LAKEHURST WATER AND SANITATION DISTRICT

Jefferson and Denver Counties, Colorado

FINANCIAL STATEMENTS
DECEMBER 31, 2025 and 2024

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Independent Auditor's Report

Board of Directors
Lakehurst Water and Sanitation District
Jefferson and Denver Counties, Colorado

Opinion

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

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

Basis for Opinion

We conducted our 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 opinion.

Responsibility of Management for the Financial Statements

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

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

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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 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 financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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, as listed in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

SCHILLING & COMPANY, INC.

Highlands Ranch, Colorado
July 20, 2026

LAKEHURST WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2025 and 2024

This section of the District's annual financial report presents our analysis of the District's financial performance during the fiscal years ended December 31, 2025 and 2024. Please read it in conjunction with the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts:

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

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report 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 Fund Net Position

This statement measures the results of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees, taxes, and other charges, profitability, and credit worthiness.

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 net changes in cash resulting from operations, non-capital financing, capital and related financing, and investing activities. It also provides answers to such questions as where did the cash come from, how cash was used, and what was the change in cash balance during the reporting period.

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 the Statement of Revenues, Expenses and Changes in Fund 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 net position. 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 are 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.

Net Position

As part of our analysis, we provide a summary of the District's Statement of Net Position below:

Condensed Statement of Net Position

	2023	$ Change	2024	$ Change	2025
Current assets	$ 30,989,712	$ 1,070,903	$ 32,060,615	$ 400,839	$ 32,461,454
Capital assets	17,942,484	(197,757)	17,744,727	946,779	18,691,506
Total assets	48,932,196	873,146	49,805,342	1,347,618	51,152,960
Current liabilities	299,445	142,353	441,798	(73,088)	368,710
Total Liabilities	299,445	142,353	441,798	(73,088)	368,710
Net Investment in capital assets	17,942,484	(197,757)	17,744,727	946,779	18,691,506
Unrestricted	30,690,267	928,550	31,618,817	473,927	32,092,744
Total Net Position	$ 48,632,751	$ 730,793	$ 49,363,544	$ 1,420,706	$ 50,784,250

2025

For 2025, current assets increased by $400,839, or 1.3%. The largest portion of this increase was in cash and cash equivalents and investments, which increased by $241,993 mostly due to positive operating results offset by capital asset activity in 2025. Capital assets and the District net investment in capital assets increased as the District's capital asset additions for 2025, were less than the current year depreciation expense, see the Capital Assets Administration discussion below for more information. Current liabilities decreased by $73,088, or 16.5% from 2024 to 2025. This decrease was due primarily higher capital asset activity at the end of 2024 than 2025.

2024

For 2024, current assets increased by $1,070,903, or 3.5%. The largest portion of this increase was in cash and cash equivalents and investments, which increased by $969,226 mostly due to positive operating results and limited capital asset activity in 2024. Capital assets and the District net investment in capital assets decreased as the District's capital asset additions for 2024, were less than the current year depreciation expense, see the Capital Assets Administration discussion below for more information. Current liabilities increased by $142,353, or 47.5% from 2023 to 2024. This increase was due primarily higher capital asset activity at the end of 2024.

Changes in Net Position

While the Statement of Net Position shows the change in financial position, the Statement of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of these changes. As part of our analysis, we provide a summary of the District's Statement Revenues, Expenses and Changes in Fund Net Position below:

Condensed Statement of Revenues, Expenses and Changes in Fund Net Position

	2023	$ Change	2024	$ Change	2025
Operating revenue	$ 8,053,863	$ 1,305,111	$ 9,358,974	$ (318,309)	$ 9,040,665
Nonoperating revenue	904,432	22,696	927,128	(36,863)	890,265
Total revenues	8,958,295	1,327,807	10,286,102	(355,172)	9,930,930
Operating expenses	7,636,026	2,118,024	9,754,050	(323,188)	9,430,862
Total expenses	7,636,026	2,118,024	9,754,050	(323,188)	9,430,862
Income before capital contributions	1,322,269	(790,217)	532,052	(31,984)	500,068
Capital contributions	907,820	(709,079)	198,741	721,897	920,638
Change in net position	2,230,089	(1,499,296)	730,793	689,913	1,420,706
Net Position - Beginning of Year	46,402,662	2,230,089	48,632,751	730,793	49,363,544
Net Position - End of Year	$ 48,632,751	$ 730,793	$ 49,363,544	$ 1,420,706	$ 50,784,250

2025
For 2025 there was a $318,309, or 3.4% decrease in operating revenue, mostly because of lower water service revenue due to lower water usage than in 2024 which was partially offset by increased water rates for 2025. Sewer service charges decreased for 2025 due to lower passed through service charges to another entity. Capital contributions for 2025 increased by $721,897, or 363.2% due primarily to significant contributed water and sewer lines, more than in 2024. For 2025 the District's operating expenses decreased by $323,188, or 3.3%. The water operations expenses decreased by $189,562, due primarily to less water purchased from Denver Water because of lower water usage by the District's customers than in 2024, which was partially offset by increased water rates charged by Denver Water. Sewer operations expense decreased by $152,898 due to lower Metro Water Recovery sewer treatments costs for 2025.

