

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT

Arapahoe, Jefferson, and Douglas Counties, Colorado

**FINANCIAL STATEMENTS
December 31, 2025 and 2024**

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Independent Auditor's Report

Board of Directors
Southwest Metropolitan
Water and Sanitation District
Arapahoe, Jefferson and Douglas Counties, Colorado

Opinion

We have audited the accompanying financial statements of the Southwest Metropolitan Water and Sanitation District (District) as of and for the years ended December 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southwest Metropolitan Water and Sanitation District, as of December 31, 2025 and 2024, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibility 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 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 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information

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

SCHILLING & COMPANY, INC.

Highlands Ranch, Colorado
April 24, 2026

**SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
Years Ended December 31, 2025 and 2024**

The discussion and analysis is designed to provide an analysis of the District’s financial condition and operating results and to inform the reader on the District’s financial issues and activities.

The Management’s Discussion and Analysis (MD&A) should be read in conjunction with the District’s financial statements.

Financial Highlights

- Net Position increased \$3,260,509 (or 5.6%) from 2024 to 2025.
- In 2025, charges for services amounted to \$2,494,534 representing 32.0% of the District’s total revenue and capital contributions.
- The District reported net investment income of \$1,317,988 due to positive fair value adjustments of investment holdings at December 31, 2025.
- Total capital contributions during 2025 amounted to \$3,978,565.
- Net Position decreased \$1,111,945 (or 1.9%) from 2023 to 2024.
- In 2024, charges for services amounted to \$2,506,062 representing 70.5% of the District’s total revenue and capital contributions.
- The District reported net investment income of \$1,050,232 due to positive fair value adjustments of investment holdings at December 31, 2024.
- There were no capital contributions during 2024, but the District received deposits from developers in the amount of \$1,526,227 for participation fees related to cost sharing agreements for the upsizing of a major sewer interceptor that will begin in 2025.

Overview of the Financial Statements

The financial statements of the District are presented as a special purpose government engaged in business type activities – providing water and sewer services.

The *Statement of Net Position* 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 the Net Position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information which reflects how the District’s Net Position changed during the past year. All changes in Net Position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

The *Statement of Cash Flows* reports the District’s cash flows from operating, noncapital financing, capital and investing activities.

These financial statements distinguish functions of the District that will be principally supported by investment income, service fees and tap fees. The functions of the District include effective and economical operation of water distribution and wastewater collection systems within the jurisdictional boundaries of the District. The *notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

NET POSITION

December 31,	<u>2025</u>	<u>2024</u>	<u>2023</u>
ASSETS			
Current assets	\$ 16,717,958	\$ 10,298,651	\$ 10,044,416
Noncurrent assets:			
Long-term cash deposits and investments	10,808,480	16,136,780	14,373,550
Capital assets, net	<u>35,885,902</u>	<u>33,188,276</u>	<u>34,750,107</u>
Total noncurrent assets	<u>46,694,382</u>	<u>49,325,056</u>	<u>49,123,657</u>
Total assets	<u>63,412,340</u>	<u>59,623,707</u>	<u>59,168,073</u>
LIABILITIES			
Current liabilities	<u>2,345,256</u>	<u>1,817,132</u>	<u>249,553</u>
Total liabilities	<u>2,345,256</u>	<u>1,817,132</u>	<u>249,553</u>
NET POSITION			
Investment in capital assets	35,885,902	33,188,276	34,750,107
Restricted - Emergency reserve	138,200	106,700	120,200
Unrestricted	<u>25,042,982</u>	<u>24,511,599</u>	<u>24,048,213</u>
Total net position	<u>\$ 61,067,084</u>	<u>\$ 57,806,575</u>	<u>\$ 58,918,520</u>

As noted earlier, Net Position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$61,067,084, \$57,806,575, and \$58,918,520, at December 31, 2025, 2024, and 2023, respectively. The largest portion of the District's Net Position reflects its investment in capital assets. The District uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Unrestricted Net Position may be used to meet the District's ongoing obligations to maintain the water and sewer systems within the jurisdictional boundaries.

Comparing 2024 and 2025, Current assets increased \$6,419,307 while long-term cash deposits and investments decreased \$5,328,300 due to the shift from longer term investment holdings to liquid cash holdings. Investment in capital assets increased \$2,697,626 due to capital replacements, capital additions, and contributions of water and sewer facilities exceeding annual depreciation and amortization. The increase in total liabilities of \$528,124 is due to construction and engineering costs as well as an additional developer deposit of participation fees in the amount of \$227,543 related to the required upsizing of a major sewer interceptor. Although the upsizing project was scheduled to be completed in 2025, a significant portion of construction costs will extend into 2026.

Comparing 2023 to 2024, Current assets increased \$254,235 and long-term cash deposits and investments increased \$1,763,230. These changes are consistent with the increase in total liabilities of \$1,567,579. The District received developer deposits of participation fees in the amount of \$1,526,227 related to the upsizing of a major sewer interceptor. The participation fees will be recorded as revenue when the project is completed and costs have been reconciled. (See Note 6 - Sanitary Sewer Interceptor Funding Agreements). Investment in capital assets decreased \$1,561,831 due to annual depreciation and amortization exceeding capital replacements and contributions of water and sewer facilities.

REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years ending December 31,	<u>2025</u>	<u>2024</u>	<u>2023</u>
REVENUE			
OPERATING REVENUE			
Charges for services	\$ 2,494,534	\$ 2,506,062	\$ 2,529,276
Total operating revenue	<u>2,494,534</u>	<u>2,506,062</u>	<u>2,529,276</u>
NONOPERATING REVENUE			
Gain on asset disposal (net of insurance recovery)	-	-	27,005
Net investment income	<u>1,317,988</u>	<u>1,050,232</u>	<u>1,105,996</u>
Total nonoperating revenue	<u>1,317,988</u>	<u>1,050,232</u>	<u>1,133,001</u>
CAPITAL CONTRIBUTIONS			
Tap fees	793,919	-	287,306
Contributed capital assets	<u>3,184,646</u>	-	<u>350,000</u>
Total capital contributions	<u>3,978,565</u>	-	<u>637,306</u>
Total revenue	<u>7,791,087</u>	<u>3,556,294</u>	<u>4,299,583</u>
EXPENSES			
OPERATING EXPENSES			
Water operations	2,138,871	2,170,521	1,841,979
Sewer operations	1,300,625	1,473,010	1,271,968
General and administrative	<u>1,091,082</u>	<u>1,024,708</u>	<u>912,075</u>
Total operating expenses	<u>4,530,578</u>	<u>4,668,239</u>	<u>4,026,022</u>
CHANGE IN NET POSITION	3,260,509	(1,111,945)	273,561
NET POSITION - BEGINNING OF YEAR	<u>57,806,575</u>	<u>58,918,520</u>	<u>58,644,959</u>
NET POSITION - END OF YEAR	<u>\$ 61,067,084</u>	<u>\$ 57,806,575</u>	<u>\$ 58,918,520</u>

Total revenue increased \$4,234,793 or 119.1% from 2024 to 2025. This change is primarily due to capital contributions. There is significant ongoing development in the District and revenue depends on the progress of such developments within the District and the timing of the tap fee revenue collections. Net investment income of \$1,317,988 includes a positive fair market value

adjustment of \$501,958. Investment earnings increased due to the rise in the average yield on investment holdings from 2.57% in 2024 to 2.94% in 2025, along with continued growth in the overall investment portfolio

Total revenue decreased \$743,289 or 17.3% from 2023 to 2024. Net investment income of \$1,050,232 includes a positive fair market value adjustment of \$394,627 to investment holdings at December 31, 2024. A positive fair market value adjustment of \$596,752 was included in net investment income in 2023. It is the District's policy to hold all investments to maturity, therefore, any fair value adjustment is considered unrealized over the life of the investment. Total capital contributions decreased \$637,306 due to the progress of various developments within the District and the timing of tap fee revenue collections.

Total expenses decreased \$137,661 or 2.9% from 2024 to 2025. Water operations decreased by \$31,650 due to fewer remedial and emergency repairs required during 2025. Sewer operations decreased by \$172,385 from 2024 to 2025 due to fewer remedial repairs to the sewer system. The District contracts with Platte Canyon Water & Sanitation District (Platte Canyon) to provide administrative and maintenance services under an Intergovernmental Agreement (See Note 6 – Intergovernmental Agreement – Management and Maintenance). The cost of labor and overhead is allocated to the District based on the administrative and maintenance hours devoted to water operations, sewer operations, and general and administrative activities. Although required system repairs were significantly lower in 2025, the costs allocated to the District increased because a greater share of total labor hours was devoted to the District. The percentage of total labor hours devoted to the District by Platte Canyon increased from 49% in 2024 to 54% in 2025. The total reimbursement to Platte Canyon increased by \$173,647 in 2025.

The increase in total expenses from 2023 to 2024 amounted to \$642,217 or 16.0%. Water operations increased by \$328,542 due to more system failures requiring emergency repair and significantly more valve and hydrant nozzle repairs and replacements were performed during 2024 compared with 2023. Sewer operations increased by \$201,042. The District performed a point repair on an 8-inch sewer main during 2024 amounting to \$91,220 and manhole rehabilitation amounting to \$81,675 was carried over from 2023. General and administrative expenses increased by \$112,633 due to the increase in administrative costs incurred by Platte Canyon combine with more administrative hours charged to the District during 2024. The total reimbursement to Platte Canyon increased by \$200,273 in 2024.

Budgetary Highlights

The District prepares its budget on a non-GAAP budgetary basis of accounting to recognize the fiscal impact of sale of assets, capital outlay, in addition to operations and nonoperating revenues and contributions. Capital contributions of facilities and depreciation are not reflected on the budget as they do not affect "funds available". This budgetary accounting is required by State statutes.

Actual revenue for the District was less than budgeted revenues by \$2,944,269. Actual net investment income amounted to \$1,317,988 resulting in a positive budget variance of \$585,518. A fair value mark up of investments at December 31, 2025 amounted to \$501,958. The District budget included \$2,184,000 for water tap fees and \$795,432 for sewer tap fees. The revenue

anticipated in 2025 will be provided by developers in 2026 due to the timing of conditional acceptance granted by the District. The District budgeted for participation fees from developers related to the cost share of the interceptor upsizing mentioned above. The participation fees recorded as deferred revenue at December 31, 2025 will be recognized as revenue when the project is completed during 2026 (See Note 6- Sanitary Sewer Interceptor Funding Agreements).

Budgeted expenditures exceeded actual expenditures by \$2,670,755. Actual total operating expenditures were more than the budget amount by \$18,879. As mentioned above, there was a significant shift in labor hours devoted by Platte Canyon to the District that resulted in an increase in allocated administrative and maintenance costs. Budgeted line items impacted by this shift included water and sewer repair and maintenance, as well as general office administration. Scheduled maintenance on pressure reducing valves identified system wide repairs that resulted in significant corrective maintenance that was not projected. Additionally, the amount of field hours related to development inspections of water and sewer facilities were higher than projected. The Santa Fe Park South and Angeline Apartments developments required multiple site visit inspections and reviews to achieve conditional acceptance by the District. Actual engineering and legal expenditures for water and sewer operations were less than budgeted by \$43,105 and \$39,648, respectively. The District contracts with an outside engineering firm for plan reviews associated with new development and incurs legal costs related to easements and water and sewer main extension agreements. During 2025, most active development projects were in the construction and final completion stages, which reduced overall engineering and legal costs.

In addition to budgeting for emergency reserve, the District budgeted an additional 20% of the projected water and sewer capital expenses to cover unanticipated increases in construction costs. The percentage applied fluctuates from year to year depending on the predictability of the construction industry. The amount budgeted for contingencies and emergency reserves was \$950,830. The upsizing of the D-line interceptor from a 33-inch diameter to a 36-inch diameter pipe was budgeted at \$2,009,975. The project experienced schedule delays resulting from multiple factors, and final completion is projected for 2026.

