ARABIAN ACRES METROPOLITAN DISTRICT

TELLER COUNTY, COLORADO

FINANCIAL STATEMENTS

DECEMBER 31, 2025 AND 2024

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BiggsKofford

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Arabian Acres Metropolitan District
Teller County, Colorado

Opinion

We have audited the accompanying financial statements of the business-type activities of Arabian Acres Metropolitan 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 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 respective financial position of the District as of December 31, 2025 and 2024, the respective changes in financial position, and where applicable, cash flows thereof 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 the 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 10, amounts reported in the previously issued December 31, 2024 financial statements were reclassified within net position. Our opinion is not modified with respect to that matter.

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 District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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 opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District'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 audits 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
July 15, 2026

ARABIAN ACRES METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2025 AND 2024

	2025	2024
ASSETS		
Current assets:		
Cash and investments	$ 892,334	$ 816,049
Cash and investments - restricted	263,726	273,524
Receivable from County Treasurer	1,240	1,207
Accounts receivable, net	33,725	33,757
Property taxes receivable	171,487	159,900
Prepaid expenses	14,321	12,471
Total current assets	1,376,833	1,296,908
Non-current assets:		
Capital assets, net	3,922,621	3,962,319
Total non-current assets	3,922,621	3,962,319
Total assets	$ 5,299,454	$ 5,259,227
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$ 22,404	$ 10,301
Accrued interest payable	4,843	7,427
Current maturities of bonds and notes payable	147,006	149,651
Total current liabilities	174,253	167,379
Non-current liabilities:		
Bonds and notes payable, net of current portion	1,550,171	1,697,177
Total non-current liabilities	1,550,171	1,697,177
Total liabilities	1,724,424	1,864,556
DEFERRED INFLOWS OF RESOURCES		
Deferred property taxes	171,487	159,900
Total deferred inflows of resources	171,487	159,900
NET POSITION		
Net investment in capital assets	2,870,444	2,853,705
Restricted for:		
Debt service	181,552	194,150
Emergency reserve	8,600	8,600
Operations and maintenance reserve	73,574	70,774
Unrestricted	269,373	107,542
Total net position	3,403,543	3,234,771
Total liabilities, deferred inflows of resources, and net position	$ 5,299,454	$ 5,259,227

The accompanying notes and independent auditor's report should be read with these financial statements.

ARABIAN ACRES METROPOLITAN DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2025 AND 2024

	2025	2024
OPERATING REVENEUS		
Water sales	$ 88,748	$ 93,742
Tap fees	8,000	8,000
Service fees	110,699	101,586
Capital improvement fees	86,313	111,956
Other operating revenues	53	1,361
Total operating revenues	293,813	316,645
OPERATING EXPENSES		
Depreciation	112,048	131,058
District management	47,649	49,047
Fees, dues and subscriptions	9,760	8,604
Insurance	12,471	-
ORC fees	45,054	42,583
Other expenses	9,455	7,579
Professional fees	24,132	19,462
Repairs and maintenance	16,325	17,033
Trout Haven refunds	-	2,414
Utilities	7,774	8,612
Total operating expenses	284,668	286,392
Operating income	9,145	30,253
NON-OPERATING REVENUES (EXPENSES)		
Property taxes	160,019	158,984
Specific ownership taxes	14,703	15,172
County Treasurer fees	(4,622)	(4,606)
Interest income	29,921	31,188
Interest expense	(40,394)	(48,630)
Net non-operating revenues	159,627	152,108
Change in net position	168,772	182,361
Net position, beginning of year	3,234,771	3,052,410
Net position, end of year	$ 3,403,543	$ 3,234,771

The accompanying notes and independent auditor's report should be read with these financial statements.

