FALCON AREA WATER & WASTEWATER AUTHORITY
El Paso County, Colorado

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2025 AND 2024

FALCON AREA WATER & WASTEWATER AUTHORITY
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2025 AND 2024

INDEPENDENT AUDITOR'S REPORT	**I**
BASIC FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION	**1**
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	**2**
STATEMENTS OF CASH FLOWS	**3**
NOTES TO BASIC FINANCIAL STATEMENTS	**4**
SUPPLEMENTARY INFORMATION	
SCHEDULES OF EXPENSES	**26**
SCHEDULE OF REVENUES, EXPENDITURES AND FUNDS AVAILABLE – BUDGET AND ACTUAL (BUDGETARY BASIS)	**27**
SCHEDULE OF RECONCILIATION OF BUDGETARY BASIS (ACTUAL) TO STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	**29**

BiggsKofford

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Falcon Area Water & Wastewater Authority
El Paso County, Colorado

Opinions

We have audited the accompanying financial statements of the business-type activities of Falcon Area Water & Wastewater Authority ("Authority"), as of and for the years ended December 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Authority's basic 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 business-type activities of the Authority 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 Auditor's Responsibilities for the Audit of the Financial Statements section of the report. We are required to be independent of the Authority and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

generally accepted in the United States of America 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 auditing standards generally accepted in the United States of America, 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 Authority'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 Authority's ability to continue as a going concern for a reasonable period of time.

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

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and

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

BiggsKofford LLP

Colorado Springs, Colorado
September 17, 2026

BASIC FINANCIAL STATEMENTS

FALCON AREA WATER & WASTEWATER AUTHORITY
STATEMENTS OF NET POSITION
DECEMBER 31, 2025 AND 2024

	2025	2024
ASSETS		
CURRENT ASSETS		
Cash and Investments	$ 2,669,439	$ 2,884,951
Cash and Investments - Restricted	6,473,845	19,220,973
Accounts Receivable	75,948	59,490
Accounts Receivable - Fees	5,980	-
Due from Woodmen Hills MD - Reimbursed Expenditures	5,098,456	-
Inventory	102,210	92,950
Prepaid Insurance	71,911	-
Total Current Assets	14,497,789	22,258,364
CAPITAL ASSETS, NET	117,463,458	105,070,738
Total Assets	$ 131,961,247	$ 127,329,102
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable	$ 372,861	$ 811,130
Retainage Payable	486,171	185,321
Accrued Interest, Bonds	470,409	470,409
Current Portion of Loan Payable	361,098	-
Total Current Liabilities	1,690,539	1,466,860
LONG-TERM LIABILITIES	156,671,872	148,565,720
NET POSITION		
Net Investment in Capital Assets	(27,154,930)	(34,995,346)
Restricted	6,473,845	19,220,973
Unrestricted	(5,720,079)	(6,929,105)
Total Net Position	(26,401,164)	(22,703,478)
Total Liabilities and Net Position	$ 131,961,247	$ 127,329,102

See accompanying Notes to Basic Financial Statements.

FALCON AREA WATER & WASTEWATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2025 AND 2024

	2025	2024
OPERATING REVENUES		
Water Service Fees	$ 749,517	$ 470,160
CMD Clean Water Fee	111,525	71,576
Resident Sewer Fee	373,112	245,982
Resident Under Drain Fee	25,871	18,004
AMR Service Fee	44,268	30,546
Billing Service Fee	52,204	35,725
Water and Sewer Admin Fees	66,700	95,810
Meter Fees	105,435	154,440
Installation Fees	213,000	312,000
Late Fees/Penalties	15,652	8,678
Other Revenue	1,000	-
Total Operating Revenues	1,758,284	1,442,921
OPERATING EXPENSES	3,297,154	2,869,611
Total Gross Loss from Operations	(1,538,870)	(1,426,690)
GENERAL ADMINISTRATIVE EXPENSES	210,568	192,792
OPERATING LOSS	(1,749,438)	(1,619,482)
NONOPERATING REVENUES		
Interest Income	1,081,417	1,629,786
Intergovernmental Revenues - WHMD	6,120,564	2,000,000
Irrigation Tap	-	45,000
Water & Sewer Assessment	-	415,887
Water Tap Fees	326,725	-
Wastewater Tap Fees	326,725	-
Water Acquisition Fees	175,579	-
Total Nonoperating Revenues	8,031,010	4,090,673
NONOPERATING EXPENSES		
Bond Interest - 2022A	5,641,313	5,641,313
Bond Interest - 2022B	3,955,419	3,955,416
Paying Agent Fees	5,000	5,000
Interest Expense - SR Land	693	8,720
Interest Expense - Classic SRJ	14,000	47,768
Loan Interest	95,806	-
Loan Issue Costs	47,460	-
Stewardship Agmt - Pineries Open Space Conservation	25,000	-
Amortization Expense - Bonds Payable Discount	194,567	194,567
Total Nonoperating Expenses	9,979,258	9,852,784
CHANGE IN NET POSITION	(3,697,686)	(7,381,593)
Total Net Position - Beginning of Year	(22,703,478)	(15,321,885)
TOTAL NET POSITION - END OF YEAR	$ (26,401,164)	$ (22,703,478)

See accompanying Notes to Basic Financial Statements.

FALCON AREA WATER & WASTEWATER AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2025 AND 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	$ 1,735,846	$ 1,421,114
Payments to Suppliers	(2,113,602)	(1,623,311)
Net Cash Used by Operating Activities	(377,756)	(202,197)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Reimbursed Expenditures - WHMD	1,402,987	2,000,000
Irrigation Tap	-	45,000
Water & Sewer Assessment	-	415,887
Developer Advances	(619,072)	316,048
Loan Issuance Proceeds	5,000,000	-
Loan Issue Costs	(47,460)	-
Loan Payments	(174,163)	-
Stewardship Agmt - Pineries Open Space Conservation	(25,000)	-
Water Tap Fees	326,725	-
Wastewater Tap Fees	326,725	-
Water Acquisition Fees	175,579	-
Bond Interest - 2022A	(5,641,313)	(5,641,313)
Paying Agent Fee	(5,000)	(5,000)
Acquisitions and Construction of Capital Assets	(14,005,430)	(15,811,131)
Net Cash Used by Capital and Related Financing Activities	(13,285,422)	(18,680,509)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	700,538	1,629,786
Net Cash Provided by Investing Activities	700,538	1,629,786
NET DECREASE IN CASH AND CASH EQUIVALENTS	(12,962,640)	(17,252,920)
Cash and Cash Equivalents - Beginning of Year	22,105,924	39,358,844
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 9,143,284	$ 22,105,924
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$ (1,749,438)	$ (1,619,482)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation and Amortization	1,612,710	1,544,285
(Increase) Decrease in:		
Accounts Receivable	(22,438)	(21,807)
Prepaid Insurance	(71,911)	-
Inventory	(9,260)	3,090
Increase (Decrease) in:		
Accounts Payable	(438,269)	(286,847)
Retainage Payable	300,850	178,564
Net Cash Used by Operating Activities	$ (377,756)	$ (202,197)

See accompanying Notes to Basic Financial Statements.