2024
For 2024 there was a $1,305,111, or 16.2% increase in operating revenue, mostly as a result of higher water service revenue due to higher water usage than in 2023 as well as increased water rates for 2024. Capital contributions for 2024 decreased by $709,079, or 78.1% due to primarily fewer contributed water and sewer lines, as well as lower tap fee receipts. For 2024 the District's operating expenses increased by $2,118,024, or 27.7%. The largest portion of this increase was for water operations expenses which increased by $1,038,716, due primarily to more water purchased from Denver Water as a result of higher water usage by the District's customers. Sewer operations expense increased by $851,438 due to higher Metro Water Recovery sewer treatments costs for 2024.

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. There were no amendments to the budget for 2025. A budget and actual schedule is included as supplementary information in the audited financial statements.

For 2025, revenues were less than budgeted by $698,492, Net water and sewer service fees were $993,905 less than budgeted, which was partially offset by net investment earnings being $415,265 more than budgeted. Overall expenditures were under budget by $3,478,917. The budget category of Water Operations expenditures was less than budget by $482,778 due mainly to less water purchased from Denver Water than had been anticipated. The Sewer Operations, Administration and Capital Outlay expenditures were all under budget for 2025, with the largest being Capital Outlay which was $2,108,810 less than budgeted. The District had anticipated higher capital outlay than actually occurred. Additionally, the District budgeted a Contingency of $616,150 which was not utilized. Additional information regarding the District's 2025 budget to actual performance is located on pages 15 through 16 of these financial statements.

CAPITAL ASSETS ADMINISTRATION

Capital Assets

As of December 31, 2025 and 2024, the District had investments in a broad range of infrastructure including water lines, maintenance and administration facilities, vehicles and equipment charges as shown in the following chart:

Capital Assets

	2023	$ Change	2024	$ Change	2025
Land	$ 20,636	$ -	$ 20,636	$ -	$ 20,636
Construction in progress	31,902	361,544	393,446	(110,862)	282,584
Total capital assets, not being depreciated	52,538	361,544	414,082	(110,862)	303,220
Building	187,217	(15,714)	171,503	(15,409)	156,094
Pump stations	4,720	87	4,807	-	4,807
Water lines	10,821,042	(355,359)	10,465,683	847,690	11,313,373
Sewer lines	6,761,767	(192,863)	6,568,904	254,935	6,823,839
Water meter reading equipment	58,023	(6,437)	51,586	(11,605)	39,981
Office equipment	19,949	(5,486)	14,463	(2,992)	11,471
Vehicles	37,228	16,471	53,699	(14,978)	38,721
Total capital assets being depreciated, net	17,889,946	(559,301)	17,330,645	1,057,641	18,388,286
Total capital assets, net	$ 17,942,484	$ (197,757)	$ 17,744,727	$ 946,779	$ 18,691,506

2025
For 2025 the capital asset increases were: 2024 Sewer rehabilitation $19,223 (completing this project), 2025 Sewer rehabilitation $282,583, Fire Hydrant replacement $70,950, and the Zone 3 Emergency Connection $407,794. The District also received contributed water lines with a value of $786,263 and sewer lines with a value of $134,150.

2024
For 2024 the capital asset increases were: 2024 Sewer rehabilitation $347,091, Fire Hydrant replacement $49,000, Zone 3 Emergency Connection $14,453, Meter Reading Software & Equipment $6,540, and purchased field use pickup truck for $30,345. The District also received contributed water lines with a value of $90,958 and sewer lines with a value of $53,758.

For additional information on the District's capital assets please refer to Note 4.

Long-Term Debt

As of December 31, 2025 and 2024, the District did not have any outstanding long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET RATES

The District's Board of Directors and management consider many factors when setting the 2026 budget, including user fees, rates, charges and any anticipated capital improvement projects. Considerations are taken for increased costs of goods and services for the day-to-day operations of the District and in anticipation of Denver Water and Metro Water Recovery rates and charges. These rate charges plus operation and maintenance costs of the water and sewer systems are the main driving factors in setting the District rates for the following year. For 2026 the District's Board of Directors approved a 4.4% increase in the District's water consumption rate, increasing from $5.96 per thousand gallons to $6.22 per thousand gallons. The District's water base rate increased by 8.0% from $11.78 to $12.72 per single family residential equivalent tap. The sanitary sewer service rate increased by 2.0% from $23.92 to $24.40 per single family equivalent tap. For 2026 the Metro Water Recovery District charges are expected to be $2,105,074, which is a decrease of $119,969, or 5.4%, from 2025's charges.

REQUESTS FOR INFORMATION

If you have questions about this report, please contact the District Manager, at 7995 W. Quincy Ave. Littleton, CO 80232.