ARABIAN ACRES METROPOLITAN DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2025 AND 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from user fees and surcharges	$ 293,845	$ 314,097
Cash paid for goods and services	(164,951)	(165,998)
Net cash flows from operating activities	128,894	148,099
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash received from general and specific tax revenues	170,067	169,250
Net cash flows from non-capital financing activities	170,067	169,250
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments on bonds and notes payable	(149,651)	(151,947)
Interest expense	(40,394)	(48,630)
Net cash flows from capital and related financing activities	(190,045)	(200,577)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	29,921	31,188
Purchases of capital assets	(72,350)	-
Net cash flows from investing activities	(42,429)	31,188
Net change in cash and investments	66,487	147,960
Cash and investments, beginning of year	1,089,573	941,613
Cash and investments, end of year	$ 1,156,060	$ 1,089,573
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	$ 9,145	$ 30,253
Adjustments to reconcile net operating income to net cash flows from operating activities:		
Depreciation and amortization	112,048	131,058
(Increase) decrease in operating assets		
Accounts receivable, net	32	(2,548)
Prepaid expenses	(1,850)	(12,471)
Increase (decrease) in operating liabilities		
Accounts payable and accrued liabilities	12,103	1,807
Accrued interest payable	(2,584)	-
Net cash flows from operating activities	$ 128,894	$ 148,099

The accompanying notes and independent auditor's report should be read with these financial statements.

1. DEFINITION OF REPORTING ENTITY

Arabian Acres Metropolitan District ("District"), a quasi-municipal corporation and political subdivision of the state of Colorado, was formed in October 2003, and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Teller County, Colorado ("County"). The District was organized for the purpose of acquiring the water system for the use and benefit of the District's residents, taxpayers, and property owners; and for providing for the design, purchase, operation, maintenance, and extension of the water system. The District may provide additional services or facilities that may be provided by a metropolitan district, within and outside the District's boundaries, in accordance with its service plan.

The District follows 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, and potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

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

The District has no employees and all operational and administrative functions are contracted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform to accounting principles generally accepted in the United States of America ("US GAAP") 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.

<u>Basis of accounting</u>

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets.

The District distinguishes between operating revenues and expenses and non-operating 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 sanitation services to its customers. Operating revenues consist of charges to customers for services provided. Operating expenses include the cost of service, administrative expenses, and depreciation of assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses or capital contributions.

<u>Budgets</u>

In accordance with state budget law, the District holds public hearings in the fall each year to approve the budget and appropriate funds for the ensuing year. 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. The appropriation is at the total fund expenditures level and lapses at year end.

<u>Cash and investments</u>

For purposes of the financial statements, the District considers cash and all highly liquid debt instruments with initial maturities of three months or less to be cash equivalents. Certificates of deposit with an initial maturity of less than one year are considered to be current assets.

Accounts receivable

Accounts receivable of the District consist of water sales, tap fees, service fees, and capital improvement fees receivable. Accounts receivable are unsecured and are stated at the amount the District expects to collect. The District 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 District's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. As of December 31, 2025 and 2024, management considers accounts receivable to be fully collectable and no allowance for doubtful accounts has been recorded.

Property taxes

Property taxes are levied by the District's board of directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 and attaches as an enforceable lien as of January 1 of the following year. The County Treasurer collects the taxes during the ensuing calendar year. The taxes are payable by April or, at the taxpayer's election, in February and June in equal installments. Delinquent taxpayers are notified in August and sales of tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected to the District monthly.

Property taxes, net of estimated uncollectable amounts, are recorded initially as deferred revenues in the year they are levied and measurable. The deferred property tax revenues are recorded as revenues in the year they are available or collected.

Capital assets

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than $1,000 and a useful life greater than one year. Such assets are recorded at cost or estimated cost if purchased or constructed. Contributed capital assets are recorded at estimated acquisition value at the date of contribution.

Depreciation expense has been computed using the straight-line method over the estimated economic useful lives of the assets, which is 40 years.

Maintenance and repairs are charged to expense as incurred. At the time of retirement or disposition of depreciable assets, the related cost and accumulated depreciation are removed from the accounts, and the resulting gain or loss, if any, is reflected in revenues or expenses.

Capital assets which are anticipated to be conveyed to other governmental entities are not depreciated or included in the calculation of net investment in capital assets component of the District's net position.

Deferred inflows of resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenues) until that time. Accordingly, property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

Revenues and expenses

Operating revenues consist of charges for services and are recognized as earned. Operating expenses include the cost of service, administrative expenses, and depreciation of assets, and are recorded as incurred.