NOTE 1 DEFINITION OF REPORTING ENTITY

Falcon Area Water & Wastewater Authority (the Authority) was organized on August 21, 2017, in accordance with Section 29-1-204.2, Colorado Revised Statutes, as amended (C.R.S.) (the Authority Act) and pursuant to an Intergovernmental Agreement For the Establishment of The Falcon Area Water Authority (the Original Establishment Agreement), among Sterling Ranch Metropolitan District No. 1 (Sterling Ranch No. 1), Sterling Ranch Metropolitan District No. 2 (Sterling Ranch No. 2) and Sterling Ranch Metropolitan District No. 3 (Sterling Ranch No. 3). Under the Original Establishment Agreement, the Sterling Ranch Nos. 1-3 constituted the initial Members of the Authority.

On December 17, 2021, Sterling Ranch Nos. 1-3, The Retreat Metropolitan District No. 1 (Retreat No. 1) and The Retreat Metropolitan District No. 2 (Retreat No. 2 and together with Retreat No. 1, the Retreat Districts) entered into an Amended and Restated Intergovernmental Agreement for the Establishment of the Falcon Area Water and Wastewater Authority (the Amended and Restated Establishment Agreement). The Amended and Restated Establishment Agreement superseded and replaced the Original Establishment Agreement and, among other things, authorized the provision of wastewater improvements by the Authority and added the Retreat Districts as Members of the Authority.

Effective March 26, 2024, Sterling Ranch Nos. 1-3 and the Retreat Districts adopted a resolution that added Sterling Ranch Metropolitan District No. 4 (Sterling Ranch No. 4) and Sterling Ranch Metropolitan District No. 5 (Sterling Ranch No. 5 and together with Sterling Ranch Nos. 1-4, the Sterling Ranch Districts) as Members of the Authority.

On December 19, 2025, the Sterling Ranch Districts and The Retreat Districts adopted a resolution that added Prairie Ridge Metropolitan District No. 1, Prairie Ridge Metropolitan District No. 2, and Prairie Ridge Metropolitan District No. 3 (collectively, the Prairie Ridge Districts) as Members of the Authority (collectively the Members).

The Authority 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 Authority has no employees, and all services are provided by consultant contracts.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to governmental units accounted for as a proprietary enterprise fund. The enterprise fund is used because the Authority'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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of Accounting

The Authority'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 assets. Tap fees and contributed assets from developers are recorded as capital contributions when received.

Operating Revenues and Expenses

The Authority distinguishes between operating revenues and expenses and nonoperating items in the statements of revenues, expenses, and changes in net position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's purpose of providing water and sanitation services to its customers. Operating revenues consist of charges to customers for services provided. Operating expenses include the cost of services, administrative expenses, and depreciation of assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

Budgets

In accordance with the State Budget Law, the Authority'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 Authority'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, publication, and public hearing requirements.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Authority considers cash deposits, certificates of deposit, and highly liquid investments (including restricted and designated investments) with a maturity of three months or less when purchased, to be cash equivalents.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable consist of water and sewer collection services receivable. Accounts receivable are unsecured and stated at the amount the Authority expects to collect. The Authority maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts: customer creditworthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. If the financial condition of the Authority's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. As of December 31, 2025 and 2024, no allowances for doubtful accounts were recorded.

Inventory

Inventory is valued at the lower of cost using the first-in, first-out method or fair market value.

Capital Assets

Capital assets which include water rights, future sewer taps, and water system assets are reported by the Authority. Capital assets are defined by the Authority as assets with an initial, individual cost of more than $5,000 and a useful life exceeding one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation expense has been computed using the straight-line method over the estimated economic useful lives:

Equipment	10 Years
Sewer Capacity – CSU	25 Years
Wells	30 Years
Water System	45 Years
Wastewater System	45 to 50 Years

Maintenance and repairs are charged as expenses when incurred. At the time of retirement or disposition of depreciable property, the related cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in nonoperating revenues (expenses).

Costs of certain engineering, feasibility, environmental and other studies are capitalized until the projects become operational. When projects become operational, the costs are included in capital assets and depreciated over the estimated useful life of the related asset.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

The Authority capitalizes and depreciates the sewer taps purchased from Meridian Service Metropolitan District (see Sanitary Sewer Service Intergovernmental Agreement – Meridian under Note 7). The Authority has also capitalized and depreciates a connection fee and unpurchased sewer taps as related to the acquisition of water and sewer infrastructure and related assets from SR Water, LLC and SR Sewer, LLC during the year ended December 31, 2022 (see Note 9). The sewer taps are units of capacity from the underlying wastewater infrastructure. The sewer taps are depreciated with a useful life to end simultaneously with the estimated useful life of the Authority's wastewater system assets. The Authority may be obligated to participate in the maintenance of the underlying wastewater infrastructure.

Contributed Water and Sewer Lines

Water and sewer lines contributed to the Authority by developers are recorded as capital contributions and additions to the systems at estimated acquisition value when received.

Amortization

Original Issue Discount

Debt discounts are amortized over the respective terms of the borrowing using the interest method.

Sewer Capacity – CSU

The additional 0.115 Million Gallons per Day (MGD) Sewer Capacity purchased from Colorado Springs Utilities (see Note 7) is amortized using the straight-line method over the life of the agreement, which is 25 years.

Tap Fees

Tap fees that are pledged to debt service are recorded as nonoperating revenue when received. The following tap fees are pledged to debt service: Water Tap Fees, Wastewater Tap Fees, and Water Acquisition Fees. During the year, the Authority received $829,029 in tap and water acquisition fees that are pledged to debt service.

Adoption of New Accounting Standards

Certain Risk Disclosures

In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures* (Statement 102). Statement 102 requires note disclosure when (a) a concentration or constraint is known prior to issuance of the financial statements, (b) it makes the reporting unit vulnerable to the risk of a substantial impact, and (c) an event associated with the concentration or constraint has occurred, has begun to occur, or is more likely than not to begin to occur within 12 months of issuance.

