FALCON HIGHLANDS METROPOLITAN DISTRICT
El Paso County, Colorado

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2025

FALCON HIGHLANDS METROPOLITAN DISTRICT
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2025

INDEPENDENT AUDITOR'S REPORT	**I**
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	**1**
STATEMENT OF ACTIVITIES	**2**
FUND FINANCIAL STATEMENTS	
BALANCE SHEET – GOVERNMENTAL FUNDS	**3**
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	**4**
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	**5**
GENERAL FUND – STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL	**6**
CONSERVATION TRUST FUND – STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL	**7**
ENTERPRISE FUND – STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	**8**
ENTERPRISE FUND – STATEMENT OF CASH FLOWS	**9**
NOTES TO BASIC FINANCIAL STATEMENTS	**10**
SUPPLEMENTARY INFORMATION	
DEBT SERVICE FUND – SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL	**29**
ENTERPRISE FUND – SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUNDS AVAILABLE – BUDGET AND ACTUAL	**30**
ENTERPRISE FUND – RECONCILIATION OF BUDGETARY BASIS (ACTUAL) TO STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	**31**

FALCON HIGHLANDS METROPOLITAN DISTRICT
TABLE OF CONTENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2025

OTHER INFORMATION

SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED 33

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY 34

Dazzio & Associates, PC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Falcon Highlands Metropolitan District
El Paso County, Colorado

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Falcon Highlands Metropolitan District (the District) as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the District, as of December 31, 2025, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparisons for the General Fund and the Conservation Trust Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

Required Supplementary Information

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 who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Supplementary Information, as listed 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. The 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.

Other Information

Management is responsible for the other information included in the annual report. The Other Information, as listed in the table of contents, does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the Other Information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Dassio & Associates, P.C.

September 18, 2026

BASIC FINANCIAL STATEMENTS

FALCON HIGHLANDS METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2025

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	$ 1,965,911	$ 533,057	$ 2,498,968
Cash and Investments - Restricted	149,742	-	149,742
Accounts Receivable	11,481	26,884	38,365
Prepaid Expense	2,623	13,503	16,126
Prepaid Insurance	180	270	450
Receivable from County Treasurer	9,744	-	9,744
Property Taxes Receivable	1,148,851	-	1,148,851
Capital Assets, Not Being Depreciated	1,345,302	402,786	1,748,088
Capital Assets, Net	-	2,788,159	2,788,159
Total Assets	4,633,834	3,764,659	8,398,493
LIABILITIES			
Accounts Payable	66,150	160,340	226,490
Tap Review Fee Escrow	-	61,000	61,000
Accrued Bond Interest Payable	23,146	-	23,146
Noncurrent Liabilities:			
Due Within One Year	70,000	-	70,000
Due In More Than One Year	23,483,425	-	23,483,425
Total Liabilities	23,642,721	221,340	23,864,061
DEFERRED INFLOWS OF RESOURCES			
Property Tax Revenue	1,148,851	-	1,148,851
Total Deferred Inflows of Resources	1,148,851	-	1,148,851
NET POSITION			
Net Investments in Capital Assets	1,345,302	3,190,945	4,536,247
Restricted for:			
Emergency Reserves	14,700	-	14,700
Conservation Trust	34,333	-	34,333
Debt Service	78,527	-	78,527
Unrestricted	(21,630,600)	352,374	(21,278,226)
Total Net Position	$ (20,157,738)	$ 3,543,319	$ (16,614,419)

See accompanying Notes to Basic Financial Statements.

FALCON HIGHLANDS METROPOLITAN DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2025

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net Revenues (Expenses) and Change in Net Position: Governmental Activities	Net Revenues (Expenses) and Change in Net Position: Business-Type Activities	Net Revenues (Expenses) and Change in Net Position: Total
Primary Government:							
Governmental Activities:							
General Government	$ 441,255	$ 134,966	$ -	$ 7,289	$ (299,000)	$ -	$ (299,000)
Interest and Related Costs on Long-Term Debt	1,774,265	-	-	-	(1,774,265)	-	(1,774,265)
Total Governmental Activities	2,215,520	134,966	-	7,289	(2,073,265)	-	(2,073,265)
Business-Type Activities:							
Enterprise	737,161	426,318	-	30,000	-	(280,843)	(280,843)
Total Business-Type Activities	737,161	426,318	-	30,000	-	(280,843)	(280,843)
Total Primary Government	$ 2,952,681	$ 561,284	$ -	$ 37,289	(2,073,265)	(280,843)	(2,354,108)
GENERAL REVENUES AND TRANSFERS							
Property Taxes					1,124,339	-	1,124,339
Specific Ownership Taxes					108,176	-	108,176
Net Investment Income					13,337	13,282	26,619
Other Income					84,746	-	84,746
Transfers					(46,959)	46,959	-
Total General Revenues and Transfers					1,283,639	60,241	1,343,880
CHANGE IN NET POSITION					(789,626)	(220,602)	(1,010,228)
Net Position - Beginning of Year					(19,368,112)	3,763,921	(15,604,191)
NET POSITION - END OF YEAR					$ (20,157,738)	$ 3,543,319	$ (16,614,419)

See accompanying Notes to Basic Financial Statements.