Capital Assets

The District's investment in capital assets at December 31, 2025, 2024, and 2023 amounted to \$35,885,902, \$33,188,276, and \$34,750,107, (net of accumulated depreciation/amortization), respectively.

Analysis of changes in capital assets from 2025 to 2024 is as follows:

	<u>2025</u>	<u>2024</u>	<u>Percentage Change</u>
Land and easements	\$ 64,819	\$ 64,819	0.0%
Construction in progress	567,767	140,713	303.5%
Water distribution systems	18,184,228	16,187,974	12.3%
Sewage collection system	16,098,973	15,743,568	2.3%
Office building	945,583	1,019,311	-7.2%
Other	24,532	31,891	-23.1%
Total net capital assets	<u>\$ 35,885,902</u>	<u>\$ 33,188,276</u>	

The District's improvements to the water system included the replacement of approximately 2,168 feet of asbestos cement pipe amounting to \$750,762. One capital sewer project consists of upsizing the 33-inch diameter D-Line interceptor to a 36-inch diameter pipe to accommodate new development of residential and commercial projects located south of the Mineral Avenue & Santa Fe Drive intersection. Due to project delays, a substantial portion of the associated costs will be deferred to 2026. The total project cost is estimated at \$1,900,000 and will be fully funded through contributions from the three developers. Significant development was completed during 2025 with water and sewer facilities being contributed to the District in the amount of \$2,166,610 and \$1,018,036, respectively. Total depreciation and amortization expense for 2025 amounted to \$1,790,111.

Analysis of changes in capital assets from 2024 to 2023 is as follows:

	<u>2024</u>	<u>2023</u>	<u>Percentage Change</u>
Land and easements	\$ 64,819	\$ 64,819	0.0%
Construction in progress	140,713	28,015	402.3%
Water distribution systems	16,187,974	17,106,097	-5.4%
Sewage collection system	15,743,568	16,501,995	-4.6%
Office building	1,019,311	1,036,541	-1.7%
Other	31,891	12,640	152.3%
Total net capital assets	<u>\$ 33,188,276</u>	<u>\$ 34,750,107</u>	

The District's improvements to the sewage collection system included slip lining 275 feet of 10-inch vitrified clay pipe and 66 feet of 8-inch cast iron pipe and rehabilitation of the adjoining manholes amounting to \$30,852. In accordance with District standard procedures, engineering design of the water and sewer projects planned for 2025 was initiated and contracted during 2024. These costs amounted to \$112,698 and are included in construction in progress. Office building projects included \$68,475 for the replacement of the HVAC and \$19,998 for the installation of a security key card system. Additionally, security cameras and a security key card system installation at the Hogback Pump Station amounted to \$10,158. Total depreciation and amortization expense for 2024 amounted to \$1,808,577.

Additional information on the District's capital assets can be found in NOTE 4 of this report.

Economic Factors and Next Year's Budget

- Total 2026 revenue is budgeted at \$6,080,428, 19.5% less than 2025 budget revenue of \$7,550,710. Investment income is budgeted at \$577,920 which is based on a projected average yield of 2.5%.
- The District will continue to impose a service fee to customers. In 2026, the fee will remain \$12.00 per month per ¾" equivalent. Service fee revenue budgeted for 2026 is \$2,245,100 based on 15,591¾" equivalents.
- The budget for operating expenditures and capital expenditures is \$2,949,798 and \$479,125, respectively.
- Significant project costs for the upsizing of the D-line interceptor from a 33-inch diameter to a 36-inch diameter pipe budgeted in 2025 will be carried over to 2026. A budget amendment in 2026 may be required to account for these substantial costs.
- Total revenue for 2026 is projected to exceed budgeted expenditures by \$2,651,505.

Requests for Information

This report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Financial Administrator, Southwest Metropolitan Water and Sanitation District, 8739 W. Coal Mine Ave., Littleton, Colorado 80123.

FINANCIAL STATEMENTS

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
STATEMENTS OF NET POSITION
December 31, 2025 and 2024

	2025	2024
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - Unrestricted	\$ 5,520,039	\$ 4,229,872
Cash and cash equivalents - Restricted for capital projects	1,753,770	1,526,227
Cash deposits and investments - Unrestricted	9,124,790	4,232,085
Accounts receivable	197,599	198,527
Accrued interest receivable	85,960	82,469
Prepaid expenses	35,800	29,471
Total current assets	16,717,958	10,298,651
NONCURRENT ASSETS		
Long-term cash deposits and investments	10,808,480	16,136,780
Capital assets:		
Land and easements	64,819	64,819
Construction in progress	567,767	140,713
Water distribution system	49,187,063	46,277,598
Sewage collection system	37,418,466	36,282,855
Office building	2,772,990	2,775,890
Other	48,683	48,683
Less accumulated depreciation	(54,173,886)	(52,402,282)
Total capital assets (net of accumulated depreciation)	35,885,902	33,188,276
Total noncurrent assets	46,694,382	49,325,056
Total assets	63,412,340	59,623,707
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	530,457	219,616
Retainage payable	17,573	-
Deposits from developers	43,456	71,289
Participation fees from developers	1,753,770	1,526,227
Total current liabilities	2,345,256	1,817,132
NET POSITION		
Investment in capital assets	35,885,902	33,188,276
Restricted for emergencies	138,200	106,700
Unrestricted	25,042,982	24,511,599
TOTAL NET POSITION	\$ 61,067,084	\$ 57,806,575

These financial statements should be read only in connection with the accompanying notes to financial statements.

