WILLOWS WATER DISTRICT

FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT

December 31, 2025 and 2024

WILLOWS WATER DISTRICT

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WATSON COON RYAN
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— WCR —

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Willows Water District
Centennial, Colorado

Opinion

We have audited the financial statements of the business-type activities of Willows Water District, as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise Willow Water District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of Willows Water District, as of December 31, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 Willows Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter
Summarized Comparative Information

The financial statements include summarized prior-year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended December 31, 2024, from which such summarized information was derived.

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 Willows Water District's ability to continue as a going concern for twelve months beyond the financial statement issuance 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 GAAS 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 GAAS, 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 Willows Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Willows Water District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i - vi be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Willows Water District's basic financial statements. The Schedule of Revenues, Expenses and Changes in Net Position- Budget and Actual is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Revenues, Expenses and Changes in Net Position- Budget and Actual 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 Schedule of Revenues, Expenses and Changes in Net Position- Budget and Actual is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Watson Coon Ryan, LLC

Watson Coon Ryan, LLC
Centennial, Colorado
June 25, 2026

WILLOWS WATER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the Willows Water District's (the District) annual financial report presents our analysis of the District's financial performance during the fiscal year ended December 31, 2025. Please read it in conjunction with the financial statements.

1. Financial Highlights

- The District remains in a strong financial position with assets exceeding liabilities and deferred inflows of resources at the end of 2025 by $52,558,603. This amount includes $13,170,506 of unrestricted funds that may be utilized by the needs of the District to serve its customers.
- Due to the age of the District's infrastructure, several Capital Projects took place during 2025 including: Waterline Improvements in Liberty Hill and E. Irwin Pl , and Service Line Replacements in Highlands 460 and Homestead Farm, resulting in the amount of $1,940,054.
- The District experienced a decrease of $91,763 in total net position, driven mainly by increased operating expenses associated with infrastructure maintenance activities.

2. Overview of the Financial Statements

The financial statements consist of three parts:

- Management's Discussion and Analysis
- Financial Statements
- Supplementary Information

3. Required Financial Statements

The financial statement of net position provides information about the District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

Statement of Net Position

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

Statement of Revenues, Expenses and Changes in Net Position
This statement measures the results of the District's operations over the past year and may be used to determine profitability, credit worthiness, and whether the District has successfully recovered all it costs through its user fees, taxes and other charges.

Statement of Cash Flows
The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the District's cash receipts and payments during the reporting period. This statement reports cash receipts, cash payments, and the net changes in cash resulting from operations, non-capital financing, capital related financing, and investing activities. It also provides answers to such questions as where did the cash come from, how was cash used, and what was the change in cash balance during the reporting period.

4. Financial Analysis Of The District

One of the most important questions asked about the District's finances is "Is the District as a whole better off or worse off as a result of this year's activities?". The statement of net position and statement of revenues, expenses, and changes in net position report information about the District's activities in a way that can help answer that question. These two statements report the net position of the District and the related change in these assets. The District's net position (the difference between assets and liabilities) is one way to measure financial health or financial position. Over time, increases in the District's net position, is one indicator that the District's financial health is improving. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, or changed governmental legislation.

5. Net Position

As part of our analysis, we provide a summary of the District's statement of net position (on the next page):

Condensed Statement of Net Position

	2025	2024	2025 - 2024 Change $	2025 - 2024 Change %
Current & Other Assets	$ 15,281,363	$ 15,136,400	$ 144,963	0.96%
Capital Assets	39,135,097	39,261,683	(126,586)	-0.32%
Total Assets	54,416,460	54,398,083	18,377	0.03%
Current Liabilities	377,875	348,592	29,283	8.40%
Noncurrent Liabilities	8,750	8,750	0	0%
Total Liabilities	386,625	357,342	29,283	8.19%
Deferred Inflows of Resources	1,471,232	1,390,375	80,857	5.82%
Net Position:				
Invested in capital assets net of related debt	39,135,097	39,261,683	(126,586)	-0.32%
Restricted	253,000	251,000	2,000	0.80%
Unrestricted	13,170,506	13,137,683	32,823	0.25%
Total Net Position	$ 52,558,603	$ 52,650,366	$ (91,763)	-0.17%

As stated previously, net position serves as a critical indication of the District's financial state. Total net position decreased by $91,763, or 0.17%, from 2024 to 2025.