FALCON HIGHLANDS METROPOLITAN DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2025

	General	Conservation Trust Fund	Debt Service	Total Governmental Funds
ASSETS				
Cash and Investments	$ 1,965,911	$ -	$ -	$ 1,965,911
Cash and Investments - Restricted	14,700	34,333	100,709	149,742
Accounts Receivable	11,481	-	-	11,481
Prepaid Expense	2,623	-	-	2,623
Prepaid Insurance	180	-	-	180
Receivable from County Treasurer	8,780	-	964	9,744
Property Taxes Receivable	164,117	-	984,734	1,148,851
Total Assets	$ 2,167,792	$ 34,333	$ 1,086,407	$ 3,288,532
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts Payable	$ 66,150	$ -	$ -	$ 66,150
Total Liabilities	66,150	-	-	66,150
DEFERRED INFLOWS OF RESOURCES				
Property Tax Revenue	164,117	-	984,734	1,148,851
Total Deferred Inflows of Resources	164,117	-	984,734	1,148,851
FUND BALANCES				
Nonspendable:				
Prepaid Amounts	2,803	-	-	2,803
Restricted for:				
Emergency Reserves	14,700	-	-	14,700
Debt Service	-	-	101,673	101,673
Conservation Trust	-	34,333	-	34,333
Assigned to:				
Subsequent Year's Expenditures	6,029	-	-	6,029
Unassigned	1,913,993	-	-	1,913,993
Total Fund Balances	1,937,525	34,333	101,673	2,073,531
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 2,167,792	$ 34,333	$ 1,086,407	
Amounts reported for governmental activities in the Statement of Net Position are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the funds.				
Capital Assets, Net				1,345,302
Long-term liabilities, including developer advances, are not due and payable in the current period and, therefore, are not reported in the funds.				
Bonds Payable				(10,490,000)
Accrued Bond Interest				(13,086,571)
Net Position of Governmental Activities				$ (20,157,738)

See accompanying Notes to Basic Financial Statements.

FALCON HIGHLANDS METROPOLITAN DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2025

	General	Conservation Trust Fund	Debt Service	Total Governmental Funds
REVENUES				
Property Taxes	$ 160,608	$ -	$ 963,731	$ 1,124,339
Specific Ownership Taxes	108,176	-	-	108,176
Conservation Trust Fund Proceeds	-	7,289	-	7,289
Maintenance Fees	134,966	-	-	134,966
Other Income	84,746	-	-	84,746
Net Investment Income	-	1,247	12,090	13,337
Total Revenues	488,496	8,536	975,821	1,472,853
EXPENDITURES				
General Government	441,255	-	-	441,255
Debt Service	-	-	971,085	971,085
Total Expenditures	441,255	-	971,085	1,412,340
EXCESS OF REVENUES OVER EXPENDITURES	47,241	8,536	4,736	60,513
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	(46,959)	-	-	(46,959)
Total Other Financing Sources (Uses)	(46,959)	-	-	(46,959)
NET CHANGE IN FUND BALANCES	282	8,536	4,736	13,554
Fund Balances - Beginning of Year	1,937,243	25,797	96,937	2,059,977
FUND BALANCES - END OF YEAR	$ 1,937,525	$ 34,333	$ 101,673	$ 2,073,531

See accompanying Notes to Basic Financial Statements.

FALCON HIGHLANDS METROPOLITAN DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2025

Net Change in Fund Balances - Governmental Funds	$	13,554
Amounts reported for governmental activities in the Statement of Activities are different because:		
The issuance of long-term debt (e.g., bonds and developer advances), provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		
Bond Principal Payment		60,000
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Accrued Bond Interest Payable Series 2022 - Change in Liability		250
Accrued Bond Interest Payable Series 2007 - Change in Liability		(863,430)
Change in Net Position of Governmental Activities	$	(789,626)

See accompanying Notes to Basic Financial Statements.

FALCON HIGHLANDS METROPOLITAN DISTRICT
GENERAL FUND – STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2025

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property Taxes	$ 161,216	$ 160,608	$ (608)
Specific Ownership Taxes	112,860	108,176	(4,684)
Maintenance Fees	140,000	134,966	(5,034)
Other Income	100,000	84,746	(15,254)
Net Investment Income	1,000	-	(1,000)
Total Revenues	515,076	488,496	(26,580)
EXPENDITURES			
Accounting	42,000	45,326	(3,326)
Audit	9,300	8,500	800
County Treasurer's Fees	2,418	2,411	7
District Management	78,000	62,657	15,343
Directors Fees	6,000	3,700	2,300
Utilities	25,000	15,640	9,360
Election	20,000	2,776	17,224
Professional Services	5,000	-	5,000
Equipment Expense	10,000	-	10,000
Insurance	12,000	14,434	(2,434)
Landscape Maintenance	40,000	34,199	5,801
Legal	51,000	42,680	8,320
Website	-	2,031	(2,031)
Payroll - Wages and Taxes	459	283	176
Repairs and Maintenance	10,000	4,072	5,928
Miscellaneous	5,000	9,346	(4,346)
Snow Removal	-	3,418	(3,418)
Mosquito Control	12,000	16,025	(4,025)
Underdrain	200,000	173,757	26,243
General Improvement	12,000	-	12,000
Park Improvements	10,000	-	10,000
Storm Drainage	10,000	-	10,000
Trail Maintenance	10,000	-	10,000
Contingency	279,823	-	279,823
Total Expenditures	850,000	441,255	408,745
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(334,924)	47,241	382,165
OTHER FINANCING SOURCES (USES)			
Transfer (to) / from Other Funds	(47,250)	(46,959)	291
Total Other Financing Sources (Uses)	(47,250)	(46,959)	291
NET CHANGE IN FUND BALANCE	(382,174)	282	382,456
Fund Balance - Beginning of Year	1,880,611	1,937,243	56,632
FUND BALANCE - END OF YEAR	$ 1,498,437	$ 1,937,525	$ 439,088

See accompanying Notes to Basic Financial Statements.