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years Ended December 31, 2025 and 2024

	2025	2024
OPERATING REVENUE		
Charges for services	\$ 2,490,192	\$ 2,468,678
Other income	4,342	37,384
Total operating revenue	2,494,534	2,506,062
OPERATING EXPENSES		
Water operations	2,138,871	2,170,521
Sewer operations	1,300,625	1,473,010
General and administrative	1,091,082	1,024,708
Total operating expenses	4,530,578	4,668,239
(LOSS) FROM OPERATIONS	(2,036,044)	(2,162,177)
NONOPERATING REVENUE		
Investment income	816,030	655,605
Net increase in fair value of investments	501,958	394,627
Total nonoperating revenue	1,317,988	1,050,232
(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(718,056)	(1,111,945)
CAPITAL CONTRIBUTIONS		
Tap fees	793,919	-
Contributed capital assets	3,184,646	-
Total capital contributions	3,978,565	-
CHANGE IN NET POSITION	3,260,509	(1,111,945)
NET POSITION - BEGINNING OF YEAR	57,806,575	58,918,520
NET POSITION - END OF YEAR	\$ 61,067,084	\$ 57,806,575

These financial statements should be read only in connection with the accompanying notes to financial statements.

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2025 and 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 2,467,629	\$ 2,535,053
Cash payments to suppliers for goods and services	(2,690,895)	(2,871,201)
Cash flows (used) for operating activities	(223,266)	(336,148)
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributed capital - Tap and annexation fees	793,919	-
Participation fees from developer	227,543	1,526,227
Acquisition of property, plant and equipment	(1,030,578)	(204,126)
Cash flows provided (used) by capital and related financing activities	(9,116)	1,322,101
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	771,473	602,412
Purchase of investments	(5,021,381)	(5,485,075)
Matured investments	6,000,000	5,000,000
Cash provided by investing activities	1,750,092	117,337
 NET CHANGE IN CASH AND CASH EQUIVALENTS	1,517,710	1,103,290
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	5,756,099	4,652,809
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 7,273,809	\$ 5,756,099

(Continued)

These financial statements should be read only in connection with the accompanying notes to financial statements.

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2025 and 2024

(Continued)

	2025	2024
Reconciliation of (loss) from operations to net cash used for operating activities		
(Loss) from operations	\$ (2,036,044)	\$ (2,162,177)
Adjustments to reconcile (loss) from operations to net cash used for operating activities		
Depreciation and amortization	1,790,111	1,808,577
Effects of changes in operating assets and liabilities:		
Accounts receivable	928	24,495
Prepaid expenses	(6,329)	(5,775)
Accounts payable	55,901	(5,764)
Deposits from developers	(27,833)	4,496
Total adjustments	1,812,778	1,826,029
Cash flows (used) for operating activities	\$ (223,266)	\$ (336,148)
 NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Contributions of capital assets from developers	\$ 3,184,646	\$ -
Fair Value increase of investments	\$ 501,958	\$ 394,627

These financial statements should be read only in connection with the accompanying notes to financial statements.

**SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 1 – DEFINITION OF REPORTING ENTITY

Southwest Metropolitan Water and Sanitation District (the District), a quasi-municipal corporation, is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Jefferson, Arapahoe and Douglas Counties, Colorado. The District was established to provide water and sanitation services.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of Accounting

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 and amortization are computed and recorded as operating expenses. Expenditures for property and equipment are shown as increases in assets. Tap fees, inclusion fees and contributed water and sewer lines are recorded as capital contributions when received.

Operating Revenues and Expenses

The District distinguishes between operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing water and sewer services to its customers. Charges to customers for services provided are performed by a third-party (see Note 5 - Denver Water Board). Operating expenses include cost of service, administrative

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expenses, and depreciation and amortization of assets. All revenues and expenses not meeting this definition are reported as nonoperating revenue and expenses or capital contributions.

Budgets

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

Restricted Resources

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

Cash Equivalents and Investments

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.

Capital Assets

Capital assets which include property, equipment, and infrastructure are recorded at cost except for those assets which have been contributed which are stated at estimated fair value at the date of contribution or at developer’s cost. Capital assets are defined by the District as assets with an initial cost of more than \$5,000 for equipment and \$50,000 for improvements and an estimated useful life of five or more years. Depreciation and amortization expense has been computed using the straight-line method over the estimated economic useful lives:

Distribution and collection systems	20 – 40 years
Office building and improvements	15 – 40 years
Other	5 – 7 years

Net Position

Net Position is categorized as investment in capital assets, restricted and unrestricted. Investment in capital assets is intended to reflect the portion of Net Position which are associated with non-liquid, capital assets. Restricted Net Position are liquid assets, which have third party limitations on their use. Unrestricted Net Position represent assets that do not have any third party limitations on their use.

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Reclassifications

For comparability, certain 2024 amounts have been reclassified where appropriate to conform with the 2025 financial statement presentation.

NOTE 3 – CASH DEPOSITS AND INVESTMENTS

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

	2025	2024
Cash deposits	\$ 276,931	\$ 266,590
Investments	26,930,148	25,858,374
Total	\$ 27,207,079	\$ 26,124,964

Cash deposits and investments are reflected on the December 31, Statement of Net Position as follows:

	2025	2024
Cash and cash equivalents	\$ 7,273,809	\$ 5,756,099
Cash deposits and investments	9,124,790	4,232,085
Long-term cash deposits and investments	10,808,480	16,136,780
	\$ 27,207,079	\$ 26,124,964

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires deposits of all units of local government to be made in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as 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 equal to the 102% of the uninsured deposits.

Investments

Colorado statutes specify investment instruments meeting defined rating, maturity, custodial and concentration risk criteria in which local governments may invest which include:

- . Obligations of the U.S. and certain U.S. government agency securities and the World Bank
- . General obligation and revenue bonds of U.S. local government entities
- . Bankers' acceptances of certain banks
- . Commercial paper

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- . Certain reverse repurchase agreements
- . Certain securities lending agreements
- . Certain corporate bonds
- . Written repurchase agreements collateralized by certain authorized securities
- . Certain money market mutual funds
- . Guaranteed investment contracts
- . Local government investment pools

The investment policy adopted by the Board of Directors of the District establishes additional restrictions to the requirements specified by state statutes.