Current and other assets increased by 0.96%, or $144,963, from 2024 to 2025, due primarily to modest increase in cash and cash equivalents offset by a small decrease in accounts receivable. Capital assets decreased by 0.32%, or $126,586, largely due to the depreciation of District assets exceeding capital additions during the year.

Total liabilities increased by 8.19%, or $29,283, due to higher outstanding accounts payable and accrued expenses at year-end, while noncurrent liabilities remained unchanged. Deferred inflows of resources increased by 5.82%, or $80,857, primarily due to increased assessed property values.

Net position invested in capital assets, net of related debt, decreased by $126,586 (0.32%), consistent with capital asset depreciation. Restricted reserves increased by 0.80%, or $2,000, as determined by TABOR, which requires a reserve equal to 3% of fiscal year spending.

While the statement of net position shows the net position, the statement of revenue, expenses and changes in net position answers as to the nature and sources of these changes. (on the next page):

WILLOWS WATER DISTRICT

Management's Discussion and Analysis (*Continued)*

Condensed Statement of Revenues, Expenses and Changes in Net Position

			2025 - 2024 Change	
	2025	2024	$	%
Revenues				
Operating Revenues	$ 5,228,643	$ 5,137,789	$ 90,854	1.77%
Non-Operating Revenues	1,868,249	1,896,228	(27,979)	-1.48%
Capital Improvement Fees	1,330,486	1,305,120	25,366	1.94%
Total Revenues	8,427,378	8,339,137	88,241	1.06%
Expenses				
Depreciation	198,319	189,976	8,343	4.39%
Other Operating Expense	7,052,446	6,042,450	1,009,996	16.72%
G & A Expenses	1,268,376	1,274,659	(6,283)	-0.49%
Total Expenses	8,519,141	7,507,085	1,012,056	13.48%
Change in Net Position	(91,763)	832,052	(923,815)	-111.03%
Beginning Net Position	52,650,366	51,818,314	832,052	1.61%
Ending Net Position	$ 52,558,603	$ 52,650,366	$ (91,763)	-0.17%

As stated previously, revenues, expenses and change in net position provide detail on the District's profitability, credit-worthiness and capacity to recover necessary costs through its user fees, taxes and other charges.

The critical components of the changes shown above include:

Operating revenues increased by $90,854 (1.77%) from 2024 to 2025, reflecting relatively stable water usage and rate activity during the year. Non-operating revenues decreased by $27,979 (1.48%), primarily due to lower interest earnings. Capital improvement fees increased by $25,366 (1.94%), consistent with continued development activity within the District. As a result, total revenues increased by $88,241 (1.06%).

Total expenses increased by $1,012,056 (13.48%) from the prior year. Other operating expenses increased by $1,009,996 (16.72%), driven primarily by higher infrastructure maintenance and operating costs during the year.

Due to the increase in operating expenses relative to revenue growth, the District experienced a decrease in net position of $91,763 for the year ended 2025, compared to an increase of $832,052 in the prior year.

6. Budgetary Highlights

As required by state law, the District adopts a budget and appropriates funds by December 15 for the following fiscal year. If an amendment is necessary, the Board will approve a supplemental appropriation at a public hearing and file it with the State of Colorado.

7. Capital Assets and Debt Administration

Capital Assets

	2025	2024	2025 – 2024 Change $	2025 – 2024 Change %
Water System	$ 10,709,153	$ 10,709,153	$ -	0.00%
Buildings	1,598,100	1,478,230	119,870	8.11%
Furniture & Equipment	576,096	561,436	14,660	2.61%
Easement	506,115	506,115	-	0.00%
Denver Water Contract No. 233	5,177,262	5,177,262	-	0.00%
System Development Charges	31,265,179	31,265,179	-	0.00%
Land	228,650	228,650	-	0.00%
Construction in Progress	-	62,797	(62,797)	-100%
Subtotal	50,060,555	49,988,822	71,733	0.14%
Less: Accumulated Depreciation	10,925,458	10,727,139	198,319	1.85%
Net Property, Plant, & Equipment	$ 39,135,097	$ 39,261,683	$ (126,586)	-0.32%

8. Long-Term Debt

The District has no long-term debt.