FALCON HIGHLANDS METROPOLITAN DISTRICT
CONSERVATION TRUST FUND – STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2025

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Conservation Trust Fund Proceeds	$ 9,000	$ 7,289	$ (1,711)
Net Investment Income	600	1,247	647
Total Revenues	9,600	8,536	(1,064)
EXPENDITURES			
Repairs and Maintenance	35,970	-	35,970
Total Expenditures	35,970	-	35,970
NET CHANGE IN FUND BALANCE	(26,370)	8,536	34,906
Fund Balance - Beginning of Year	26,370	25,797	(573)
FUND BALANCE - END OF YEAR	$ -	$ 34,333	$ 34,333

See accompanying Notes to Basic Financial Statements.

FALCON HIGHLANDS METROPOLITAN DISTRICT
ENTERPRISE FUND – STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2025

OPERATING REVENUES		
Water Usage Fees	$	187,221
Water Treatment Fees		131,294
Administrative Fees		84,029
Penalties		3,463
Facility Fees		15,799
Meter Fees		1,125
O&M Fees		813
Inspection Fees		90
Other Income		2,484
Total Operating Revenues		426,318
OPERATING EXPENSES		
Facility Operations:		
Repairs and Maintenance		32,823
Operating Expense		16,336
Security		6,506
Supplies - Treatment Facility		20,716
Woodman Hills Contract		88,767
Utilities		79,957
Utility Billing		71,069
Depreciation		138,292
Administration and General Expenses:		
Accounting		57,479
Dues and Subscriptions		1,163
District Management		80,900
Professional Services		65,690
Legal		54,795
Insurance		21,651
Telephone		991
Utility Locates		26
Total Operating Expenses		737,161
OPERATING LOSS		(310,843)
NONOPERATING REVENUES (EXPENSES)		
Net Investment Income		13,282
Total Nonoperating Revenues (Expenses)		13,282
LOSS BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS		(297,561)
Capital Contributions		30,000
Transfers In		46,959
CHANGE IN NET POSITION		(220,602)
Total Net Position - Beginning of Year		3,763,921
TOTAL NET POSITION - END OF YEAR	$	3,543,319

See accompanying Notes to Basic Financial Statements.

FALCON HIGHLANDS METROPOLITAN DISTRICT
ENTERPRISE FUND – STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2025

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	$	400,668
Cash Payments to Suppliers for Goods and Services		(541,955)
Other Cash Received		23,774
Net Cash Used by Operating Activities		(117,513)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from Other Funds		46,959
Net Cash Provided by Noncapital Financing Activities		46,959
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Water Tap Fees		30,000
Net Cash Provided by Capital and Related Financing Activities		30,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Investment Income		13,282
Net Cash Provided by Investing Activities		13,282
NET DECREASE IN CASH AND CASH EQUIVALENTS		(27,272)
Cash and Cash Equivalents - Beginning of Year		560,329
CASH AND CASH EQUIVALENTS - END OF YEAR	$	533,057
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$	(310,843)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities		
Depreciation		138,292
Decrease (Increase) in Accounts Receivable		(1,876)
Decrease (Increase) in Prepaid Expenses		(6,516)
Increase (Decrease) in Accounts Payable		63,430
Net Cash Used by Operating Activities	$	(117,513)

See accompanying Notes to Basic Financial Statements.

NOTE 1 DEFINITION OF REPORTING ENTITY

Falcon Highlands Metropolitan District (the District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by Order and Decree of the District Court of El Paso County, Colorado on November 14, 2002, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District operates under a Service Plan approved by El Paso County Commissioners on July 25, 2002. The District's boundaries and service area is located in unincorporated El Paso County, Colorado. The District was established to provide water, sanitary sewage, drainage, landscaping, public transportation, street improvements, traffic and safety controls, parks and recreation facilities, mosquito control and television relay and translation systems.

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. The effect of interfund activity has been removed from these statements. Both statements distinguish between governmental activities, which normally are supported by taxes and intergovernmental revenues, and business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net position reports all financial and capital resources of the District. The difference between the sum of assets and deferred outflows and the sum of liabilities and deferred inflows is reported as net position.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for the governmental funds and proprietary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes and specific ownership taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. The District determined that Developer advances are not considered as revenue susceptible to accrual. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred, or the long-term obligation is due.

