software/subscriptions	93,000	93,000	61,913	31,087
Special projects	25,000	25,000	14,821	10,179
Engineering	90,000	90,000	112,194	(22,194)
Maintenance	636,000	1,100,000	1,013,790	86,210
Utilities	80,000	80,000	90,273	(10,273)
Small equipment	15,000	15,000	-	15,000
Ground water protection	5,000	5,000	2,791	2,209
Capital outlay	203,000	1,100,000	640,834	459,166
Contingency	50,000	50,000	-	50,000
Total expenditures	2,840,500	4,201,500	3,164,433	1,037,067
Excess of revenue over expenditures	1,509,500	148,500	$ 741,006	$ 592,506
Beginning funds available	29,483,424	29,483,424		
Ending funds available	$ 30,992,924	$ 29,631,924		

Reconciling difference between budgetary basis and generally accepted accounting principles (GAAP)	
Excess of revenues over expenditures, budgetary basis	$ 741,006
Adjustments	
Revenues which are not revenues for budgetary purposes	
Capital contributions	651,200
Expenses which are not expenditures for budgetary purposes	
Depreciation	(2,473,035)
Amortization	(259,800)
Expenditures for budgetary purposes	
Capital outlay	640,834
Change in Net Position (GAAP basis)	$ (699,795)

Southgate Water District

Schedule of Revenues and Expenditures with Budget Comparison

For the Year Ended December 31, 2024

	Final Budget	Actual Amounts	Variance Favorable (Unfavorable)
Revenue			
System charges	$ 1,100,000	$ 556,280	$ (543,720)
Investment income	200,000	276,743	76,743
Rates and service charges	3,050,667	2,984,014	(66,653)
Plan review /inspection	30,000	47,570	17,570
Miscellaneous income	5,000	3,396	(1,604)
Total revenue	4,385,667	3,868,003	(517,664)
Expenditures			
Operating expenditures and capital outlay			
Accounting and audit	40,000	32,704	7,296
Elections	-	-	-
Conferences and seminars	40,000	28,299	11,701
Directors' fees	7,500	4,900	2,600
Employee compensation	1,172,000	1,021,521	150,479
Insurance	45,000	37,240	7,760
Legal	32,000	30,655	1,345
Office expense	40,000	25,802	14,198
Network administrative maintenance	110,000	76,458	33,542
Software/subscriptions	65,000	61,913	3,087
Special projects	25,000	5,339	19,661
Engineering	89,000	123,543	(34,543)
Maintenance	550,000	1,348,335	(798,335)
Utilities	80,000	88,833	(8,833)
Small equipment	15,000	9,260	5,740
Ground water protection	12,500	2,791	9,709
Capital outlay	1,540,000	1,696,079	(156,079)
Easements	10,000	-	10,000
Contingency	50,000	-	50,000
Total expenditures	3,923,000	4,593,672	(670,672)
Excess of revenue over expenditures	462,667	$ (725,669)	$ (1,188,336)
Beginning funds available	10,365,829		
Ending funds available	$ 10,828,496		

Reconciling difference between budgetary basis and generally accepted accounting principles (GAAP)	
Excess of revenues over expenditures, budgetary basis	$ (725,669)
Adjustments	
Revenues which are not revenues for budgetary purposes	
Capital contributions	304,235
Expenses which are not expenditures for budgetary purposes	
Depreciation	(1,959,985)
Amortization	(252,800)
Expenditures for budgetary purposes	
Capital outlay	1,696,079
Change in Net Position (GAAP basis)	$ (938,140)