9. 2025 Budget vs Actual

Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual

	Budget	Actual (budgetary basis)	Budget – Actual Variance $	Budget – Actual Variance %
Revenues				
Operating Revenues	$ 5,300,712	$ 5,228,643	$ 72,069	1.38%
Non-Operating Revenues	3,205,171	3,198,735	6,436	0.20%
Total Revenues	8,505,883	8,427,378	78,505	0.93%
Expenses				
Salaries, Wages and Benefits	1,052,925	884,521	168,404	19.04%
Water Purchases	3,937,465	4,009,289	(71,824)	-1.79%
Utilities	24,322	18,547	5,775	31.14%
Repairs and Maintenance	3,200,500	2,768,366	432,134	15.61%
Office Supplies and Expenses	397,066	264,981	132,085	49.85%
Professional Fees	53,500	48,782	4,718	9.67%
Engineering Fees	200,872	269,600	(68,728)	-25.49%
Insurance	48,153	34,208	13,945	40.77%
Miscellaneous	33,100	22,528	10,572	46.93%
Capital Outlay	191,000	71,733	119,267	166.27%
Total Expenses	9,138,903	8,392,555	746,348	8.89%
Change in Net Position	$ (633,020)	$ 34,823	$ 667,843	1,917.82%

The critical components of the changes shown above include:

Repairs and maintenance expenses were under budget by 15.61%, or $432,134, primarily due to scheduled capital projects being completed below projected costs. Salaries, wages, and benefits, as well as insurance, were under budget by 19.04% and 40.77%, respectively, reflecting employee changes within the District during the year. Utilities expenses were under budget by 31.14%, or $5,775, due primarily to reduced energy costs following the installation of solar panels at the District office.

Engineering fees exceeded the budget by 25.49%, as a result of additional engineering services required to support capital project management during the year.

10. Economic Factors And New Year's Budget Rates

The District's Board of Directors and management consider many factors when setting the 2026 budget, including user fees and charges. The following table presents the changes in the District's budget from 2025 to 2026.

2026 vs. 2025 Budget

	2026	2025	2026 - 2025 Change $	2026 - 2025 Change %
Revenues				
Operating Revenues	$ 5,632,332	$ 5,300,712	$ 331,620	6.26%
Non-Operating Revenues	3,199,043	3,205,171	(6,128)	-0.19%
Total Revenues	8,831,375	8,505,883	325,492	3.83%
Expenses				
Operating Expense	7,848,372	7,335,370	513,002	6.99%
G & A Expenses	1,731,841	1,612,533	119,308	7.40%
Capital Outlays	170,000	191,000	(21,000)	-10.99%
Total Expenses	9,750,212	9,138,903	611,309	6.69%
Change in Net Position	(918,837)	(633,020)	(285,817)	-45.15%
Beginning Net Position	9,079,426	9,712,446	(633,020)	-6.52%
Ending Net Position	$ 8,160,589	$ 9,079,426	$ (918,837)	-10.12%

Requests for Information

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

Randy Mitchell, District Manager
Willows Water District
6930 S Holly Circle
Centennial, CO 80112

WILLOWS WATER DISTRICT
Statements of Net Position
December 31, 2025 and 2024

	2025	2024
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,154,733	$ 6,994,640
Investments	5,988,481	5,994,519
Accounts receivable	477,873	527,292
Property taxes receivable	1,471,232	1,390,375
Accrued interest receivable	57,711	71,744
Inventory	84,162	108,179
Prepaid expenses	47,171	49,651
Total current assets	15,281,363	15,136,400
Noncurrent assets:		
Capital assets, not depreciated	37,177,206	37,177,206
Capital assets, depreciated, net of accumulated depreciation	1,957,891	2,021,680
Construction in progress	-	62,797
Total noncurrent assets	39,135,097	39,261,683
TOTAL ASSETS	$ 54,416,460	$ 54,398,083
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
Current liabilities:		
Accounts payable	$ 302,822	$ 276,730
Accrued salaries and benefits	75,053	71,862
Total current liabilities	377,875	348,592
Noncurrent liabilities:		
Hydrant meter deposits	8,750	8,750
TOTAL LIABILITIES	386,625	357,342
DEFERRED INFLOWS OF RESOURCES		
Deferred property tax revenue	1,471,232	1,390,375
Net position:		
Net investment in capital assets	39,135,097	39,261,683
Restricted for emergencies	253,000	251,000
Unrestricted	13,170,506	13,137,683
TOTAL NET POSITION	52,558,603	52,650,366
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	$ 54,416,460	$ 54,398,083

The accompanying notes are an integral part of this financial statement.