The District reports the following major governmental funds:

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

The Special Revenue - Conservation Trust Fund – This fund is used to account for conservation trust revenues that are restricted for the acquisition, development, and maintenance of new conservation sites or for capital improvements or maintenance of recreational purposes on any public site.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the governmental funds.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The District reports the following major proprietary funds:

The Enterprise Fund accounts for the water and sanitary sewage operations that are financed and operated in a manner where the intent of the District is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the District's water and sanitary sewage function and various other functions of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues consist of charges to customers for service provided. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital 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 District's Board of Directors holds a public hearing 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 and other financing uses level and lapses at year-end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

The District amended its budget for the year ending December 31, 2025.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pooled Cash and Investments

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single bank account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

Cash Equivalents

For purposes of the statement of cash flows, the District considers cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

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 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflow of resources in the year they are levied and measurable. The unearned property tax revenues are recorded as revenue in the year they are available or collected.

Capital Assets

Capital assets, which include property, water rights, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, water and sanitary sewage facilities, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000. 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.

Capital assets which are anticipated to be conveyed to other governmental entities are recorded as construction in progress and are not included in the calculation of net investment in capital assets component of the District's net position.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

Depreciation expense has been computed using the straight-line method over the following estimated economic useful lives:

Water and Sanitary Sewage Facilities	30 to 40 Years
Machinery, Equipment, and Vehicles	5 to 10 Years

Tap Fees and Contributed Lines

Tap fees are recorded as capital contributions when received. Lines contributed to the District by developers are recorded as capital contributions and additions to the systems at estimated fair value when received.

Water Rights

The cost of water rights includes acquisition cost; legal and engineering costs related to the development and augmentation of those rights. Since the rights have a perpetual life, they are not amortized. All other costs, including costs incurred for the protection of those rights, are expensed.

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, *deferred inflows of resources*, represents an acquisition of net assets that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Accordingly, the item, *property tax revenue*, is deferred and recognized as an inflow of resources in the period that the amount becomes available.

Equity

Net Position

For government-wide presentation purposes when both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

Fund Balance

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

Nonspendable Fund Balance – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity (Continued)

Fund Balance (Continued)

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

Committed Fund Balance – The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.

Assigned Fund Balance – The portion of fund balance that is constrained by the government's intent to be used for specific purposes but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

Unassigned Fund Balance – The residual portion of fund balance that does not meet any of the criteria described above.

If more than one classification of fund balance is available for use when an expenditure is incurred, it is the District's practice to use the most restrictive classification first.

Adoption of New Accounting Standards

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.

NOTE 3 CASH AND INVESTMENTS

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

Statement of Net Position:	
Cash and Investments	$ 2,498,968
Cash and Investments - Restricted	149,742
Total Cash and Investments	$ 2,648,710

Cash and investments as of December 31, 2025, consist of the following:

Deposits with Financial Institutions	$ 396,581
Investments	2,252,129
Total Cash and Investments	$ 2,648,710

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.

At December 31, 2025, the District's cash deposits had a bank balance of $395,829 and a carrying balance of $396,581.

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 noted with an asterisk (*) below, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District 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 INVESTMENTS (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, the District had the following investments:

Investment	Maturity	Amount
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted-Average Under 60 Days	$ 2,252,129

CSAFE

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE) (the Trust), which is an investment vehicle established by State statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust currently offers two portfolios – CSAFE CASH FUND and CSAFE CORE.

CSAFE CASH FUND operates similar to a money market fund, with each share valued at $1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds and highest rated commercial paper, any security allowed under CRS 24-75-601.

CSAFE CORE, a variable Net Asset Value (NAV) Local Government Investment Pool, offers weekly liquidity and is managed to approximate a $2.00 transactional share price. CSAFE CORE 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 INVESTMENTS (CONTINUED)

CSAFE (Continued)

A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE CASH FUND is rated AAAmmf and CSAFE CORE is rated AAAf/S1 by Fitch Ratings. CSAFE records its investments at amortized cost and the District records its investments in CSAFE at net asset value as determined by amortized cost. There are no unfunded commitments, the redemption frequency is daily 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
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	$ 1,345,302	$ -	$ -	$ 1,345,302
Total Capital Assets, Not Being Depreciated	$ 1,345,302	$ -	$ -	$ 1,345,302
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Water Rights	$ 402,786	$ -	$ -	$ 402,786
Total Capital Assets, Not Being Depreciated	402,786	-	-	402,786
Capital Assets, Being Depreciated:				
Equipment and Systems	6,389,940	-	-	6,389,940
Vehicles	40,659	-	-	40,659
Total Capital Assets, Being Depreciated:	6,430,599	-	-	6,430,599
Less Accumulated Depreciation for:				
Equipment and Systems	3,463,489	138,292	-	3,601,781
Vehicles	40,659	-	-	40,659
Total Accumulated Depreciation	3,504,148	138,292	-	3,642,440
Total Capital Assets, Being Depreciated, Net	2,926,451	(138,292)	-	2,788,159
Business-Type Activities Capital Assets, Net	$ 3,329,237	$ (138,292)	$ -	$ 3,190,945

NOTE 5 LONG-TERM OBLIGATIONS

The following is an analysis of the changes in the District's long-term obligations for the year ended December 31, 2025:

	Balance at December 31, 2024	Additions	Reductions	Balance at December 31, 2025	Due Within One Year
Governmental Activities:					
Bonds Payable:					
G.O. Limited Tax Senior Series 2022	$ 5,615,000	$ -	$ 60,000	$ 5,555,000	$ 70,000
G.O. Limited Tax Subordinate Series 2007	4,935,000	-	-	4,935,000	-
Series 2007 Accrued Interest	12,199,995	1,475,197	611,767	13,063,425	-
Bonds Payable Subtotal	22,749,995	1,475,197	671,767	23,553,425	70,000
Total Long-Term Liabilities	$ 22,749,995	$ 1,475,197	$ 671,767	$ 23,553,425	$ 70,000

The details of the District's long-term obligations are as follows:

General Obligation Limited Tax Refunding Bonds, Series 2022 (Series 2022 Bonds)

The District issued the Series 2022 Bonds on September 23, 2022, in the amount of $5,880,000.