Use of estimates

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

Subsequent events

The District has evaluated subsequent events through the date of the attached independent auditor's report, the date these financial statements were available to be issued.

New accounting pronouncements

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections* ("Statement No. 100"). This statement enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. On January 1, 2024, the District adopted the requirements of Statement No. 100. Management determined the adoption of Statement No. 100 did not have a material impact on the District's financial statements.

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

3. CASH AND INVESTMENTS

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

	2025	2024
Cash and investments	$ 892,334	$ 816,049
Cash and investments - restricted	263,726	273,524
	$ 1,156,060	$ 1,089,573

The carrying amounts of cash and investments, which equal estimated fair value, as of December 31, 2025 and 2024, are as follows:

	2025	2024
Deposits with financial institutions	$ 459,756	$ 362,968
Investments	696,304	726,605
	$ 1,156,060	$ 1,089,573

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. The 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 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, the District's cash deposits had a bank balance of $458,613 and a carrying balance of $459,756. As of December 31, 2024, the District's cash deposits had a bank balance of $361,734 and a carrying balance of $362,968.

Investments

The District has not adopted a formal investment policy; however, the District follows state statutes regarding investments.

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

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

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

- Obligations of the US and certain US government agency securities
- Certain international agency securities
- General obligation and revenue bonds of US local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certificates of deposit in Colorado PDPA approved banks or savings banks
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

As of December 31, 2025, the District had the following in investments:

Investment	Maturity	Amount
Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	$ 544,831
Certificates of deposit	Less than 1 year	151,473
		$ 696,304

See independent auditor's report.

As of December 31, 2024, the District had the following in investments:

Investment	Maturity	Amount
Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	$ 471,714
Certificates of deposit	Less than 1 year	254,891
		$ 726,605

COLOTRUST

The District invested in the Colorado Local Government Liquid Asset Trust ("COLOTRUST" or "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 offers three portfolios: COLOTRUST PRIME, COLOTRUST PLUS+, and COLOTRUST EDGE.

COLOTRUST PRIME and COLOTRUST PLUS+, which operate similarly to a money market fund in which each share is equal in value to $1, offer daily liquidity. Both portfolios may invest in US Treasury securities and repurchase agreements collateralized by US Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of US 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 transactional share price. COLOTRUST EDGE may invest in US Treasury securities, repurchase agreement collateralized by US Treasury securities, certain obligations of US government agencies, highest rated commercial paper, and any security allowed under CRS 24-75-601.

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 FitchRatings. COLOTRUST records its investment at fair value and the District records its investment in COLOTRUST at NAV as determined by fair value. There are no unfunded commitments, the redemption frequency is daily or weekly, and there is no redemption notice period.

Fair value of investments

The District categorizes its fair value measurements within the fair value hierarchy established by US GAAP.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Therefore, the term "price" refers to the exit price as opposed to the entry price, which is the price paid to acquire the asset or received to assume the liability. US GAAP also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs when measuring fair value.

US GAAP describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities that are based on inputs not quoted in active markets that can be corroborated by observable market data

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Fair value of assets measured on a recurring basis is as follows as of December 31, 2025:

Investment	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ -	$ 151,473	$ -	$ 151,473
Total investments, held at fair value	$ -	$ 151,473	$ -	151,473
Liquid asset trust (COLOTRUST) held at cost				544,831
Total investments				$ 696,304

Fair value of assets measured on a recurring basis is as follows as of December 31, 2024:

Investment	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ -	$ 254,891	$ -	$ 254,891
Total investments, held at fair value	$ -	$ 254,891	$ -	254,891
Liquid asset trust (COLOTRUST) held at cost				471,714
Total investments				$ 726,605

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2025, is as follows:

	Balance 01-01-25	Additions	Dispositions	Reclassifications	Balance 12-31-25
Governmental activities					
Capital assets, depreciable:					
Water distribution system and equipment	$ 4,481,937	$ -	$ -	$ -	$ 4,481,937
Total capital assets, depreciable	4,481,937	-	-	-	4,481,937
Less accumulated depreciation for:					
Water distribution system and equipment	(793,206)	(112,048)	-	-	(905,254)
Total accumulated depreciation	(793,206)	(112,048)	-	-	(905,254)
Capital assets, net	3,688,731	(112,048)	-	-	3,576,683
Capital assets, not depreciable:					
Land	101,000	-	-	-	101,000
Water rights	172,588	-	-	-	172,588
Construction in progress	-	72,350	-	-	72,350
Capital assets, not depreciable	273,588	72,350	-	-	345,938
Total capital assets, net	$ 3,962,319	$ (39,698)	$ -	$ -	$ 3,922,621

See independent auditor's report.

Capital asset activity for the year ended December 31, 2024, is as follows:

	Balance 01-01-24	Additions	Dispositions	Reclassifications	Balance 12-31-24
Governmental activities					
Capital assets, depreciable:					
Water distribution system and equipment	$ 1,965,264	$ -	$ -	$ 2,516,673	$ 4,481,937
Total capital assets, depreciable	1,965,264	-	-	2,516,673	4,481,937
Less accumulated depreciation for:					
Water distribution system and equipment	(662,148)	(131,058)	-	-	(793,206)
Total accumulated depreciation	(662,148)	(131,058)	-	-	(793,206)
Capital assets, net	1,303,116	(131,058)	-	2,516,673	3,688,731
Capital assets, not depreciable:					
Land	101,000	-	-	-	101,000
Water rights	172,588	-	-	-	172,588
Construction in progress	2,516,673	-	-	(2,516,673)	-
Capital assets, not depreciable	2,790,261	-	-	(2,516,673)	273,588
Total capital assets, net	$ 4,093,377	$ (131,058)	$ -	$ -	$ 3,962,319

Depreciation expense for the years ended December 31, 2025 and 2024 totaled $112,048 and $131,058, respectively.

5. LONG-TERM OBLIGATIONS

The following is a summary of long-term debt of the District during the year ended December 31, 2025:

	Balance 01-01-25	Additions	Repayments / Amortization	Balance 12-31-25	Due Within One Year
Bonds payable:					
Series 2007 Bonds	$ 730,000	$ -	$ (85,000)	$ 645,000	$ 90,000
Total bonds payable	730,000	-	(85,000)	645,000	90,000
Other long-term obligations:					
NRWA Note Payable	8,214	-	(8,214)	-	-
CWCB Note Payable	133,361	-	(21,221)	112,140	21,613
CWRD Note Payable	975,253	-	(35,216)	940,037	35,393
Total other long-term obligations	1,116,828	-	(64,651)	1,052,177	57,006
Total long-term obligations	$ 1,846,828	$ -	$ (149,651)	$ 1,697,177	$ 147,006

The following is a summary of long-term debt of the District during the year ended December 31, 2024:

	Balance 01-01-24	Additions	Repayments / Amortization	Balance 12-31-24	Due Within One Year
Bonds payable:					
Series 2007 Bonds	$ 815,000	$ -	$ (85,000)	$ 730,000	$ 85,000
Total bonds payable	815,000	-	(85,000)	730,000	85,000
Other long-term obligations:					
NRWA Note Payable	18,883	-	(10,669)	8,214	8,214
CWCB Note Payable	154,598	-	(21,237)	133,361	21,221
CWRD Note Payable	1,010,294	-	(35,041)	975,253	35,216
Total other long-term obligations	1,183,775	-	(66,947)	1,116,828	64,651
Total long-term obligations	$ 1,998,775	$ -	$ (151,947)	$ 1,846,828	$ 149,651

Series 2007 Water Revenue Refunding Bonds

On March 28, 2007, the District issued Series 2007 Water Revenue Refunding Bonds ("Series 2007 Bonds") for the purpose of: (i) advancing the refund of certain outstanding obligations of the District and (ii) funding the reserve account. The Series 2007 bonds were issued in the amount of $1,425,000; $455,000 were issued as serial bonds and $970,000 were issued as term bonds. The serial bonds carried interest rates of 4.05% to 4.40% per annum and matured between December 1, 2014 and December 1, 2021. The term bonds carry an interest rate of 5.00% per annum and mature on December 1, 2030. The term bonds are subject to mandatory sinking fund redemption in prescribed amounts before the maturity dates.