As of December 31, the District had the following investments:

<u>Investment</u>	Rating	Investment Maturities (in Years)			2025
		1 or less	1 - 5	More than 5	Total
U.S. Government Instrumentalities	AAA/AA+	\$ 3,933,340	\$ 5,266,490	\$ 996,400	\$10,196,230
U.S. Treasury Notes	N/A	4,942,450	4,545,590	-	9,488,040
Local Government Investment Pool - COLOTRUST PLUS+	AAA _m	3,456,187	-	-	3,456,187
Local Government Investment Pool - COLOTRUST EDGE	AAA _f /S1	968,753	-	-	968,753
Local Government Investment Pool - CSAFE Core	AAA _f /S1	2,820,938	-	-	2,820,938
		<u>\$ 16,121,668</u>	<u>\$ 9,812,080</u>	<u>\$ 996,400</u>	<u>\$26,930,148</u>

<u>Investment</u>	Rating	Investment Maturities (in Years)			2024
		1 or less	1 - 5	More than 5	Total
U.S. Government Instrumentalities	AAA/AA+	\$ -	\$ 7,728,940	\$ 1,661,120	\$ 9,390,060
U.S. Treasury Notes	N/A	3,983,085	6,746,720	-	10,729,805
Local Government Investment Pool - COLOTRUST PLUS+	AAA _m	3,460,426	-	-	3,460,426
Local Government Investment Pool - COLOTRUST EDGE	AAA _f /S1	926,677	-	-	926,677
Local Government Investment Pool - CSAFE Core	AAA _f /S1	1,351,406	-	-	1,351,406
		<u>\$ 9,721,594</u>	<u>\$ 14,475,660</u>	<u>\$ 1,661,120</u>	<u>\$25,858,374</u>

Interest Rate Risk – In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting investments in U.S. Treasuries and U.S. Agencies to an original maturity of ten years or less.

Credit risk – The District’s investment policy limits investments to U.S. Treasury obligations and U.S. Government agency securities, local government investment pools, and certain money market mutual funds approved by the Board of Directors. At the time of purchase, investments must have a credit rating equal to or greater than that specified by state statutes.

Concentration of Credit Risk – It is the policy of the District to diversify its investment portfolio to eliminate risk of loss resulting from over concentration of assets in a specific maturity, a specific class, and specific issuer of securities. The District policy includes cash deposits in the total portfolio when determining concentration of investments. The policy provides that the total portfolio of the District may be comprised of 100% U.S. Treasury Notes. However, investment in U.S. agency and instrumentalities may not exceed 50% of the District’s total portfolio and

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DECEMBER 31, 2025 AND 2024

investment in any one issuer may not exceed 20% of the total portfolio. Investments in local government investment pools as well as money market mutual funds may not exceed 50%, of the District's total portfolio. A maximum of 35% of the District's total portfolio may be invested in any one local government investment pool. A maximum of 25% of the District's total portfolio may be invested in approved fixed income money market mutual funds. The policy provides for variances in the stated maximum percentage limitations not to exceed 10% at any given time and the Board may ratify exceptions as deemed necessary. As of December 31, 2025, the District's investments in the Federal Home Loan Mortgage Corp, Federal Home Loan Bank, Federal National Mortgage Association, and Federal Farm Credit Banks, and were 6.60%, 18.41%, 5.56%, and 7.29%, respectively, of the District's total investments and 6.53%, 18.23%, 5.50%, and 7.22%, respectively, of the District's total portfolio. As of December 31, 2024, the District's investments in the Federal Home Loan Mortgage Corp, Federal Home Loan Bank, and Federal Farm Credit Banks, and were 14.12%, 14.90%, and 7.30%, respectively, of the District's total investments and 13.97%, 14.74%, and 7.23%, respectively, of the District's total portfolio.

Local Government Investment pools:

COLOTRUST – As of December 31, 2025 and 2024, the District has 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 COLOTRUST. It operates similarly to a money market fund. COLOTRUST offers shares in three portfolios: PRIME, PLUS+, and EDGE. All portfolios may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain obligations of U.S. government agencies and instrumentalities, and repurchase agreements collateralized with certain U.S. government agencies or instrumentalities. Both PLUS+ and EDGE may also invest in the highest rated commercial paper. The PRIME and PLUS portfolios are restricted to a weighted average maturity (WAM) of 60 days or less while the EDGE portfolio incorporates longer-dated securities with a WAM of 60 days or more. Both PRIME and PLUS+ portfolios are rated AAAM by Standard and Poor's and the EDGE portfolio is rated AAAs/S1 by FitchRatings. COLOTRUST records its investments at fair value and the District records its investments in COLOTRUST at net asset value as determined by fair value. Each share of PRIME and PLUS is equal in value to \$1.00 and the redemption frequency is daily with no redemption notice period. EDGE's net asset value is managed to approximate a \$10.00 transactional share price and the redemption frequency is five business days. The principal value of an EDGE investment may fluctuate and could be greater or less than \$10.00 per share at time of purchase, prior to redemption, and at the time of redemption. There are no unfunded commitments.