Proceeds of the Series 2022 Bonds

Proceeds from the sale of the Series 2022 Bonds were used to refund the District's General Obligation Limited Tax Bonds, Series 2004A.

Bonds Details

The Series 2022 Bonds bear interest at 5.00%, payable semi-annually 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, 2022. The Series 2022 Bonds mature on December 1, 2052.

To the extent principal of any 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 Bond. To the extent interest on any Bond is not paid when due, such interest shall compound on each interest payment date, at the rate then borne by the Bond.

The Series 2022 Bonds and interest thereon shall be deemed to be paid, satisfied, and discharged on December 2, 2061 (the Termination Date), regardless of the principal and interest amounts remaining unpaid.

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

General Obligation Limited Tax Refunding Bonds, Series 2022 (Series 2022 Bonds) (Continued)

Optional Redemption for the Series 2022 Senior Bonds

The Series 2022 Bonds are subject to redemption prior to maturity, at the option of the District, on December 1, 2029, 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
December 1, 2029, to November 30, 2030	3.00%
December 1, 2030, to November 30, 2031	2.00
December 1, 2031, to November 30, 2032	1.00
December 1, 2032, and Thereafter	0.00

Pledged Revenue

The Series 2022 Bonds are secured by and payable solely from and to the extent of Pledged Revenue derived by the District from the following sources:

(a) the Required Mill Levy; and
(b) any other legally available money which the District determines, in its absolute discretion, to transfer to the Trustee for application as Pledged Revenue.

Required Mill Levy

The Required Mill levy is an ad valorem mill levy imposed upon all taxable property of the District each year in an amount sufficient to pay the Series 2022 Bonds when due but not in excess of 30 mills (subject to adjustment for changes in the method of calculating assessed valuation on and after July 25, 2002).

Events of Default of the Series 2022 Bonds

Events of default occur if the District fails to impose the Required Mill Levy, or to apply the Pledged Revenues as required by the Indenture and does not comply with other customary terms and conditions consistent with normal municipal financing as described in the Senior Indenture.

Unused Lines of Credit

The Series 2022 Bonds do not have any unused lines of credit.

Collateral

No assets have been pledged as collateral on the Series 2022 Bonds.

Termination Events

The Series 2022 Bonds do not have a termination provision. In the event that there are amounts outstanding after the maturity date, the District must levy the Required Mill Levy until all principal and accrued interest is paid on the bonds up until the Termination Date.

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

General Obligation Limited Tax Refunding Bonds, Series 2022 (Series 2022 Bonds) (Continued)

Acceleration

The Series 2022 Bonds are not subject to acceleration.

The annual requirement to amortize the District's Series 2022 Bonds is as follows:

	Governmental Activities		
	Bonded Debt		
Year Ending December 31,	Principal	Interest	Total
2026	$ 70,000	$ 277,750	$ 347,750
2027	75,000	274,250	349,250
2028	85,000	270,500	355,500
2029	85,000	266,250	351,250
2030	100,000	262,000	362,000
2031-2035	615,000	1,228,000	1,843,000
2036-2040	875,000	1,049,500	1,924,500
2041-2045	1,210,000	799,000	2,009,000
2046-2050	1,640,000	456,000	2,096,000
2051-2052	800,000	60,500	860,500
Total	$ 5,555,000	$ 4,943,750	$ 10,498,750

$4,935,000 General Obligation Limited Tax Subordinate Bonds, Series 2007

On February 27, 2007, the District issued the $4,935,000 General Obligation Limited Tax Subordinate Bonds, Series 2007 (the Series 2007 Bonds). The Indenture of Trust dated June 1, 2004, was amended and restated on September 1, 2022. The Series 2007 Bonds were issued for the following purposes: (i) to construct certain infrastructure improvements within the District; (ii) to reimburse the Developer for construction of certain infrastructure improvements completed, (iii) to pay a portion of approximately 20 months of capitalized interest on the Series 2007 Bonds; and (iv) to pay the issuance expenses and underwriter's fees with respect to the Series 2007 Bonds.

On September 1, 2022, the District entered into the Amended and Restated Indenture of Trust related to the Series 2007 Subordinate Bonds. The details related to the Amended and Restated Indenture of Trust are as follows:

Bonds Details

The Bonds are dated February 27, 2007, and bear interest at 8.50% per annum, calculated on the basis of a 360-day year of twelve 30-day months, payable, to the extent of Subordinate Pledged Revenue available, semi-annually on June 15 and December 15. The first interest payment date on the Bonds following the Amended and Restated Indenture of Trust is on December 15, 2022. The Bonds mature on December 15, 2036.