The District is required to maintain a debt service reserve account to be used for the payment of principal and interest of the Series 2007 Bonds in the event that the District has not provided the trustee with sufficient funds to make the required payment.

The debt service reserve is based on a calculation that includes the District's other long-term debt as those obligations are considered parity debt of the District. The District's debt service reserve related to the Series 2007 Bonds as of December 31, 2025 and 2024 was $169,718 and $184,683, respectively. The Series 2007 Bonds require the District to maintain a 120% debt service requirement in annual revenue, which explicitly includes all pledged revenue in the calculation.

Pledged revenues

The Series 2007 Bonds are secured by and payable from the pledged revenues consisting of monies derived by the District from the following sources, net of any collection costs: (a) revenues, net of operation and maintenance expenses, derived from the District's water system and (b) mill levy revenue derived from the imposition of ad valorem property taxes by the District. The Series 2007 Bonds are also secured by amounts held by the trustee in the reserve fund. Mill levy revenue means revenues resulting from the imposition of ad valorem property taxes imposed by the District for the payment of the Series 2007 Bonds, including specific ownership taxes.

Optional redemption

The Series 2007 Bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of $5,000, in any order of maturity and in whole or partial maturities, on December 1, 2016, and on any date thereafter, upon payment of par and accrued interest, without redemption premium.

Events of default

The occurrence of any one or more of the following events or the existence of any one or more of the following conditions constitutes an event of default under the indenture:

i. Payment of the principal on any bond is not made by the District when due.

ii. Payment of the interest on any bond is not made by the District when due.

iii. The District defaults in the performance of any other of its material covenants in the bond resolution, and such default continues for 60 days after written notice specifying such default and requiring the same to be remedied is given to the District by the owners of 50% in aggregate principal amount of the bonds then outstanding.

iv. The District files a petition under the federal bankruptcy laws or other applicable bankruptcy laws seeking to adjust the obligation represented by the bonds.

Upon the occurrence and continuance of an event of default, the trustee may protect and enforce the rights of any owner by proper legal or equitable remedy deemed most effectual including, without limitation, mandamus, specific performance of any covenants, injunctive relief, or requiring the board of directors to act as if it were the trustee of an express trust, or any combination of such remedies; provided however, that acceleration of any payments due with respect to any bond will not be a remedy available to the owner of any such bond.

The District's long-term obligations on the Series 2007 Bonds mature as follows:

Year Ending December 31,	Principal	Interest	Total
2026	$ 90,000	$ 32,250	$ 122,250
2027	95,000	27,750	122,750
2028	100,000	23,000	123,000
2029	105,000	18,000	123,000
2030	255,000	12,750	267,750
Total	$ 645,000	$ 113,750	$ 758,750

National Rural Water Association Revolving Loan Fund (NRWA) note payable

On April 6, 2013, the District entered into a loan that was later amended on March 23, 2014 in the amount of $99,284 in order to ensure an adequate water supply. The note payable to NRWA was due in monthly installments of $924 with a stated interest rate of 3.00% per annum, which matured on July 1, 2025. The note was secured with an interest in the assets of the District in the amount of the principal balance.

Colorado Water Conservation Board (CWCB) note payable

On June 21, 2019, the District entered into a note payable that was later amended on June 29, 2020 with the CWCB for up to $214,460. The note bears interest at 1.85% per annum and is secured by an interest in the revenues of the District. Principal and interest shall be payable annually in equal payments. All principal, interest, and late charges, if any, remaining unpaid will be due and payable on or before the maturity date of May 1, 2030. The CWCB note payable requires the District to maintain a debt service reserve account or fund and the District shall deposit an amount equal to one-tenth of the annual payment in its debt service reserve account or fund for ten years. The District's debt service reserve for the CWCB note payable as of December 31, 2025 and 2024 was $11,834 and $9,467, respectively.

The CWCB note payable is secured by and payable from the pledged revenues consisting of all revenues derived from water activity enterprise revenues and all of the District's right to receive revenues.