CSAFE – As of December 31, 2025 and 2024, the District has invested in the Colorado Surplus Asset Fund Trust (CSAFE), an investment vehicle established by State statute for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces the requirements of creating and operating CSAFE. CSAFE operates similarly to money market funds, and each share of CSAFE Cash is equal in value to \$1.00 and each share of CSAFE Core is equal in value to \$2.00. The District's investment is in the CSAFE Core fund. Fitch Ratings rates CSAFE AAAs/S1. Investments are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in

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connection with the direct investment and withdrawal functions. The custodian’s internal records identify the investments owned by the participating governments. CSAFE Core calculates the net asset value on a fair value basis as provided for by GASB Statements 31 and 72, and the District records its investment in CSAFE Core at this net asset value. There are no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

Investment Valuation

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District also has certain investments not categorized within the fair value hierarchy. These investments are measured at amortized cost or in certain circumstances the value is calculated using the net asset value (NAV) per share, or its equivalent of the investment. These investments include 2a7-like external investment pools and money market investments. The District held investments in COLOTRUST and CSAFE which are not categorized within the fair value hierarchy. As of December 31, 2025 and 2024 fair value and NAV measurements of the District’s investments are as follows:

	Carrying Amount	
	2025	2024
Investment measured at fair value:		
U.S. Government Instrumentalities (Level 1 inputs)	\$ 10,196,230	\$ 9,390,060
U.S. Treasury Notes (Level 1 inputs)	9,488,040	10,729,805
Total investments by fair value level	19,684,270	20,119,865
Investments measured at NAV:		
Local Government Investment Pool - COLOTRUST PLUS+	3,456,187	3,460,426
Local Government Investment Pool - COLOTRUST EDGE	968,753	926,677
Local Government Investment Pool - CSAFE Core	2,820,938	1,351,406
Total investments at NAV	7,245,878	5,738,509
Total investments at carrying amount	\$ 26,930,148	\$ 25,858,374

Restricted Cash and Cash Equivalents

As of December 31, 2025 and 2024 cash and cash equivalents in the amount of \$1,753,770 and \$1,526,227, respectively, was restricted for capital projects (See Note 6 - Sanitary Sewer Interceptor Funding Agreements).

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 4 – CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2025 follows:

	Balance at December 31, 2024	Additions	Deletions	Balance at December 31, 2025
Capital assets, not being depreciated:				
Land and easements	\$ 64,819	\$ -	\$ -	\$ 64,819
Construction in progress	140,713	480,889	53,835	567,767
Total capital assets not being depreciated	<u>205,532</u>	<u>480,889</u>	<u>53,835</u>	<u>632,586</u>
Capital assets, being depreciated:				
Water distribution system	46,277,598	2,925,072	15,607	49,187,063
Sewage collection system	36,282,855	1,135,611	-	37,418,466
Office building	2,775,890	-	2,900	2,772,990
Other	48,683	-	-	48,683
Total capital assets being depreciated	<u>85,385,026</u>	<u>4,060,683</u>	<u>18,507</u>	<u>89,427,202</u>
Less accumulated depreciation/amortization:				
Water distribution system	(30,089,624)	(928,818)	(15,607)	(31,002,835)
Sewage collection system	(20,539,287)	(780,206)	-	(21,319,493)
Office building	(1,756,579)	(73,728)	(2,900)	(1,827,407)
Other	(16,792)	(7,359)	-	(24,151)
Total accumulated depreciation	<u>(52,402,282)</u>	<u>(1,790,111)</u>	<u>(18,507)</u>	<u>(54,173,886)</u>
Total capital assets, being depreciated, net	<u>32,982,744</u>	<u>2,270,572</u>	<u>-</u>	<u>35,253,316</u>
Net Capital Assets	<u>\$33,188,276</u>	<u>\$ 2,751,461</u>	<u>\$ 53,835</u>	<u>\$35,885,902</u>

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

An analysis of the changes in capital assets for the year ended December 31, 2024 follows:

	Balance at December 31, 2023	Additions	Deletions	Balance at December 31, 2024
Capital assets, not being depreciated:				
Land and easements	\$ 64,819	\$ -	\$ -	\$ 64,819
Construction in progress	28,015	112,698	-	140,713
Total capital assets not being depreciated	<u>92,834</u>	<u>112,698</u>	<u>-</u>	<u>205,532</u>
Capital assets, being depreciated:				
Water distribution system	46,267,440	10,158	-	46,277,598
Sewage collection system	36,274,409	30,852	22,406	36,282,855
Office building	2,707,415	68,475	-	2,775,890
Other	24,120	24,563	-	48,683
Total capital assets being depreciated	<u>85,273,384</u>	<u>134,048</u>	<u>22,406</u>	<u>85,385,026</u>
Less accumulated depreciation/amortization:				
Water distribution system	(29,161,343)	(928,281)	-	(30,089,624)
Sewage collection system	(19,772,414)	(789,279)	(22,406)	(20,539,287)
Office building	(1,670,874)	(85,705)	-	(1,756,579)
Other	(11,480)	(5,312)	-	(16,792)
Total accumulated depreciation	<u>(50,616,111)</u>	<u>(1,808,577)</u>	<u>(22,406)</u>	<u>(52,402,282)</u>
Total capital assets, being depreciated, net	<u>34,657,273</u>	<u>(1,674,529)</u>	<u>-</u>	<u>32,982,744</u>
Net Capital Assets	<u>\$34,750,107</u>	<u>\$ (1,561,831)</u>	<u>\$ -</u>	<u>\$33,188,276</u>

Depreciation and amortization expense for the years ended December 31, 2025 and 2024 were charged to the following operations:

	<u>2025</u>	<u>2024</u>
Water	\$ 928,818	\$ 928,281
Sewer	780,206	789,279
Administration	81,087	91,017
	<u>\$ 1,790,111</u>	<u>\$ 1,808,577</u>

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 5 – CONTRACTS

Denver Water Board

The District has a distributor contract with the Denver Water Board (Denver) whereby Denver provides water in the District's service area and charges the users directly ("read and bill" type of distributor's contract). The District is responsible for maintenance and replacement of the water mains owned by the District.

During 2014, under the distributor contract with Denver, the District entered into an Intergovernmental Agreement with Denver to impose a service fee of \$1.00 per month per ¾" equivalent to District customers. The service fee is to be used for operations, maintenance, and rehabilitation, of the District facilities. The fee is imposed on customers' Denver Water bills, with the revenue collected by Denver Water and remitted to the District less a collection fee. The District increased the service fee to \$3.00 in 2017, \$5.00 in 2018, \$7.00 in 2019, and imposed a fee of \$8.00 in 2020 and 2021. The fee was increased to \$12.00 in 2022. Service fee revenue amounted to \$2,245,777 and \$2,259,530 in 2025 and 2024, respectively.