The Authority adopted the requirements of the guidance effective January 1, 2025, and has elected to apply the provisions of this standard to the beginning of the period of adoption. Management performed the analysis required under Statement 102 and did not identify any concentrations or constraints that require disclosure.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2025 and 2024 are classified in the accompanying financial statements as follows:

	2025	2024
Statement of Net Position:		
Cash and Investments	$ 2,669,439	$ 2,884,951
Cash and Investments - Restricted	6,473,845	19,220,973
Total Cash and Investments	$ 9,143,284	$ 22,105,924

Cash and cash equivalents as of December 31, 2025 and 2024 consist of the following:

	2025	2024
Deposits with Financial Institutions	$ 342,671	$ 2,235,953
Investments	8,800,613	19,869,971
Total Cash and Investments	$ 9,143,284	$ 22,105,924

Deposits with Financial Institutions

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 statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

As of December 31, 2025 and 2024, the Authority's cash deposits had a bank balance and a carrying balance of $342,671 and $2,235,953, respectively.

Investments

The Authority has adopted a formal investment policy that follows state statutes regarding investments.

The Authority generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the Authority is not subject to concentration risk or investment custodial risk disclosure requirements for investments that are in the possession of another party.

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

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

Investments (Continued)

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

- 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

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

		Amount	
Investment	Maturity	2025	2024
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted-Average Under 60 Days	$ 8,800,613	$ 19,869,971
Total		$ 8,800,613	$ 19,869,971

COLOTRUST

The Authority invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), 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 currently offers three portfolios – COLOTRUST PRIME, COLOTRUST PLUS+, and COLOTRUST EDGE.

COLOTRUST PRIME and COLOTRUST PLUS+, which operate similarly to a money market fund and each share is equal in value to $1.00, offer daily liquidity. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper, and any security allowed under CRS 24-75-601.

COLOTRUST EDGE, a variable Net Asset Value (NAV) Local Government Investment Pool, offers weekly liquidity and is managed to approximate a $10.00 transactional share price. COLOTRUST EDGE may invest in securities authorized by CRS 24-75-601, including U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain obligations of U.S. government agencies, highest rated commercial paper, and any security allowed under CRS 24-75-601.

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

COLOTRUST (Continued)

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. The custodian's internal records segregate investments owned by the Trust. COLOTRUST PRIME and COLOTRUST PLUS+ are rated AAAm by Standard & Poor's. COLOTRUST EDGE is rated AAAf/S1 by Fitch Ratings. COLOTRUST records its investments at fair value and the Authority records its investment in COLOTRUST at net asset value as determined by fair value. There are no unfunded commitments, the redemption frequency is daily or weekly, and there is no redemption notice period.

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	Increases	Decreases	Balance at December 31, 2025
Capital Assets, Not Being Depreciated:				
Water Rights	$ 22,977,311	$ -	$ -	$ 22,977,311
Land and Easements	2,595,152	-	-	2,595,152
Construction in Progress	15,299,765	12,390,794	-	27,690,559
Total Capital Assets, Not Being Depreciated	40,872,228	12,390,794	-	53,263,022
Capital Assets, Being Depreciated:				
Water and Sewer Facilities	66,235,922	1,614,636	-	67,850,558
Sewer Capacity - CSU	1,625,559	-	-	1,625,559
Total Capital Assets, Being Depreciated	67,861,481	1,614,636	-	69,476,117
Less:				
Accumulated Depreciation - Water and Sewer Facilities	3,619,623	1,547,687	-	5,167,310
Accumulated Amortization - Sewer Capacity - CSU	43,348	65,023	-	108,371
Total Accumulated Depreciation and Amortization	3,662,971	1,612,710	-	5,275,681
Total Capital Assets, Being Depreciated, Net	64,198,510	1,926	-	64,200,436
Total Capital Assets, Net	$ 105,070,738	$ 12,392,720	$ -	$ 117,463,458

NOTE 4 CAPITAL ASSETS (CONTINUED)

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

	Balance at December 31, 2023	Increases	Decreases	Balance at December 31, 2024
Capital Assets, Not Being Depreciated:				
Water Rights	$ 22,977,311	$ -	$ -	$ 22,977,311
Land and Easements	2,595,152	-	-	2,595,152
Construction in Progress	2,673,776	12,625,989	-	15,299,765
Total Capital Assets, Not Being Depreciated	28,246,239	12,625,989	-	40,872,228
Capital Assets, Being Depreciated:				
Water and Sewer Facilities	64,676,339	1,559,583	-	66,235,922
Sewer Capacity - CSU	-	1,625,559	-	1,625,559
Total Capital Assets, Being Depreciated	64,676,339	3,185,142	-	67,861,481
Less:				
Accumulated Depreciation - Water and Sewer Facilities	2,118,686	1,500,937	-	3,619,623
Accumulated Amortization - Sewer Capacity - CSU	-	43,348	-	43,348
Total Accumulated Depreciation and Amortization	2,118,686	1,544,285	-	3,662,971
Total Capital Assets, Being Depreciated, Net	62,557,653	1,640,857	-	64,198,510
Total Capital Assets, Net	$ 90,803,892	$ 14,266,846	$ -	$ 105,070,738

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

	2025	2024
Water and Sewer Facilities - Depreciation	$ 1,547,687	$ 1,500,937
Sewer Capacity - CSU - Amortization	65,023	43,348
Total Depreciation and Amortization Expense	$ 1,612,710	$ 1,544,285

NOTE 5 LONG-TERM OBLIGATIONS

Long-term obligation activity for the years ended December 31, 2025 and 2024, was as follows:

	Balance at December 31, 2024	Additions	Reductions	Balance at December 31, 2025	Due Within One Year
Bonds Payable:					
Tap Fee Revenue Bonds Series 2022A	$ 83,575,000	$ -	$ -	$ 83,575,000	$ -
Tap Fee Revenue Bonds Series 2022A - Bond Discount	(1,272,024)	-	194,567	(1,077,457)	-
Subordinate Tap Fee Revenue Bonds, Series 2022B	56,505,969	-	-	56,505,969	-
Accrued Interest - Subordinate Tap Fee Revenue Bonds, Series 2022B	9,152,396	3,955,419	-	13,107,815	-
Subtotal Bonds Payable	147,961,341	3,955,419	194,567	152,111,327	-
Loans from Direct Borrowings:					
Busey Loan Principal	-	5,000,000	107,846	4,892,154	361,098
Accrued Interest - Busey Loan	-	95,806	66,317	29,489	-
Subtotal Loans from Direct Borrowings	-	5,095,806	174,163	4,921,643	361,098
Developer Advance:					
Principal - SR Land	109,000	-	109,000	-	-
Principal - Classic SRJ	416,048	1,436,591	1,852,639	-	-
Accrued Interest - SR Land	18,473	693	19,166	-	-
Accrued Interest - Classic SRJ	60,858	14,000	74,858	-	-
Subtotal Developer Advance	604,379	1,451,284	2,055,663	-	-
Total Long-Term Obligations	$ 148,565,720	$ 10,502,509	$ 2,424,393	$ 157,032,970	$ 361,098