Following is a summary of the District's future debt service requirements of the CWCB note payable:

Year Ending December 31,	Principal	Interest	Total
2026	$ 21,613	$ 2,075	$ 23,688
2027	22,013	1,675	23,688
2028	22,421	1,267	23,688
2029	22,835	853	23,688
2030	23,258	430	23,688
Total	$ 112,140	$ 6,300	$ 118,440

Colorado Water Resources & Power Development Authority (CWRD) note payable

On June 15, 2020, the District entered into a loan with CWRD in the amount of $1,500,000 to rehabilitate the existing distribution system, construct a new storage tank, and improve the existing storage and treatment facilities. The note payable is due in full on or before the maturity date November 1, 2050, with a stated interest rate of 0.5% per annum. The CWRD note payable requires the District to maintain an operation and maintenance reserve fund based on three months of budgeted operations and maintenance expenses less depreciation and was $73,574 and $70,774 for the years ended December 31, 2025 and 2024, respectively. The CWRD note payable requires the District to maintain a 110% debt service requirement in revenue. The debt service requirement is calculated based on operational revenue and operational expenses less depreciation. The District received allowance for the debt service requirement to include ad valorem property taxes, specific ownership taxes, and other revenue. The District made all debt service payments when due and believes that all future debt service payments will be made. A violation of the debt service requirement requires the District to perform a rate study to increase rates and does not constitute an event of default. The loan included $400,000 in principal forgiveness upon issuance.

The CWRD note payable is secured by and payable from the pledged revenues consisting of monies derived by the District from the following sources, net of any reasonable and necessary current expenses for operating, maintaining, and repairing the system: (a) revenues derived from the District's water system, (b) funds received through the disposition of property held in connection with the system or its operations, and (c) investment income accruing from such monies.

Following is a summary of the District's future debt service requirements of the CWRD note payable:

Year Ending December 31,	Principal	Interest	Total
2026	$ 35,393	$ 4,656	$ 40,049
2027	35,570	4,478	40,048
2028	35,748	4,312	40,060
2029	35,927	4,121	40,048
2030	36,107	3,942	40,049
2031 - 2035	183,263	16,988	200,251
2036 - 2040	187,896	12,358	200,254
2041 - 2045	192,647	7,598	200,245
2046 - 2050	197,486	2,725	200,211
Total	$ 940,037	$ 61,178	$ 1,001,215

Compliance

The District is required to comply with certain financial and administrative covenants related to its bonds and other long-term obligations. The District believes it has complied with all covenants and requirements and the District has not received notice of noncompliance or event of default.

Authorized debt

On November 5, 2002, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed $1,425,000 at an interest rate not to exceed 12% per annum. As of December 31, 2025, the District had authorized but unissued electoral indebtedness of $0.

As set forth in the District's Service Plan, the County has limited the amount of debt to be issued by the District to the amount authorized by its electors up to $1,500,000 without further approval by the County. The District may levy up to 24.000 mills, as adjusted, for debt service. As of December 31, 2025, the District has had authorized but unissued service plan indebtedness of $0.

6. NET POSITION

The District has net position consisting of: 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 balance of debt that is attributable to the acquisition, construction, or improvement of those assets.

As of December 31, 2025 and 2024, the District had net investment in capital assets as follows:

	2025	2024
Net investment in capital assets:		
Capital assets, net	$ 3,922,621	$ 3,962,319
Related long-term obligations	(1,052,177)	(1,108,614)
Net investment in capital assets	$ 2,870,444	$ 2,853,705

Restricted net position includes balances with external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The District had a restricted net position as of December 31, 2025 and 2024, as follows:

	2025	2024
Restricted net position:		
Debt service (Note 5)	$ 181,552	$ 194,150
Emergency reserve (Note 8)	8,600	8,600
Operations and maintenance reserve (Note 5)	73,574	70,774
	$ 263,726	$ 273,524

Unrestricted net assets consist of net assets that do not meet the definition of net investment in capital assets or restricted net assets.

7. RISK MANAGEMENT

The District is 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.