In 1975, the District entered into an agreement with Denver whereby the District constructed water mains and conveyed them to Denver in exchange for a water supply of 5,500,000 gallons per day. Denver is responsible for the operation, maintenance and replacement of these mains.

The District participated in the cost to construct facilities owned by Denver (agreement date 1977). The District acquired the right to sufficient capacities in the water line to serve taps reserved to the District for \$6,742,264. This amount is included in the water distribution system and is being amortized over 40 years using the straight-line method. Accumulated amortization at December 31, 2025 and 2024 is \$6,106,909 and \$6,049,160, respectively.

The District has additional contracts with Denver for its participation costs in facilities. These facilities were deemed complete during 2005 and the District has no further commitments under the contracts. The District's participation amounted to \$4,484,958, which reserves additional capacity in the Denver system for the District. This amount has been included in the water distribution system and is being amortized over 40 years using the straight-line method. Accumulated amortization at December 31, 2025 and 2024 is \$2,242,479 and \$2,130,355, respectively.

City of Littleton

The District has a contract with the City of Littleton (the City) whereby the City provides sewage treatment for the District and bills users directly. The District is responsible for maintenance and replacement of the sewer mains within the District and will retain title to them.

In 1969, the District entered into an agreement with the City of Littleton whereby the City is allowed to connect with the District's sewer lines for \$15,000 per year. The agreement is subject to renewal annually. The District recorded contract service fee income of \$15,000 for each of the years ended December 31, 2025 and 2024.

**SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
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DECEMBER 31, 2025 AND 2024**

Meadowbrook-Fairview

In 1976, the District agreed to reserve for Meadowbrook-Fairview Metropolitan District (Meadowbrook-Fairview) sewer capacity for 1,550 single family or equivalent sanitary sewer taps in its facilities. The agreement provides that sewer lines described as outfalls “A” & “B” that were constructed by Meadowbrook-Fairview remain the property of Meadowbrook-Fairview until its bonded indebtedness incurred in construction is fully paid.

During 1997, the agreement was amended and the outfall lines “A” & “B” and all easements relating thereto were conveyed to the District as provided in the original agreement. The amendment extended the contract for twenty years and for an additional period of time the outfall lines are being utilized. During 1999, the contract was again amended, increasing the total allowable taps by 336 to 1,886.

A third amendment to the agreement was made during 2019 increasing the total allowable taps by 114 to 2,000. Meadowbrook-Fairview must pay the sum of \$227 for each single-family residential equivalent together with Southwest’s applicable tap fee at the time of connection. As of December 31, 2025 and 2024, remaining taps to be issued under the contract amounted to 56 and 57, respectively.

Grant Water and Sanitation District

On August 14, 1962, the District entered into an agreement with Grant Water and Sanitation District (Grant) to accommodate the future transmission of sewage from 5,000 single family equivalent taps. Grant agreed to pay the District \$50 at the time each individual tap is connected.

During 1983, an additional agreement provided for an alternate point of connection to the Districts sewer system for 300 single family equivalent taps, within Grant at \$450 per individual tap. The 300 sewer taps are part of, and not in addition to the 5,000 sewer taps allowed under the 1962 Agreement. At December 31, 2025 and 2024 the remaining taps to be issued under the agreements amounted to 993.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Intergovernmental Agreement – Management and Maintenance

In 1986, the District entered into an agreement with Platte Canyon Water and Sanitation District (Platte Canyon) wherein Platte Canyon provides management, maintenance, inspection and clerical services to the District. Under the agreement, Platte Canyon bills the District monthly for its proportionate share of costs. During 2024, the contract was renewed for ten years with an option for the District to renew for successive five-year periods after December 31, 2034. During 2025 and 2024 the District reimbursed Platte Canyon \$1,728,881 and \$1,555,235 respectively for services provided.

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

Intergovernmental Agreement – Joint Office and Garage Facility

On March 27, 1998, the District entered into an intergovernmental agreement with Platte Canyon, which provides for cost sharing of a new office and garage facility. The cost of the new facility was \$1,816,148, of which, the District paid 70% or \$1,271,303. Upon termination of the agreement, Platte Canyon will be entitled to 30% of the appraised replacement value of the joint facility excluding land value.

In accordance with the agreement, Platte Canyon pays the District a proportionate share of the operation and maintenance expense as well as approved capital improvements determined on a quarterly basis. The Intergovernmental Agreement was amended on January 1, 2019 and will be effective until December 31, 2029. Reimbursement of operation, maintenance, and capital improvement costs received from Platte Canyon during 2025 and 2024 amounted to \$49,718 and \$50,561 respectively.

Water Tap Deposit Agreement

Advance deposits for the purchase of future water taps were received during 1978. At December 31, 2025, remaining advance deposits amounted to \$552,750, which represents the District's intention to issue 737 water taps. This amount was recorded as contributions when received. No advance deposits were used or refunded in 2025 and 2024.

Sanitary Sewer Interceptor Funding Agreements

During 2024, the District entered into two sanitary interceptor funding agreements with developers for the cost sharing of the required upsizing of the D-line Interceptor. The cost share is based on a total estimate of 2,125 single family residential equivalent sanitary sewer taps that will discharge into the new D-line Interceptor and consists of three separate developments. Developers are at different stages of development but will ultimately be responsible for their proportionate share of construction costs. Two developers have provided all or a portion of their participation fees including a 15% additional deposit based on the total estimated construction cost of \$2,632,224. Participation fees received from developers as of December 31, 2025 and 2024, amounted to \$1,753,770 and \$1,526,227, respectively, and has been recorded as restricted cash and a deferred liability. Upon completion of the construction in 2026, a reconciliation will be performed to determine the actual cost share amount related to each development.