	Balance at December 31, 2023	Additions	Reductions	Balance at December 31, 2024	Due Within One Year
Bonds Payable:					
Tap Fee Revenue Bonds Series 2022A	$ 83,575,000	$ -	$ -	$ 83,575,000	$ -
Tap Fee Revenue Bonds Series 2022A - Bond Discount	(1,466,591)	-	194,567	(1,272,024)	-
Subordinate Tap Fee Revenue Bonds, Series 2022B	56,505,969	-	-	56,505,969	-
Accrued Interest - Subordinate Tap Fee Revenue Bonds, Series 2022B	5,196,980	3,955,416	-	9,152,396	-
Subtotal Bonds Payable	143,811,358	3,955,416	194,567	147,961,341	-
Developer Advance:					
Principal - SR Land	109,000	-	-	109,000	-
Principal - Classic SRJ	100,000	316,048	-	416,048	-
Accrued Interest - SR Land	9,753	8,720	-	18,473	-
Accrued Interest - Classic SRJ	13,090	47,768	-	60,858	-
Subtotal Developer Advance	231,843	372,536	-	604,379	-
Total Long-Term Obligations	$ 144,043,201	$ 4,327,952	$ 194,567	$ 148,565,720	$ -

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Series 2022A Tap Fee Revenue Bonds

On August 23, 2022, the Authority authorized the issuance of Tap Fee Revenue Bonds, Series 2022A (the Senior Bonds) in the amount of $83,575,000.

Proceeds of the Senior Bonds

Proceeds from the sale of the Senior Bonds were used to: (i) acquire water rights, well field drilling rights and any and all access easements associated therewith; (ii) acquire existing water and wastewater facilities; (iii) construct new water, wastewater and drainage facilities; (iv) acquire Meridian Sewer Taps; (v) fund capitalized interest; (vi) fund a deposit to the Surplus Fund; and (vii) pay the costs of issuing the Senior Bonds.

Senior Bonds Details

The Senior Bonds bear interest at 6.75% per annum, payable to the extent of Senior Pledged Revenue on June 1 and December 1, beginning on December 1, 2022. Annual mandatory sinking fund principal payments are due annually on each December 1, beginning on December 1, 2026. The Senior Bonds mature on December 1, 2034.

To the extent principal of any Senior Bond is not paid when due, principal shall remain outstanding until the earlier of its payment or the Termination Date and shall continue to bear interest at the rate then borne by the Senior Bond. To the extent interest on any Senior Bond is not paid when due, such interest shall compound on each interest payment date, at the rate then borne by the Senior Bond.

The Senior Bonds and interest thereon shall be deemed to be paid, satisfied, and discharged on December 2, 2062 (the Termination Date), regardless of the amount of principal and interest paid prior to the Termination Date.

Optional Redemption of Senior Bonds

The Senior Bonds are subject to redemption prior to maturity, at the option of the Authority, on September 1, 2027, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium equal to a percentage of the principal amount so redeemed as follows:

Date of Redemption	Redemption Premium
September 1, 2027, to August 31, 2028	3.00%
September 1, 2028, to August 31, 2029	2.00
September 1, 2029, to August 31, 2030	1.00
September 1, 2030, and thereafter	0.00

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Series 2022A Tap Fee Revenue Bonds (Continued)

Senior Pledged Revenue

The Senior Bonds are secured by and payable solely from and to the extent of Senior Pledged Revenue derived by the Authority from the following sources:

(a) the Gross Revenue (water tap fees, water acquisition fees, wastewater tap fees, and investment income from moneys held in water and wastewater reserve fund);
(b) any other legally available moneys which the Authority determines, in its absolute discretion, to transfer to the Trustee for application as Senior Pledged Revenue.

Gross Revenue is the income and revenues derived by the Authority from the imposition of the Water Tap Fees, the Water Acquisition Fees and the Wastewater Tap Fees.

Surplus Fund

The Senior Bonds are additionally secured by the Surplus Fund. The Surplus Fund will be funded initially from Senior Bond proceeds in the amount of $8,186,000. The remaining Surplus Fund will be funded from annual Senior Pledged Revenue in excess of the amounts needed to pay annual debt service on the Senior Bonds, up to the Maximum Surplus Amount. Upon issuance of the Senior Bonds, the Maximum Surplus Amount is $16,715,000, and on each December 2, recalculated as the amount of 20% of the par of the Senior Bonds then outstanding.

If amounts then-held by the Trustee in the Surplus Fund are in excess of the Maximum Surplus Amount, such excess amounts shall be transferred to the Excess Revenue Fund to be applied to redeem the Senior Bonds. As of December 31, 2025, the Surplus Fund had a balance of $6,311,466.

Events of Default of the Senior Bonds

Events of default occur if the Authority fails to impose the Water Tap Fees, the Water Acquisition Fees, and the Wastewater Tap Fees, or to apply the Senior Pledged Revenues as required by the Senior Indenture and does not comply with other customary terms and conditions consistent with normal municipal financing as described in the Senior Indenture.

The Authority's long-term obligations mature as follows:

Year Ending December 31,	Principal	Interest	Total
2026	$ 6,030,000	$ 5,641,313	$ 11,671,313
2027	7,265,000	5,234,288	12,499,288
2028	7,825,000	4,743,900	12,568,900
2029	8,280,000	4,215,713	12,495,713
2030	9,190,000	3,656,813	12,846,813
2031-2034	44,985,000	7,747,989	52,732,989
Total	$ 83,575,000	$ 31,240,016	$ 114,815,016

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Series 2022B Subordinate Tap Fee Revenue Bonds

On September 7, 2022, the Authority authorized the issuance of Subordinate Tap Fee Revenue Bonds, Series 2022B (the Subordinate Bonds) in the amount of $56,505,969.

Proceeds of the Subordinate Bonds

The Subordinate Bonds were issued for the purpose of paying or reimbursing the costs of acquisition of System facilities and paying other costs incurred in connection with the issuance of the Subordinate Bonds.

Subordinate Bonds Details

The Subordinate Bonds bear interest at 7.0% per annum, payable to the extent of Subordinate Pledged Revenue on each December 15, beginning on December 15, 2022. The Subordinate Bonds mature on December 15, 2052.

To the extent principal of any Subordinate Bond is not paid when due, principal shall remain outstanding until the earlier of its payment or the Subordinate Termination Date and shall continue to bear interest at the rate then borne by the Subordinate Bond. To the extent interest on any Subordinate Bond is not paid when due, such interest shall remain due and owing, but shall not compound or bear additional interest as a result thereof.

The Subordinate Bonds and interest thereon shall be deemed to be paid, satisfied, and discharged on December 16, 2072 (the Subordinate Termination Date), regardless of the amount of principal and interest paid prior to the Termination Date.