WILLOWS WATER DISTRICT
Statements of Revenues, Expenses, and Changes in Net Position
For the years ended December 31, 2025 and 2024

	2025	2024
OPERATING REVENUE		
Water sales and service fees	$ 5,181,665	$ 5,098,269
Miscellaneous income	46,978	39,520
TOTAL OPERATING REVENUE	5,228,643	5,137,789
OPERATING EXPENSES		
General and administrative	1,268,376	1,274,659
Operating	7,052,446	6,042,450
Depreciation	198,319	189,976
TOTAL OPERATING EXPENSES	8,519,141	7,507,085
OPERATING LOSS	(3,290,498)	(2,369,296)
NON-OPERATING REVENUES		
Property taxes, net of treasurer fees	1,284,726	1,273,017
Specific ownership taxes	73,377	70,217
Interest income	510,146	552,994
TOTAL NON-OPERATING REVENUES	1,868,249	1,896,228
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(1,422,249)	(473,068)
CAPITAL CONTRIBUTIONS		
Capital improvement fees	1,330,486	1,305,120
TOTAL CAPITAL CONTRIBUTIONS	1,330,486	1,305,120
CHANGE IN NET POSITION	(91,763)	832,052
NET POSITION - beginning of year	52,650,366	51,818,314
NET POSITION - end of year	$ 52,558,603	$ 52,650,366

The accompanying notes are an integral part of this financial statement.

WILLOWS WATER DISTRICT
Statements of Cash Flows
For the years ended December 31, 2025 and 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from user fees and surcharges	$ 5,292,095	$ 4,980,604
Cash paid for goods and services	(7,383,712)	(6,346,787)
Cash paid to employees	(881,330)	(897,855)
Net cash used by operating activities	(2,972,947)	(2,264,038)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Property taxes, net of treasurer fees	1,284,726	1,273,017
Specific ownership taxes	73,377	70,217
Net cash provided by non-capital financing activities	1,358,103	1,343,234
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Acquisition of capital assets	(71,733)	(83,387)
Capital contributions	1,330,486	1,305,120
Net cash provided by capital financing activities	1,258,753	1,221,733
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(3,684,706)	(5,720,636)
Proceeds from sale of investments	3,690,744	5,918,765
Interest received	510,146	552,994
Net cash provided by investing activities	516,184	751,123
Net increase in cash	160,093	1,052,052
CASH AND CASH EQUIVALENTS, beginning of year	6,994,640	5,942,588
CASH AND CASH EQUIVALENTS, end of year	$ 7,154,733	$ 6,994,640
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (3,290,498)	$ (2,369,296)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	198,319	189,976
Changes in assets and liabilities:		
Accounts receivable	49,419	(163,710)
Accrued interest receivable	14,033	6,525
Prepaid expenses	2,480	(4,756)
Inventory	24,017	97,568
Accounts payable	26,092	(9,774)
Accrued salaries and benefits	3,191	(13,571)
Hydrant meter deposits	-	3,000
Total adjustments	317,551	105,258
Net cash used by operating activities	$ (2,972,947)	$ (2,264,038)

The accompanying notes are an integral part of this financial statement.

1. ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

Willows Water District (the "District") is a Colorado governmental unit operating in accordance with Colorado statute. The District was established to provide water services to customers located within its boundaries.

The accounting policies of the District conform to generally accepted accounting principles as applicable to governments. Following is a summary of the more significant policies.

Reporting Entity

In accordance with governmental accounting standards, the District has considered the possibility of inclusion of additional entities in its basic financial statements.

The definition of the reporting entity is based primarily on financial accountability. The financial reporting entity consists of the District and organizations for which the District is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the District. In addition, any legally separate organizations for which the District is financially accountable are considered part of the reporting entity. Financial accountability exists if the District appoints a voting majority of the organization's governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens on the District.