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

$4,935,000 General Obligation Limited Tax Subordinate Bonds, Series 2007 (Continued)

Bonds Details (Continued)

To the extent principal of any 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 Bond. To the extent interest on any Bond is not paid when due, such interest shall compound on each interest payment date, at the rate then borne by the Bond.

The Bonds and interest thereon shall be deemed to be paid, satisfied, and discharged on December 16, 2047 (the Termination Date), regardless of the principal and interest amounts remaining unpaid.

The annual debt service requirements on the Series 2007 Bonds are not currently determinable since they are paid only from available Subordinate Pledged Revenue.

Subordinate Pledged Revenue

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

a) the Subordinate Required Mill Levy; and
b) any other legally available money which the District determines, in its absolute discretion, to transfer to the Trustee for application as Subordinate Pledged Revenue.

Subordinate Required Mill Levy

The Subordinate Required Mill Levy is an ad valorem mill levy imposed upon all taxable property of the District each year in the amount of 30 mills (subject to adjustment for changes in the method of calculating assessed valuation on and after July 25, 2002) less the amount of the Senior Bond Mill Levy.

Events of Default of the Bonds

Events of default occur if the District fails to impose the Subordinate Required Mill Levy, or to apply the Subordinate Pledged Revenues as required by the Indenture and does not comply with other customary terms and conditions consistent with normal municipal financing as described in the Amended and Restated Indenture.

Unused Lines of Credit

The Series 2007 Bonds do not have any unused lines of credit.

Collateral

No assets have been pledged as collateral on the Series 2007 Bonds.

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

$4,935,000 General Obligation Limited Tax Subordinate Bonds, Series 2007 (Continued)

Termination Events

The Series 2007 Bonds terminate on December 16, 2047, being the date on which no further payments will be due on the Bonds and all amounts due on the Bonds will be deemed to be paid, regardless of the amount of principal and interest paid with respect to the Bonds prior to that date.

Acceleration

The Series 2007 Bonds are not subject to acceleration.

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 $40,750,000 at an interest rate not to exceed 16% per annum.

Pursuant to the Service Plan, the District is permitted to issue bonded indebtedness of up to $25,000,000. The Mill Levy is limited to 35.000 subject to adjustment, per the Service Plan. There is approximately $1,780,000 of the Service Plan Debt Issuance Limit remaining.

In the future, the District may issue a portion of all of the remaining Service Plan Debt Issuance Limit for purposes of providing public improvements to support development as it occurs within the District's service area.

NOTE 6 NET POSITION

The District 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, the District had net investment in capital assets calculated as follows:

	Governmental Activities	Business-Type Activities
Net Investment in Capital Assets:		
Capital Assets, Net	$ 1,345,302	$ 3,190,945
Net Investment in Capital Assets	$ 1,345,302	$ 3,190,945

Restricted net position includes assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

NOTE 6 NET POSITION (CONTINUED)

The District had restricted net position as of December 31, 2025, as follows:

	Governmental Activities
Restricted Net Position:	
Emergency Reserve	$ 14,700
Debt Service	78,527
Conservation Trust	34,333
Total Restricted Net Position	$ 127,560

The District has a deficit in the unrestricted net position under Governmental Activities. The deficit is a result of the District being responsible for the repayment of bonds issued for public improvements which were conveyed to other governmental entities and which costs were removed from the District's financial records.

NOTE 7 INTERGOVERNMENTAL AGREEMENTS

Woodmen Hills Intergovernmental Agreement

On April 17, 2003, the District entered into an Intergovernmental Agreement with Woodmen Hills Metropolitan District (Woodmen Hills) for the purpose of engaging the services of Woodmen Hills to assist in the delivery of wastewater services for the District. Woodmen Hills has agreed to serve 754 SFE (Single Family Equivalent) on approximately 341 acres within the District. The District is required to charge the users within the District, a sewer tap fee, and pay to Woodmen Hills, based on the Woodmen Hills In-District Tap Rate. Following the one-year warranty period, Woodmen Hills shall provide at its expense all normal maintenance and repair to the infrastructure; however, the District shall be responsible for the replacement, upgrade, and improvements to this infrastructure. The District will pay for the cost of enlarging the Woodmen Hills system if such enlargement becomes necessary because of any increase in the number of units (SFEs) served.

The District agreed to pay a connection fee to Woodmen Hills in the amount of $654,472, which was made up of charges for the aid in construction, line extension fee and a plant investment fee. This agreement is in perpetuity and may not be terminated by the District so long as Woodmen Hills is providing the services contemplated within the agreement.

During April 2012, the District entered into the First Addendum to the Intergovernmental Agreement with Woodmen Hills. The purpose of the addendum is to acknowledge the following: the remaining 380 residential and 92 non-residential sewer SFEs as of January 1, 2011, to which the 2003 Intergovernmental Agreement apply, payment of the connection fee to Woodmen Hills, the amount of the payment to Woodmen Hills for connection to the wastewater system of $5,500, and a credit of $19,667.59 owed to Falcon Highlands by Woodmen Hills for payments made in excess of the designated sewer tap fee rate (which was fully applied in 2011).