The District pays annual premiums to the Pool for liability, property, and public officials' liability 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.

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 within the state of Colorado.

Spending and revenue limits are determined based on the prior 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. Revenues in excess of the fiscal year spending limit must be refunded unless the voters approve retention of such revenues. On November 5, 2002, the District's voters approved a ballot issue allowing the District to retain all revenues.

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.

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.

District management believes the District 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, will likely require judicial interpretation.

Section 29-1-1702, C.R.S., contains limitations on revenues generated from property tax revenues that apply to certain local governments within the state of Colorado.

Annual operating revenue is limited to a 5.25% increase, such increase is determined based on a prior assessment period and adjusted for allowable exclusions and exemptions from qualified property tax revenues. The District's management believes it is in compliance with the provisions of Section 29-1-1702, C.R.S. However, this section of the C.R.S. is complex and subject to interpretation.

9. COMMITMENT

During the year ended December 31, 2025 the District entered into a construction contract for public improvements in the amount of $114,000, in addition to other costs to be incurred related to the project. As of December 31, 2025, costs totaling $72,350 had already been incurred with the remainder of $41,650 remaining to be spent.

10. RECLASSIFICATION OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

Unrestricted net position in the previously issued financial statements as of December 31, 2024 has been reclassified to reflect the District's current methodology for calculating reserves in the amount of $191,924. The debt service and operations and maintenance reserves have been reclassified by $121,150 and $70,774, respectively. There was no impact on beginning net position as a result of the reclassifications in the previously issued financial statements.

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SUPPLEMENTARY INFORMATION

ARABIAN ACRES METROPOLITAN DISTRICT
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET COMPARED TO ACTUAL - BUDGETARY BASIS
YEAR ENDED DECEMBER 31, 2025

	Original and Final Budget	Actual	Variance
OPERATING REVENUES			
Water sales	$ 80,000	$ 88,748	$ 8,748
Tap fees	-	8,000	8,000
Service fees	103,284	110,699	7,415
Capital improvement fees	77,463	86,313	8,850
Other operating revenues	-	53	53
Total operating revenues	260,747	293,813	33,066
OPERATING EXPENDITURES			
Contingency	55,000	-	55,000
District management	66,000	47,649	18,351
Fees, dues and subscriptions	9,600	9,760	(160)
Insurance	14,840	12,471	2,369
ORC fees	48,000	45,054	2,946
Other expenses	20,800	9,455	11,345
Professional fees	20,056	24,132	(4,076)
Purchased services	10,000	-	10,000
Repairs and maintenance	40,000	16,325	23,675
Utilities	10,000	7,774	2,226
Total operating expenditures	294,296	172,620	121,676
NON-OPERATING REVENUES (EXPENDITURES)			
Property taxes	159,900	160,019	119
Specific ownership taxes	11,193	14,703	3,510
County Treasurer fees	(4,797)	(4,622)	175
Interest income	5,000	29,921	24,921
Interest expense	(41,435)	(40,394)	1,041
Debt principal payments	(152,118)	(149,651)	2,467
Total non-operating revenues and expenditures	(22,257)	9,976	32,233
Excess (deficit) of revenue over expenditures - budgetary basis	$ (55,806)	$ 131,169	$ 186,975

The accompanying notes and independent auditor's report should be read with these financial statements.

ARABIAN ACRES METROPOLITAN DISTRICT
RECONCILIATION OF AMOUNTS FROM US GAAP BASIS TO BUDGETARY BASIS
DECEMBER 31, 2025

The accompanying supplementary Schedule of Revenues and Expenditures − Budget Compared to Actual on page 17 presents comparisons of the legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with US GAAP, a reconciliation of differences in revenues and expenditures for the year ended December 31, 2025 is presented below.

Total revenues per financial statements	$ 498,456
Total actual revenues and receipts per the budget	$ 498,456
Total expenses and capital expenditures per financial statements	$ 329,684
Add:	
Debt principal payments	149,651
Less:	
Depreciation and amortization	(112,048)
Total actual expenses and capital expenditures per the budget	$ 367,287

The accompanying notes and independent auditor's report should be read with these financial statements.