Based on the application of these criteria, the District does not include additional organizations in its reporting entity.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District uses one fund to report on its financial position and activities. Fund accounting is designed to segregate transactions related to certain government functions and activities. The District's fund is classified as an enterprise fund type. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The District reports all activity in one enterprise fund which is a proprietary fund type. This fund is considered a major fund.

Assets, Liabilities and Fund Balance/Net Position

Cash and Cash Equivalents - Cash and cash equivalents include amounts in deposit accounts and short-term investments with an original maturity of three months or less.

Investments – The District records investment purchases at cost.. Thereafter, investments are reported at their fair values in the statements of net position. Net investment return or loss is reported in the statements of revenues, expenses and changes in net position and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses. The District holds money in nonnegotiable certificates of deposit that are valued at amortized cost. Maturities range from August of 2026 to September of 2027. Interest rates range from 3.55% - 3.95%.

Receivables - Receivables consist of amounts owed to the District by its utility customers. It is the District's policy to file liens on any past due user fees; therefore, amounts are considered to be collectible and no allowance for bad debt has been recorded.

Prepaid Expenses - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the statement of net position.

Inventory - The District's inventory is stated at cost, and recorded on the weighted average method. Inventory consists of assorted parts that are used during the course of the District's business operations.

Capital Assets - Capital assets, which include property and equipment, are reported in the applicable business-type activities columns in the statement of net position. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property and equipment of the District is depreciated using the straight - line method over the following estimated useful lives:

Water System	40 years
Buildings	30 years
Machinery and Equipment	5 years

Leases and Subscription-Based IT Arrangements - Under GASB 87 and 96, the District recognizes short-term lease payments as outflows of resources based on the payment provisions of the lease contract.

Net Position – Net position is classified as net position and may be displayed in three components:

- Net investment in capital assets - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position - consists of net position with constraints placed on the use either by (1) external groups, such as creditors, grantors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net position - all other net position that do not meet the definition of "restricted" or "net investment in capital assets." This net position is available for future operations or distributions.

For 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.

While the unrestricted net position does not have any legal constraints on its use, the accumulation of these amounts may be necessary to offset significant unforeseen capital repairs and for the development of capital projects that may be necessary in future years. These amounts do not meet the accounting definition to be considered restricted, but the District believes this balance is necessary to ensure adequate reserves are available when the need does arise.

Deferred Outflows/ Inflows of Resources - In addition to assets, the statement of financial position and balance sheets will sometimes report a separate section for deferred outflows or resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of financial position and balance sheets will sometimes report a separate section for deferred inflows or resources. This separate financial statement element, deferred inflow of resources, represents an acquisition of net position and fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Property Taxes - Property taxes are levied in the current year and collected in the subsequent year have been accrued as a receivable at year-end and deferred until collected. Property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15.

The County in which the District is located collects taxes for the district and remits them by the 10th every month following the month of collection.

Use of Estimates - The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the financial statement date and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Financials- The financial statements include certain prior year summarized comparative information in total. Comparative footnote disclosures are not presented; only current year footnotes are provided. As a result, the summarized prior year information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2024, from which the summarized information was derived. This approach is intended to facilitate year-over-year analysis while maintaining clarity and relevance in the disclosures

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District purchases commercial insurance for these risks of loss. Settled claims have not exceeded insurance coverage in the last three years.

2. ***STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY***

Budgetary Information

Budgets are adopted on a non-US GAAP basis wherein depreciation is not budgeted; capital expenditures and principal payments on capital debt are budgeted and recorded as expenditures.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- In October, the District staff submits to the District Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to December 15, the budget is legally enacted through passage of a resolution.
- Any revisions that alter the total expenditures of any fund must be approved by the District Board of Directors.
- Budgets are legally adopted for the enterprise fund of the District. The Budgetary comparison presented for the District is presented on a non-GAAP budgetary basis. Capital outlay and debt payments are budgeted as expenditures. Depreciation expense is not budgeted.
- Budgeted amounts in the financial statements are as originally adopted or as amended by the District Board of Directors. All appropriations lapse at year end. Colorado governments may not exceed budgeted appropriations at the fund level.