NOTE 7 – RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, as amended from time to time, the District may be exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets, errors or omissions, injuries to employees, or acts of God. The District is a member of the Colorado Special Districts Property and Liability Pool (Pool). The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery, and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

**SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
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The District pays annual premiums to the Pool for property, general liability, and boiler and machinery. In the event aggregate losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds, which the Pool determines are not needed for purposes of the Pool, may be returned to the members pursuant to a distribution formula.

The District maintains commercial insurance for injuries to employees (worker's compensation). Settled claims have not exceeded this coverage in any of the past three fiscal years.

NOTE 8 – TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR), contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. The District's management believes a significant portion of its operations qualifies for this exclusion.

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

On November 4, 2003, a majority of the District's electors authorized the District to collect, retain and spend all revenues and other funds received from District rates, fees, tolls, charges, fines, penalties and investments commencing January 1, 2004, for general operations, maintenance, and capital improvements as a voter approved revenue change and exception to the limits which would otherwise apply under Article X, Section 20.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits and qualification as an Enterprise will require judicial interpretation.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. At December 31, 2025 and 2024, the District's reserve of \$138,200 and \$106,700 was recorded as a restriction of Net Position.

**SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
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NOTE 9 – Construction Commitment

As of December 31, 2025, the District had an unexpended contract commitment for construction related to the upsizing of the D-line interceptor from a 33-inch diameter to a 36-inch diameter pipe amounting to \$1,266,961.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL INFORMATION

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
SCHEDULES OF OPERATING EXPENSES
Years Ended December 31, 2025 and 2024

	2025	2024
WATER OPERATIONS		
Repair and maintenance	\$ 1,132,334	\$ 1,139,671
Utilities	56,970	57,917
Engineering and legal	20,749	44,652
Depreciation	758,945	758,408
Amortization	169,873	169,873
Total water operations	2,138,871	2,170,521
SEWER OPERATIONS		
Repair and maintenance	481,508	601,998
Utilities	14,413	13,006
Engineering and legal	24,498	68,727
Depreciation	780,206	789,279
Total sewer operations	1,300,625	1,473,010
GENERAL AND ADMINISTRATIVE		
General office administration		
Administration	707,501	673,324
Office supplies	5,846	1,540
Other	17,510	15,681
Public Relations	28,333	32,464
Professional and consulting		
Accounting and audit	6,400	6,200
Legal	43,957	59,908
Other	-	3,125
Insurance	32,871	27,096
Building maintenance and utilities	161,118	108,217
Miscellaneous	6,459	6,136
Depreciation	81,087	91,017
Total general and administrative	1,091,082	1,024,708
Total operating expenses	\$ 4,530,578	\$ 4,668,239

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUNDS AVAILABLE
BUDGET AND ACTUAL (Non-GAAP BUDGETARY BASIS)
Year Ended December 31, 2025

	<u>Original Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUE			
Net investment income	\$ 732,470	\$ 1,317,988	\$ 585,518
Tap fees - water	2,184,000	651,000	(1,533,000)
Tap fees - sewer	795,432	142,919	(652,513)
Charges for services	2,370,840	2,490,192	119,352
Participation fees	1,457,968	-	(1,457,968)
Other revenue	10,000	4,342	(5,658)
Total revenue	<u>7,550,710</u>	<u>4,606,441</u>	<u>(2,944,269)</u>
EXPENDITURES			
OPERATIONS AND ADMINISTRATION			
Operations and maintenance - water			
Repair and maintenance	1,061,185	1,132,334	(71,149)
Utilities	70,830	56,970	13,860
Engineering and legal	63,854	20,749	43,105
Operations and maintenance - sewer			
Repair and maintenance	466,690	481,508	(14,818)
Utilities	14,900	14,413	487
Engineering and legal	64,146	24,498	39,648
General office administration	681,013	730,857	(49,844)
Public Relations	35,000	28,333	6,667
Professional and consulting	65,950	50,357	15,593
Insurance	31,185	32,871	(1,686)
Office maintenance	110,045	114,663	(4,618)
Office utilities	48,760	46,455	2,305
Other	8,030	6,459	1,571
Total operations and maintenance	<u>2,721,588</u>	<u>2,740,467</u>	<u>(18,879)</u>
CAPITAL OUTLAY			
Water distribution system	962,620	696,927	265,693
Sewage collection system	2,009,975	536,864	1,473,111
Other	69,300	69,300	-
CONTINGENCY AND EMERGENCY RESERVES			
Total capital outlay	<u>3,992,725</u>	<u>1,303,091</u>	<u>2,689,634</u>
Total expenditures	<u>6,714,313</u>	<u>4,043,558</u>	<u>2,670,755</u>
EXCESS OF REVENUE (UNDER) EXPENDITURES	836,397	562,883	(273,514)
FUNDS AVAILABLE - BEGINNING OF YEAR	<u>24,415,581</u>	<u>24,618,299</u>	<u>202,718</u>
FUNDS AVAILABLE - END OF YEAR	<u>\$ 25,251,978</u>	<u>\$ 25,181,182</u>	<u>\$ (70,796)</u>
Funds available is computed as follows:			
Current assets		\$ 16,717,958	
Long-term cash deposits and investments		10,808,480	
Current liabilities		<u>(2,345,256)</u>	
		<u>\$ 25,181,182</u>	

**SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
RECONCILIATION OF ACTUAL (Non-GAAP BUDGETARY BASIS) TO STATEMENT
OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended December 31, 2025**

REVENUE (BUDGETARY BASIS)	\$ 4,606,441
Contributed capital assets	3,184,646
Total revenue per statement of revenues, expenses, and changes in net position	<u>7,791,087</u>
 EXPENDITURES (BUDGETARY BASIS)	 4,043,558
Depreciation	1,620,238
Amortization	169,873
Capital outlay	<u>(1,303,091)</u>
Total expenses per statement of revenues, expenses, and changes in net position	<u>4,530,578</u>
 Change in net position per statement of revenues, expenses, and changes in net position	 <u><u>\$ 3,260,509</u></u>