Optional Redemption of Subordinate Bonds

The Subordinate Bonds are subject to redemption prior to maturity, at the option of the Authority, at any time upon payment of par, accrued interest, with no redemption premium.

Subordinate Pledged Revenue

Subordinate Pledged Revenue is the moneys derived by the Authority from the following sources:

1) the Subordinate Gross Revenue;
2) any Future Tap Fee Revenues;
3) any Future Authority Financing Proceeds;
4) any Excess Operating Revenues; and
5) any other legally available moneys which the Authority determines, in its absolute discretion, to transfer to the Trustee for application as Subordinate Pledged Revenue.

Subordinate Gross Revenue is the Gross Revenue remaining after application to the payment of any Senior Bonds.

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Series 2022B Subordinate Tap Fee Revenue Bonds (Continued)

Events of Default of the Subordinate Bonds

Events of default occur if the Authority fails to impose the Water Tap Fees, the Water Acquisition Fees, and the Wastewater Tap Fees, or to apply the Subordinate Pledged Revenues as required by the Subordinate Indenture and does not comply with other customary terms and conditions consistent with normal municipal financing as described in the Subordinate Indenture.

Busey Bank Loan

Loan Agreement

On September 23, 2025, the Authority entered into a loan agreement with Busey Bank (Busey). The note of $5,000,000, is payable over seventeen months and bears an interest rate of 7.00% on a 365/360 basis. A monthly payment of $58,054 is made on the first of each month to Busey. Furthermore, at the date of maturity, January 31, 2027, there is due a balloon payment for all remaining principal and accrued interest. The purpose of the loan is funding for public infrastructure improvements. As of December 31, 2025, outstanding principal was $4,892,154 and accrued interest was $29,489.

Events of Default

The occurrence of any one or more of the following shall constitute an event of default, provided that Busey has notified the Authority of the existence thereof:

1) Debt Service Payment Default.
2) Maturity Default.
3) Cross-Default.
4) False Representation or Warranty.
5) Assignment for the Benefit of Creditors; Admission of Insolvency.
6) Seeking Debtor Relief.
7) Involuntary Bankruptcy Proceeding.
8) Attachment or Distraint.
9) Acquiescence to Involuntary Bankruptcy.
10) Entry of Judgment.
11) Reporting Default.
12) Transfer Violation.
13) Unpermitted Liens.
14) Other Default.

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Busey Bank Loan (Continued)

The estimated schedule of minimum required payments through maturity is as follows:

Year Ending December 31,	Principal	Interest	Total
2026	$ 361,098	$ 335,552	$ 696,650
2027	4,531,056	53,565	4,584,621
Total	$ 4,892,154	$ 389,117	$ 5,281,271

Collateral Assignment of Payment Rights

On September 23, 2025, the Authority entered into an assignment with Busey. As means of collateral per the loan agreement, the Authority grants and assigns Busey all of the rights to any and all of the aggregate scheduled or required payments of principal and interest due to or received by the Authority under the Intergovernmental Agreement Regarding Water and Water Improvements Cost Sharing with Woodmen Hills Metropolitan District. However, so long as no event of default has occurred, the Authority shall retain the rights.

Developer Advances

Reimbursement Agreement for Operations – Classic SRJ, LLC

On May 31, 2022, the Authority entered into a reimbursement agreement with Classic SRJ, LLC (see Note 9). The proceeds from developer advances have been used primarily to fund the expenditures for operating and administrative expenses. The note accrues simple interest at a rate of 8.00% per annum. As of December 31, 2025, outstanding principal was $-0- and accrued interest due to the Developer was $-0-. As of December 31, 2024, outstanding principal was $100,000 and accrued interest due to the Developer was $21,090.

Facilities Funding and Acquisition Agreement – Classic SRJ, LLC

On May 31, 2022, the Authority entered into a facilities funding and acquisition agreement with Classic SRJ, LLC (see Note 9). The proceeds from developer advances have been used primarily to fund the expenditures for public improvements and any management, operating, and administrative expenses. The note accrues simple interest at a rate of 8.00% per annum. As of December 31, 2025, outstanding principal was $-0- and accrued interest due to the Developer was $-0-. As of December 31, 2024, outstanding principal was $316,048 and accrued interest due to the Developer was $39,768.

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Developer Advances (Continued)

Reimbursement Agreement for Operations – SR Land, LLC

On December 1, 2022, the Authority entered into a reimbursement agreement with SR Land, LLC (see Note 9). The proceeds from developer advances have been used primarily to fund the expenditures for operating and administrative expenses. The note accrues simple interest at a rate of 8.00% per annum. As of December 31, 2025, outstanding principal was $-0- and accrued interest due to the Developer was $-0-. As of December 31, 2024, outstanding principal was $109,000 and accrued interest due to the Developer was $18,473.

NOTE 6 NET POSITION

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

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2025 and 2024, the Authority had net investment in capital assets calculated as follows:

	2025	2024
Net Investment in Capital Assets:		
Capital Assets, Net	$ 117,463,459	$ 105,027,387
Long-Term Obligations	(144,618,389)	(140,022,733)
Net Investment in Capital Assets	$ (27,154,930)	$ (34,995,346)

Restricted assets include net position that are restricted for use either externally by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Authority had restricted net position as of December 31, 2025 and 2024 as follows:

	2025	2024
Restricted Net Position:		
Debt Service Reserve	$ 6,473,845	$ 10,877,448
Capital Projects Reserve	-	8,343,525
Total Restricted Net Position	$ 6,473,845	$ 19,220,973

The Authority has a deficit in unrestricted net position. The deficit was a result of the Authority being responsible for the repayment of bonds issued for public improvements.

NOTE 7 AGREEMENTS

Facilities Funding and Acquisition Agreements – SR Land, LLC

On May 31, 2022, the Authority entered into a Facilities Funding and Acquisition Agreement (Agreement) with SR Land, LLC (see Note 9) that will allow the Developer to advance the Authority funds necessary to construct and complete public improvements, which will be constructed and completed by the Authority. The Developer, in its sole discretion may, but shall not be obligated to, advance funds to the Authority to pay the costs of public improvements and any management, operating, and administrative expenses. Any sums advanced to the Authority or on behalf of the Authority prior to the date of this Agreement shall be considered advances pursuant to this Agreement.

The Authority agrees to repay the Developer along with a simple interest of 8% from the date of expenditure. This Agreement evidences an intent to reimburse Developer hereunder, but this Agreement shall not constitute a debt or indebtedness of the Authority within the meaning of any constitutional or statutory provision, nor shall it constitute a multiple fiscal year financial obligation, and the making of any reimbursement hereunder shall be at all times subject to annual appropriation by the Authority in its absolute discretion.