3. ***DEPOSITS AND INVESTMENTS***

A summary of deposits as of December 31, 2025 follows:

Cash Deposits	$ 4,830,288
ColoTrust	2,324,445
Total	$ 7,154,733

Deposits

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. 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 regulations. At December 31, 2025, State regulatory commissioners have indicated that all financial institutions holding deposits for the District are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held.

The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

The District participates in the IntraFi Network Deposits DDA-MMDA. Under DDA-MMDA, any deposits in excess of the $250,000 are distributed to other FDIC eligible banks.

The District had cash deposits with financial institutions with a carrying amount of $7,154,733. The bank balances with the financial institutions was $7,179,341.

Interest Rate Risk

The District has a formal investment policy that limits investment maturities to five years from the purchase date as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Colorado statutes specify in which instruments units of local government may invest, which include:

- Obligations of the United States and certain U.S. Government Agency securities
- General obligation and revenue bonds of U.S. local government entities
- Local government investment pools
- Certain money market funds

- Guaranteed investment contracts

ColoTrust Valuation

The District had invested $2,324,445 in the Colorado Government Liquid Asset Trust (ColoTrust) which has a credit rating of AAAm by Standard and Poor's, and valued at NAV. ColoTrust is an investment vehicle established for local government entities in Colorado to pool surplus funds and is regulated by the State Securities Commissioner. It operates similarly to a money market fund and each share is equal in value to $1.00. Investments consist of U.S. Treasury and U.S. Agency securities, and repurchase agreements collateralized by U.S. Treasury and U.S. Agency securities. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the entities.

ColoTrust is not a 2a7 - like external investment pool. The unit of account is each share held, and the value of the position would be the fair value of the pool's share price multiplied by the number of shares held. The government-investor does not "look through" the pool to report a pro rata share of the pool's investments, receivables, and payables.

Investments

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

Type of Investment	Value
U.S. Treasury Securities (at Fair Value)	$ 4,488,481
Certificates of deposit (at amortized cost)	1,500,000
Total	$ 5,988,481

The above investments are authorized for all funds and fund types used by Colorado local governments. As of December 31, 2025, the District's U.S. Government Obligations are rated AA+ by Standard and Poor's and AAA by Moody's Investors Services and its Domestic Corporate Securities are rated A- by Standard and Poor's and Baa by Moody's Investors Services.

Fair Value

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant observable inputs.

At December 31, 2025, the District held investments in U.S. Treasury Securities in the amount of $4,488,481 with maturity dates of less than one year to fourteen months. Given the low risk of these type of investments, the District has not established a policy limiting the amount of investments in this type of security and deems it unnecessary at this time. These investments are valued with Level 1 inputs because they comprise of funds with readily determinable fair values based on daily redemption values.

4. ***CAPITAL ASSETS***

Capital assets activity for the year ended December 31, 2025 is summarized below.

	Balance 1/1/25	**Additions**	**Deletions**	**Balance 12/31/25**
Business-Type Activities				
Capital Assets, not depreciated				
Land	$ 228,650	$ -	$ -	$ 228,650
Easements	506,115	-	-	506,115
System Development Charges	31,265,179	-	-	31,265,179
Denver Water Contract	5,177,262	-	-	5,177,262
Total Capital Assets, not depreciated	37,177,206	-	-	37,177,206
Construction in Progress	$ 62,797	$ 59,935	$(122,732)	$ -
Capital Assets, depreciated				
Infrastructure – Water System	$ 10,709,153	$ -	$ -	$ 10,709,153
Buildings	1,478,230	119,870	-	1,598,100
Office and Field Equipment	561,436	14,660	-	576,096
Total Capital Assets, depreciated	12,748,819	134,530	-	12,883,349
Less: Accumulated Depreciation	(10,727,139)	(198,319)	-	(10,925,458)
Total Capital Assets, depreciated, net	2,021,680	(63,789)	-	1,957,891
Capital Assets, net	$ 39,261,683	$ (3,854)	$ (122,732)	$ 39,135,097

5. ***BENEFITS PLAN***

The District maintains an Internal Revenue Code Section 401(a) money purchase pension plan for all full-time employees. The balance of these funds was $1,090,217 at December 31, 2025. This is a single-employer, defined contribution plan.