NOTE 7 INTERGOVERNMENTAL AGREEMENTS (CONTINUED)

Woodmen Hills Operating Agreement

On May 13, 2019, the District entered into an Intergovernmental Agreement with Woodmen Hills Metropolitan District (Woodmen Hills) for the purpose of engaging Woodmen Hills to provide operations and maintenance services for the Falcon water source of supply, water treatment, storage, and distribution system and provide landscape maintenance services to the Falcon-owned properties. The District will continue to be responsible for all administration and utility billing functions and for capital-related improvements to be made.

The District agreed to pay Woodmen Hills for basic services not to exceed in aggregate the sum of $5,000 per month without prior approval of the District. If additional services or emergency services are provided under this agreement, compensation for performance shall be based on the agreed upon rate schedule. Direct costs, including materials, supplies chemicals, lab fees, and replacement equipment parts, purchased for Falcon in the performance of the services, shall be reimbursable at costs with no markup, with supporting documentation for such items. Indirect costs incurred by Woodmen Hills not tied directly to the performance of the services, including rent, utilities, general office expenses, employees' salaries, payroll costs, professional expenses, insurance, and other overhead costs, shall be the responsibility of Woodmen Hills. On September 26, 2022, the District received notification from Woodmen Hills of its intent to cancel the Agreement effective December 31, 2022, and to renegotiate the terms of the Operations Services with a new Agreement. On December 20, 2022, this Agreement was Amended to exclude the landscaping services through the extended cancellation date of March 31, 2023.

The District entered into a new Agreement with Woodmen Hills dated March 27, 2023, with the obligations of the Agreement commencing on April 1, 2023. Under this Agreement, Woodmen Hills will operate and maintain the Falcon Water System on a day-to-day basis, including serving as the Operator in Responsible Charge in the manner provided for in the Agreement and shall perform the Basic Services and Emergency Services, as defined and described in the Agreement, using the degree of skill and knowledge customarily employed in the performance of such services. Compensation for the Services provided under this Agreement shall be on a monthly basis in accordance with the rate schedule in the Agreement, not to exceed $80,000 annually, without prior approval of an authorized representative of the District.

Emergency Interconnect Agreement

On November 29, 2018, the District entered into an Intergovernmental Agreement with Woodmen Hills for the purpose of funding construction of an interconnection to reduce the risk of interruptions of water service and fire protection to its customers during such times when an emergency water condition may exist.

NOTE 8 INTERFUND TRANSFERS

The transfer from the General Fund to the Enterprise Fund was to pay for certain enterprise and capital expenditures.

NOTE 9 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, workers compensation 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.

NOTE 10 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 that apply to the State of Colorado and all local governments.

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

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

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.

NOTE 10 TAX, SPENDING, AND DEBT LIMITATIONS (CONTINUED)

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will 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 property tax revenue is limited to a 5.25% increase (10.5% increase over a two year period), 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.

On November 5, 2002, a majority of the District's electors authorized the District to collect, retain, and spend any and all amounts annually from any revenue sources other than ad valorem taxes, including but not limited to tap fees, facility fees, services charges, inspection charges, administration charges, grants, or any other fee, rate, toll, penalty, income or charge imposed, collected, or authorized by law to be imposed or collected by the District, and shall such revenues be collected and spent by the District as a voter-approved revenue change without regard to any spending, revenue-raising, or other limitation contained within Article, Section 20 of the Colorado Constitution, and without limiting in any year the amount of other revenues that may be collected and spent by the District.

On November 5, 2002, a majority of the District's electors also authorized the District to increase property taxes by $450,000 annually to pay for the District's operations and maintenance functions. The authorization also allows the retention of all investment earnings, without limiting the amount of other revenues that may be collected, retained, and spent by the District.

NOTE 11 COMMITMENTS AND CONTINGENCIES

Construction Commitments

In 2026, the District entered into construction contracts amounting to $823,387.02 related to the underdrain system.

SUPPLEMENTARY INFORMATION

FALCON HIGHLANDS METROPOLITAN DISTRICT
DEBT SERVICE FUND – SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2025

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property Taxes	$ 967,383	$ 963,731	$ (3,652)
Net Investment Income	5,001	12,090	7,089
Total Revenues	972,384	975,821	3,437
EXPENDITURES			
Debt Service:			
County Treasurer's Fees	14,511	14,468	43
Paying Agent/Trustee Fees	7,500	4,100	3,400
Bond Interest - Series 2007	599,623	611,767	(12,144)
Bond Interest - Series 2022	280,750	280,750	-
Bond Principal - Series 2022	60,000	60,000	-
Contingency	10,000	-	10,000
Total Expenditures	972,384	971,085	1,299
NET CHANGE IN FUND BALANCE	-	4,736	4,736
Fund Balance - Beginning of Year	-	96,937	96,937
FUND BALANCE - END OF YEAR	$ -	$ 101,673	$ 101,673

FALCON HIGHLANDS METROPOLITAN DISTRICT
ENTERPRISE FUND – SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUNDS AVAILABLE – BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2025