Facilities Funding and Acquisition Agreements – Timberridge Development Group, LLC

On May 31, 2022, the Authority entered into a Facilities Funding and Acquisition Agreement (Agreement) with Timberridge Development Group, LLC (see Note 9) that will allow the Developer to advance the Authority funds necessary to construct and complete public improvements, which will be constructed and completed by the Authority. The Developer, in its sole discretion may, but shall not be obligated to, advance funds to the Authority to pay the costs of public improvements and any management, operating, and administrative expenses. Any sums advanced to the Authority or on behalf of the Authority prior to the date of this Agreement shall be considered advances pursuant to this Agreement.

The Authority agrees to repay the Developer along with a simple interest of 8% from the date of expenditure. This Agreement evidences an intent to reimburse Developer hereunder, but this Agreement shall not constitute a debt or indebtedness of the Authority within the meaning of any constitutional or statutory provision, nor shall it constitute a multiple fiscal year financial obligation, and the making of any reimbursement hereunder shall be at all times subject to annual appropriation by the Authority in its absolute discretion.

Facilities Funding and Acquisition Agreements – SR Water, LLC

On May 31, 2022, the Authority entered into a Facilities Funding and Acquisition Agreement (Agreement) with SR Water, LLC (see Note 9) that will allow the Developer to advance the Authority funds necessary to construct and complete public improvements, which will be constructed and completed by the Authority. The Developer, in its sole discretion may, but shall not be obligated to, advance funds to the Authority to pay the costs of public improvements and any management, operating, and administrative expenses. Any sums advanced to the Authority or on behalf of the Authority prior to the date of this Agreement shall be considered advances pursuant to this Agreement.

NOTE 7 AGREEMENTS (CONTINUED)

Facilities Funding and Acquisition Agreements – SR Water, LLC (Continued)

The Authority agrees to repay the Developer along with a simple interest of 8% from the date of expenditure. This Agreement evidences an intent to reimburse Developer hereunder, but this Agreement shall not constitute a debt or indebtedness of the Authority within the meaning of any constitutional or statutory provision, nor shall it constitute a multiple fiscal year financial obligation, and the making of any reimbursement hereunder shall be at all times subject to annual appropriation by the Authority in its absolute discretion.

Facilities Funding and Acquisition Agreements – SR Sewer, LLC

On May 31, 2022, the Authority entered into a Facilities Funding and Acquisition Agreement (Agreement) with SR Sewer, LLC (see Note 9) that will allow the Developer to advance the Authority funds necessary to construct and complete public improvements, which will be constructed and completed by the Authority. The Developer, in its sole discretion may, but shall not be obligated to, advance funds to the Authority to pay the costs of public improvements and any management, operating, and administrative expenses. Any sums advanced to the Authority or on behalf of the Authority prior to the date of this Agreement shall be considered advances pursuant to this Agreement.

The Authority agrees to repay the Developer along with a simple interest of 8% from the date of expenditure. This Agreement evidences an intent to reimburse Developer hereunder, but this Agreement shall not constitute a debt or indebtedness of the Authority within the meaning of any constitutional or statutory provision, nor shall it constitute a multiple fiscal year financial obligation, and the making of any reimbursement hereunder shall be at all times subject to annual appropriation by the Authority in its absolute discretion.

Sanitary Sewer Service Intergovernmental Agreement – Meridian

On September 11, 2014 (amended on February 20, 2020, November 9, 2021, and January 8, 2025), Sterling Ranch Metropolitan District No. 1 (Sterling Ranch) entered into an intergovernmental agreement (IGA) with Meridian Service Metropolitan District (Meridian) under which Meridian will treat and deliver Sterling Ranch wastewater to the Cherokee Metropolitan District/Meridian Wastewater Treatment Plant (CM Plant) from Meridian's sewer lift station. Sterling Ranch will pay Meridian a connection fee prior to service, a monthly wastewater services fee, and ongoing sewer tap fees through January 31, 2027, upon that date will purchase all remaining unpurchased taps. The sewer tap fee will increase annually by the greater of a) 3% or b) 1.5% over the Consumer Price Index for All Urban Consumers for the Denver-Boulder-Greeley, Colorado, metropolitan area.

NOTE 7 AGREEMENTS (CONTINUED)

Sanitary Sewer Service Intergovernmental Agreement – Meridian (Continued)

On May 21, 2022, Sterling Ranch assigned the IGA to the Authority. Sterling Ranch assigned and transferred to the Authority all of Sterling Ranch's rights, terms, conditions, obligations, title and interest in, to and under the IGA and Meridian irrevocably consents to such assignment and transfer. Sterling Ranch agrees to indemnify and hold the Authority harmless from and against any and all liabilities, losses, claims, damages, actions, suits, costs and expenses (including, but not limited to, reasonable fees and disbursements of counsel through appeal) related to or arising out of the IGA prior to the effective date or arising from Sterling Ranch's actions or inaction related to the IGA or this assignment. As of December 31, 2025, there is an anticipated purchase of 300 sewer taps by July 31, 2026, and there is an anticipated purchase of the remaining 2499 sewer taps by January 31, 2027 (the Balloon Payment).

Subsequent to year end, the Authority is negotiating with Meridian about the terms of the agreement related to the anticipated sewer taps purchases. The Authority notified Meridian on July 20, 2026, of its intent not to purchase additional taps from Meridian under the IGA after determining the additional taps were not needed to serve the Authority's customers. Thereafter, on August 13, 2026, Meridian sent the Authority a Notice of Default and Termination of the IGA (the Notice) as a result. The Notice stated that the failure to pay $1,675,023 for the July 31, 2026 purchase of 300 sewer taps triggered the Balloon Payment for the remaining 2,499 sewer taps ($13,952,942 assuming the same cost per tap) to be due immediately along with interest at an annual rate of 6% on both balances from August 1, 2026.

During the year ended December 31, 2025, the Authority paid $123,435 for Clean Water Fees and $1,614,636 for sewer taps pursuant to the IGA. During the year ended December 31, 2024, the Authority paid $86,400 for Clean Water Fees and $1,559,583 for sewer taps pursuant to the IGA.

Wastewater Service Agreement

On May 31, 2024, the Authority and Colorado Springs Utilities (CSU) entered into a Wastewater Service Agreement (the agreement). The Authority intends to provide wastewater collection service to a development within the Authority's service area. The Authority is to obtain wastewater service from CSU which is anticipated to contribute Maximum Allowable Flow of up to 0.29 Million Gallons per Day (MGD). The life of the contract is 25 years. No later than 24 months prior to the expiration, the Authority and CSU shall begin negotiations on a new similar agreement. The value of the asset will be amortized via the straight-line method over the duration of the life of the contract. Amortization expense for Sewer Capacity – CSU totaled $65,022 and $43,348 for the years 2025 and 2024, respectively.