The District contributes amounts equaling 9% of each participating employee's salary annually.

Covered payroll for the year ended December 31, 2025 is $591,590. Total payroll for the year ended December 31, 2025 is $597,890. Employer contributions vest as follows:

Year Of Service	Percentage Vested
1	0%
2	0%
3	50%
4	75%
5	100%

Accounts may be withdrawn only upon retirement, death, disability or termination of employment. Nonvested employer contributions are applied toward future employer contributions. The Board of Directors may amend the plan provisions.

The District made the required contributions of $53,243 for the year ended December 31, 2025.

6. ***COMMITMENTS AND CONTINGENCIES***

Denver Water Agreement - Read and Bill Distributors Contract (C233)

In 1981, the District entered into an agreement with the Board of Water Commissioners of the City of Denver (Board) to supply water to the Highlands 460 Subdivision. On August 8, 1995, this agreement was superseded by Water Service Agreement (RB233), which has essentially the same terms and conditions as the prior contract but conforms to the new standardized forms now being used by Denver Water with all read-and-bill distributors. The assets related to these agreements totaled $5,177,262 at December 31, 2025.

Denver Water Agreement - Master Meter Contract (MM240)

The District entered into a Water Service Agreement under which the Board will supply all of the potable water within the District's contract service area. As part of this agreement, the District must pay tap fees to the Board. The District has capitalized these tap fees. These fees are reported as system development charges.

Tabor Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains tax spending, revenue and debt limitations which apply to the State of Colorado and all local governments, excluding enterprises. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of any expiring tax, or tax policy change directly causing a net tax revenue gain to any local government.

Future 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.

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future fiscal years.

TABOR requires local governments to establish emergency reserves. These reserves must be at least 3% of fiscal year spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. The District has reserved $253,000 of the December 31, 2025 fund net position for this purpose.

Management believes that the District qualifies as an enterprise as defined by TABOR. Therefore, the provisions of TABOR are not applicable to the District.

In November 2002, voters passed a referendum that permanently lifted TABOR restrictions on the amount of revenue the District can collect and expend.

The District's management believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions may require judicial interpretation.

7. ***SUBSEQUENT EVENTS***

The District has evaluated subsequent events through the report date, which is the date these financial statements were available to be issued.

Other Supplemental Information

WILLOWS WATER DISTRICT
Schedule of Revenues, Expenses and Changes in Net Position -
Budget and Actual
For the year ended December 31, 2025

	Original and Final Budget	Actual	Variance Positive (Negative)
OPERATING REVENUE			
Water sales and service fees	$ 5,256,462	$ 5,181,665	$ (74,797)
Miscellaneous income	44,250	46,978	2,728
TOTAL OPERATING REVENUE	5,300,712	5,228,643	(72,069)
OPERATING EXPENSES			
Salaries, wages and benefits	1,052,925	884,521	168,404
Water purchases	3,937,465	4,009,289	(71,824)
Utilities	24,322	18,547	5,775
Repairs and maintenance	3,200,500	2,768,366	432,134
Office supplies and expenses	397,066	264,981	132,085
Professional fees	53,500	48,782	4,718
Engineering fees	200,872	269,600	(68,728)
Insurance	48,153	34,208	13,945
Miscellaneous	33,100	22,528	10,572
Capital outlay	191,000	71,733	119,267
TOTAL OPERATING EXPENSES	9,138,903	8,392,555	746,348
NON-OPERATING REVENUE			
Property taxes, net treasurer fee	1,286,887	1,284,726	(2,161)
Specific ownership taxes	83,632	73,377	(10,255)
Interest income	495,988	510,146	14,158
Capital improvement fee	1,338,664	1,330,486	(8,178)
TOTAL NON-OPERATING REVENUE	3,205,171	3,198,735	(6,436)
CHANGE IN NET POSITION NON-US GAAP BUDGETARY BASIS	$ (633,020)	$ 34,823	$ 667,843
ADJUSTMENTS US GAAP BASIS:			
Capital outlay		71,733	
Depreciation expense		(198,319)	
CHANGE IN NET POSITION US GAAP BASIS		(91,763)	
NET POSITION - beginning of year		52,650,366	
NET POSITION - end of year		$ 52,558,603	