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Water Usage Fees	$ 241,000	$ 241,000	$ 187,221	$ (53,779)
Water Treatment Fees	121,000	121,000	131,294	10,294
Administrative Fees	85,500	85,500	84,029	(1,471)
Net Investment Income	15,000	15,000	13,282	(1,718)
Penalties	5,000	5,000	3,463	(1,537)
Water Tap Fees	-	30,000	30,000	-
Facility Fees	-	15,800	15,799	(1)
Meter Fees	-	1,125	1,125	-
O&M Fees	-	813	813	-
Inspection Fees	-	90	90	-
Other Revenue	5,000	5,000	2,484	(2,516)
Total Revenues	472,500	520,328	469,600	(50,728)
EXPENDITURES				
General and Operations:				
Accounting	52,000	52,000	57,479	(5,479)
Contingency	22,000	21,975	-	21,975
District Management	90,000	90,000	80,900	9,100
Dues and Membership	1,500	1,500	1,163	337
Professional Services	50,000	50,000	65,690	(15,690)
Insurance	20,000	22,000	21,651	349
Legal	62,000	62,000	54,795	7,205
Miscellaneous	2,500	2,500	-	2,500
Operating Expense	30,000	30,000	16,336	13,664
Woodman Hills Contract	68,000	68,000	88,767	(20,767)
Storm Drainage	7,000	7,000	-	7,000
Repairs and Maintenance	25,000	25,000	32,823	(7,823)
Security	7,500	7,500	6,506	994
Supplies - Treatment Facility	20,000	20,000	20,716	(716)
Telephone	1,500	1,500	991	509
Utilities	85,000	85,000	79,957	5,043
Utility Billing	85,000	85,000	71,069	13,931
Utility Locates	1,000	1,000	26	974
Capital Projects:				
Capital Outlay	75,000	251,025	-	251,025
Total Expenditures	705,000	883,000	598,869	284,131
OTHER FINANCING SOURCES (USES)				
Transfer (to) / from Other Funds	47,250	52,000	46,959	(5,041)
Total Other Financing Sources (Uses)	47,250	52,000	46,959	(5,041)
NET CHANGE IN FUND AVAILABLE	(185,250)	(310,672)	(82,310)	228,362
Funds Available - Beginning of Year	493,648	434,684	434,684	-
FUNDS AVAILABLE - END OF YEAR	$ 308,398	$ 124,012	$ 352,374	$ 228,362

FALCON HIGHLANDS METROPOLITAN DISTRICT
ENTERPRISE FUND – RECONCILIATION OF BUDGETARY BASIS (ACTUAL) TO STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2025

Revenues	$ 469,600	
Other Financing Sources	46,959	
Total Revenues and Other Financing Sources - Budgetary Basis	516,559	
Total Revenues per Statement of Revenues, Expenses, and Changes in Net Position		$ 516,559
Expenditures	598,869	
Total Expenditures and Other Financing Sources - Budgetary Basis	598,869	
Depreciation Expense	138,292	
Total Expenses per Statement of Revenues, Expenses, and Changes in Net Position		737,161
Change in Net Position per Statement of Revenues, Expenses, and Changes in Net Position		$ (220,602)

OTHER INFORMATION

FALCON HIGHLANDS METROPOLITAN DISTRICT
SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED
DECEMBER 31, 2025

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied General Fund	Mills Levied Debt Service Fund	Mills Levied Refunds/ Abatements	Total Property Taxes Levied	Total Property Taxes Collected	Percentage Collected to Levied
2021	$ 20,552,480	6.147	36.881	0.252	$ 889,511	$ 890,460	100.11
2022	23,278,750	6.596	39.574	1.488	1,109,419	1,091,108	98.35
2023	22,881,930	5.708	34.248	0.757	931,592	942,141	101.13
2024	29,207,410	5.521	33.127	0.107	1,131,933	1,100,519	97.22
2025	29,597,170	5.447	32.685	-	1,128,599	1,124,339	99.62
Estimated for Calendar Year December 31, 2026	$ 30,118,800	5.449	32.695	-	$ 1,148,851		

NOTE: Property taxes shown as collected in any one year include collection of delinquent property taxes or abatements of property taxes assessed in prior years. Information received from the County Treasurer does not permit identification of specific year of levy if delinquent taxes are collected.

FALCON HIGHLANDS METROPOLITAN DISTRICT
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
DECEMBER 31, 2025

	$5,880,000 General Obligation Limited Tax Refunding Bonds Series 2022 Dated September 23, 2022 Interest Rate of 5.000% June 1 and December 1		
Year Ended December 31,	Principal	Interest	Total
2026	$ 70,000	$ 277,750	$ 347,750
2027	75,000	274,250	349,250
2028	85,000	270,500	355,500
2029	85,000	266,250	351,250
2030	100,000	262,000	362,000
2031	105,000	257,000	362,000
2032	115,000	251,750	366,750
2033	120,000	246,000	366,000
2034	135,000	240,000	375,000
2035	140,000	233,250	373,250
2036	155,000	226,250	381,250
2037	160,000	218,500	378,500
2038	175,000	210,500	385,500
2039	185,000	201,750	386,750
2040	200,000	192,500	392,500
2041	210,000	182,500	392,500
2042	230,000	172,000	402,000
2043	240,000	160,500	400,500
2044	260,000	148,500	408,500
2045	270,000	135,500	405,500
2046	290,000	122,000	412,000
2047	305,000	107,500	412,500
2048	330,000	92,250	422,250
2049	345,000	75,750	420,750
2050	370,000	58,500	428,500
2051	390,000	40,000	430,000
2052	410,000	20,500	430,500
Total	$ 5,555,000	$ 4,943,750	$ 10,498,750