NOTE 7 AGREEMENTS (CONTINUED)

Intergovernmental Agreement – WHMD

On April 21, 2025, the Authority entered into an Intergovernmental Agreement Regarding Water and Water Improvements Cost Sharing (Cost Sharing Agreement) with Woodmen Hills Metropolitan District (WHMD). The Authority and WHMD have agreed to share the costs of the Authority's water infrastructure by reimbursing costs incurred during 2023 and 2024 as well as additional costs to be incurred subsequently. In 2024, WHMD reimbursed the Authority for $2,000,000 of these costs. As of December 31, 2025, additional costs to be reimbursed by WHMD totaled $6,120,564. WHMD has agreed to repay these costs along with their portion of additional costs to be incurred in payments of $100,000 per month by the 15th of each month from January 1, 2025 to December 31, 2026, along with simple interest at the prime rate in effect on the effective date plus 2% per annum. In 2025, WHMD reimbursed the Authority for $1,402,987 of these costs and interest thereon.

Maturing on January 31, 2027, WHMD will pay any remaining balance and accrued interest. The agreement also includes provisions for potential additional water rights and construction of additional segments and lines in the future, as well as cost sharing and other provisions.

Subsequent to the year ending December 31, 2025, beginning in March of 2026, per the Cost Sharing Agreement, WHMD shall reimburse the Authority for costs incurred for the Winsome Wellsite project. WHMD shall reimburse the costs to Authority, of which two-thirds of the total costs paid shall later be reimbursed to WHMD from the Authority, along with simple interest at the prime rate in effect on the effective date plus 2% per annum.

Pineries Open Space Stewardship Agreement

On June 19, 2025, the Authority entered into a Stewardship Agreement Regarding the Pineries Open Space and the Falcon Area Water and Wastewater Authority Pipeline (Stewardship Agreement) along with Palmer Lake Conservancy (PLC) and El Paso County (the County). The purpose is to enter into a mutual understanding regarding the establishment of a Pineries Stewardship Fund, the ongoing maintenance and notification procedure for regarding the waterline within the Pineries Open Space, and other considerations to ensure the Conservation Easement's conservation values and purposes are considered, fortified, and upheld. The Authority agreed to pay a one-time payment of $25,000 with the purpose to remediate and fortify conservation values in the Pineries Open Space. The Authority agrees to provide notice to PLC and the County prior to major maintenance activity associated with the waterline running through the Pineries Open Space. The Stewardship Agreement shall have perpetual duration and may only be terminated with consent from PLC and the County or if either the Conservation Easement is terminated or the Authority ceases to exist.

NOTE 8 ACCOUNTS RECEIVABLE

Receivables as of December 31, 2025 and 2024 for the Authority's activities are as follows:

	2025	2024
Accounts Receivable - Service Billings	$ 75,948	$ 59,490
Accounts Receivable - Fees	5,980	-
Total	$ 81,928	$ 59,490

NOTE 9 RELATED PARTIES

The Developers of the property which constitute the Districts that are Members of the Authority (see Note 1) are Classic SRJ, LLC; Timberridge Development Group, LLC; SR Land, LLC; SR Water, LLC and SR Sewer, LLC. Members of the Board of Directors of the Authority are employees, owners or otherwise associated with the Developers. Accordingly, the Developers may have conflicts of interest in dealing with the Authority and balances due and transactions between the Developers and the Authority are considered to be related party balances and transactions.

During the year ended December 31, 2022, the Authority acquired water and sewer infrastructure and related assets from SR Water, LLC and SR Sewer, LLC for $75,000,000 (see Note 4). The Authority also has Developer Advance agreements with the Developers (see Note 5).

During the year ended December 31, 2024, the Authority reimbursed SR Land, LLC for fiber installation done in Sterling Ranch parcels totaling $158,903. In 2024, the Authority acquired water main infrastructure from SR Land, LLC for $183,825.

During the year ended December 31, 2025, the Authority reimbursed developers for advances totaling $128,166 to SR Land, LLC and $1,927,497 to Classic SRJ, LLC.

NOTE 10 ECONOMIC DEPENDENCY

The Authority has not yet established a revenue base sufficient to pay operational expenditures. Until an independent revenue base is established, continuation of operations in the Authority will be dependent upon funding by the Developers.

NOTE 11 RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; or acts of God.

NOTE 11 RISK MANAGEMENT (CONTINUED)

The Authority 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.

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

NOTE 12 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 Authority'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.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The Authority'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.

SUPPLEMENTARY INFORMATION

FALCON AREA WATER & WASTEWATER AUTHORITY
SCHEDULES OF EXPENSES
YEARS ENDED DECEMBER 31, 2025 AND 2024

	2025	2024
OPERATING EXPENSES		
Billing	$ 58,533	$ 39,454
Clean Water Fee	123,435	86,400
Consulting	-	4,799
Contract Services	150,900	74,152
Engineering	424,495	169,120
Installation Fee Reimbursement	23,500	13,425
Locating Services	70,068	-
Meters	193,467	172,944
Meters - Maintenance	28,645	22,135
Meters - Fiber Cable	247,900	352,450
Utilities	126,896	89,978
Utilities - Res Sewer	205,750	190,433
Treatment Supplies	17,292	23,714
Treatment Costs	9,963	40,389
Pest Control	450	240
Repairs and Maintenance	3,150	1,700
Reserve Study	-	43,993
Depreciation Expense	1,547,687	1,500,937
Amortization Expense - Sewer Capacity - CSU	65,023	43,348
Total Operating Expenses	$ 3,297,154	$ 2,869,611
GENERAL AND ADMINISTRATIVE EXPENSES		
Accounting	$ 78,152	$ 53,885
Auditing	6,480	6,000
Dues and Membership	1,238	1,238
Insurance	58,029	32,752
Legal	59,395	72,494
Miscellaneous	4,229	23,628
Website	3,045	2,795
Total General and Administrative Expenses	$ 210,568	$ 192,792
NONOPERATING EXPENSES		
Bond Interest - 2022A	$ 5,641,313	$ 5,641,313
Bond Interest - 2022B	3,955,419	3,955,416
Paying Agent Fees	5,000	5,000
Interest Expense - SR Land	693	8,720
Interest Expense - Classic SRJ	14,000	47,768
Loan Interest	95,806	-
Loan Issue Costs	47,460	-
Stewardship Agmt - Pineries Open Space Conservation	25,000	-
Amortization Expense - Bonds Payable Discount	194,567	194,567
Total Nonoperating Expenses	$ 9,979,258	$ 9,852,784

FALCON AREA WATER & WASTEWATER AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES AND FUNDS AVAILABLE – BUDGET AND ACTUAL (BUDGETARY BASIS)
YEAR ENDED DECEMBER 31, 2025

	Budget		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Water Service Fees	$ 710,190	$ 587,000	$ 749,517	$ 162,517
CMD Clean Water Fee	113,330	113,330	111,525	(1,805)
Resident Sewer Fee	387,310	387,310	373,112	(14,198)
Resident Under Drain Fee	28,360	28,360	25,871	(2,489)
AMR Service Fee	47,910	47,910	44,268	(3,642)
Billing Service Fee	55,650	55,650	52,204	(3,446)
Water and Sewer Admin Fees	63,250	63,250	66,700	3,450
Meter Fees	168,795	132,000	105,435	(26,565)
Installation Fees	341,000	266,000	213,000	(53,000)
Late Fees/Penalties	11,990	11,990	15,652	3,662
Loan Issuance Proceeds	-	5,000,000	5,000,000	-
Other Revenue	4,431	4,588	1,000	(3,588)
Interest Income - O&M	110,000	149,000	120,132	(28,868)
Water Tap Fees	2,513,272	590,619	326,725	(263,894)
Wastewater Tap Fees	2,513,272	590,619	326,725	(263,894)
Water Acquisition Fees	1,350,611	317,393	175,579	(141,814)
Interest Income - Debt Service	536,000	403,900	413,680	9,780
Reimbursed Expenditures - WHMD	1,460,000	1,662,987	1,402,987	(260,000)
Interest Income - Capital	160,000	160,000	166,726	6,726
Total Revenues	10,575,371	10,571,906	9,690,838	(881,068)
EXPENDITURES				
General and Administrative:				
Accounting	78,750	78,750	78,152	598
Auditing	6,000	6,000	6,480	(480)
Dues and Membership	1,300	1,300	1,238	62
Insurance	33,000	59,000	58,029	971
District Management	3,250	-	-	-
Legal	75,000	75,000	59,395	15,605
Miscellaneous	10,000	4,950	4,229	721
Stewardship Agmt - Pineries Open Space Conservation	-	25,000	25,000	-
Website	-	4,000	3,045	955
Operations and Maintenance:				
Billing	55,650	58,000	58,533	(533)
Clean Water Fee	118,992	125,000	123,435	1,565
Consulting	5,000	5,000	-	5,000
Contract Services	100,000	145,200	150,900	(5,700)
Engineering	160,000	368,000	424,495	(56,495)
Loan Interest	-	66,322	95,806	(29,484)
Loan Issue Costs	-	47,460	47,460	-
Loan Principal	-	107,840	107,846	(6)
Locating Services	-	68,000	70,068	(2,068)
Meters	168,795	212,680	193,467	19,213
Meters - Maintenance	48,390	48,390	28,645	19,745
Meters - Fiber Cable	225,550	247,900	247,900	-
Installation Fee Reimbursement	14,000	23,800	23,500	300
Utilities	120,000	147,400	126,896	20,504
Utilities - Res Sewer	360,370	205,000	205,750	(750)
Treatment Supplies	30,000	30,000	17,292	12,708
Treatment Costs	53,600	53,600	9,963	43,637
Pest Control	-	450	450	-
Repairs and Maintenance	2,000	2,000	3,150	(1,150)
Contingency	22,370	23,116	-	23,116

FALCON AREA WATER & WASTEWATER AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES AND FUNDS AVAILABLE – BUDGET AND ACTUAL (BUDGETARY BASIS) (CONTINUED)
YEAR ENDED DECEMBER 31, 2025

	Budget		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
EXPENDITURES (CONTINUED)				
Debt Service:				
Paying Agent Fees	$ 5,000	$ 5,000	$ 5,000	$ -
Bond Interest - 2022A	5,641,313	5,641,313	5,641,313	-
Capital Projects:				
Construction WIP - CY	6,559,247	12,000,000	12,390,794	(390,794)
Construction - Other	2,000,000	2,000,000	-	2,000,000
Purchased Taps	1,606,000	1,606,000	1,614,636	(8,636)
Total Expenditures	17,503,577	23,491,471	21,822,867	1,668,604
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(6,928,206)	(12,919,565)	(12,132,029)	787,536
OTHER FINANCING SOURCES (USES)				
Developer Advance - Classic SRJ	-	1,636,590	1,436,591	(199,999)
Repay Developer Advance - SR Land	(109,000)	(109,000)	(109,000)	-
Repay Developer Advance - Classic SRJ	(100,000)	(100,000)	(100,000)	-
Repay Developer Advance - Interest - SR Land	(19,166)	(19,166)	(19,166)	-
Repay Developer Advance - Interest - Classic SRJ	(21,725)	(21,725)	(21,725)	-
Repay Developer Advance - Capital - Classic SRJ	-	(1,952,638)	(1,752,639)	199,999
Repay Developer Advance - Capital - Interest - Classic SRJ	(15,392)	(50,000)	(53,133)	(3,133)
Total Other Financing Sources (Uses)	(265,283)	(615,939)	(619,072)	(3,133)
NET CHANGE IN FUND BALANCE	(7,193,489)	(13,535,504)	(12,751,101)	784,403
Fund Balance - Beginning of Year	19,733,209	20,791,504	20,791,504	-
FUND BALANCE - END OF YEAR	$ 12,539,720	$ 7,256,000	$ 8,040,403	$ 784,403

FALCON AREA WATER & WASTEWATER AUTHORITY
SCHEDULE OF RECONCILIATION OF BUDGETARY BASIS (ACTUAL) TO STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2025

	Actual
Funds Available are Defined as Follows:	
Current and Noncurrent Assets	
Restricted and Unrestricted Current Assets	$ 14,497,789
Less: Current Liabilities and Deferred Inflow of Resources	(1,690,539)
Funds Available	$ 12,807,250
Reconciliation of Budgetary Basis (Actual) to Statement of Revenues, Expenses, and Changes in Net Position:	
Revenue (Budgetary Basis)	$ 9,690,838
Loan Proceeds	(5,000,000)
Reimbursed Expenditures - WHMD	(1,402,987)
Intergovernmental Revenues - WHMD	6,120,564
Interest Income - WHMD	380,879
Total Revenue Per Statement of Revenues, Expenses, and Changes in Net Position	9,789,294
Expenditures (Budgetary Basis)	21,822,867
Depreciation and Amortization	1,612,710
Bond Interest - 2022B	3,955,419
Interest Expense - SR Land	693
Interest Expense - Classic SRJ	14,000
Loan Principal Payments	(107,846)
Capital Outlay	(14,005,430)
Bonds Payable Discount Amortization	194,567
Total Expenses Per Statement of Revenues, Expenses, and Changes in Net Position	13,486,980
Change in Net Position Per Statement of Revenues, Expenses, and Changes in Net Position	$ (3,697,686)