BASIC FINANCIAL STATEMENTS

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

ASSETS	**2025**	**2024**
CURRENT ASSETS		
Cash and cash equivalents	$ 25,658,262	$ 25,749,276
Investments	5,922,428	5,589,421
Accounts receivable:		
Customers	631,021	513,733
Accrued interest receivable	53,889	53,889
Prepaid expense	92,391	56,891
Parts inventory	103,463	97,405
Total current assets	32,461,454	32,060,615
CAPITAL ASSETS		
Capital assets, not being depreciated	303,220	414,082
Capital assets, being depreciated	34,547,096	32,738,271
	34,850,316	33,152,353
Less accumulated depreciation and amortization	(16,158,810)	(15,407,626)
Total capital assets	18,691,506	17,744,727
TOTAL ASSETS	$ 51,152,960	$ 49,805,342
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts and retainage payable	$ 267,478	$ 379,148
Due to Willowbrook W & S District	38,938	-
Warranty escrow deposit	5,500	8,000
Accrued compensated absences	56,794	54,650
Total current liabilities	368,710	441,798
NET POSITION		
Net investment in capital assets	18,691,506	17,744,727
Unrestricted	32,092,744	31,618,817
Total net position	50,784,250	49,363,544
TOTAL LIABILITIES AND NET POSITION	$ 51,152,960	$ 49,805,342

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

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

	2025	2024
OPERATING REVENUE		
Water sales and service charges	$ 5,385,035	$ 5,491,347
Sewer service charges	3,565,532	3,746,787
Legal and engineering back charges	6,681	51,069
Meter fees	-	3,024
Miscellaneous	58,617	55,997
Turn off, turn on, and late charges	23,600	10,350
Inclusion fees	1,200	400
Total operating revenue	9,040,665	9,358,974
OPERATING EXPENSES		
Water operations and maintenance	4,884,501	5,074,063
Sewer operations and maintenance	2,491,842	2,644,740
Administration expense	1,303,335	1,245,345
Depreciation and amortization	751,184	788,875
Total operating expenses	9,430,862	9,753,023
OPERATING INCOME	(390,197)	(394,049)
NONOPERATING REVENUE (EXPENSE)		
Net investment income	890,265	927,128
Loss on disposal of capital assets	-	(1,027)
Total nonoperating revenue (expense)	890,265	926,101
INCOME BEFORE CAPITAL CONTRIBUTIONS	500,068	532,052
CAPITAL CONTRIBUTIONS		
Tap fees:		
Water tap fees	-	44,000
Sewer tap fees	3,225	10,025
Contributed capital assets:		
Water lines	783,263	90,958
Sewer lines	134,150	53,758
Total capital contributions	920,638	198,741
CHANGE IN NET POSITION	1,420,706	730,793
NET POSITION - BEGINNING OF YEAR	49,363,544	48,632,751
NET POSITION - END OF YEAR	$ 50,784,250	$ 49,363,544

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

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

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 8,903,698	$ 9,292,066
Payments to vendors	(7,724,503)	(7,924,793)
Payments to employees	(1,019,545)	(932,201)
Other operating receipts	58,617	55,997
Net cash provided by operating activities	218,267	491,069
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital asset purchases	(867,264)	(336,136)
Capital contributions	3,225	54,025
Warranty escrow deposit received (refunded)	(2,500)	(18,000)
Net cash required by capital financing activities	(866,539)	(300,111)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(2,657,879)	(3,260,813)
Maturity of investments	2,385,000	3,180,000
Interest received	830,137	859,081
Net cash provided by investing activities	557,258	778,268
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(91,014)	969,226
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	25,749,276	24,780,050
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 25,658,262	$ 25,749,276
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Net income/(loss) from operations	$ (390,197)	$ (394,049)
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	751,184	788,875
Effects of changes in operating assets and liabilities:		
Accounts receivable	(117,288)	37,628
Prepaid expenses	(35,500)	(4,170)
Parts inventory	(6,058)	13,725
Accounts payable	(24,956)	61,437
Due to other Willowbrook W & S District	38,938	(48,539)
Accrued compensated absences	2,144	36,162
Net cash provided by operating activities	$ 218,267	$ 491,069
NONCASH CAPITAL FINANCING AND INVESTING ACTIVITIES		
Contributed capital assets	$ 917,413	$ 144,716
Fair value increase (decrease) of investments	60,128	49,420
	$ 977,541	$ 194,136

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

NOTE 1 – DEFINITION OF REPORTING ENTITY

Lakehurst Water and Sanitation District (District), was created on September 7, 1962, as a quasi-municipal corporation and political subdivision of the State of Colorado, is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Jefferson and Denver Counties, Colorado. The District's purpose is to provide public water and sanitary sewer services to the citizens of the District. The District is governed by an elected Board of Directors and managed by a full-time District Manager.

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.

As of December 31, 2025, the District had no authorized but unissued debt.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets, and redemption of bonds and loans are recorded as a reduction in liabilities. Tap fees and contributed assets from developers are recorded as capital contributions when received.

Operating Revenues and Expenses

The District distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise 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.

Restricted resources

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

Budgets

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

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.

Prepaid Expenses

Certain payments to vendors for goods or services reflect costs applicable to future accounting periods are recorded as prepaid items in the financial statements.

Investments

Investments are stated at fair value except for certain investments which are stated at net asset value per share as allowed generally accepted accounting principles.

Inventory

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

Capital Assets

Capital assets are recorded at cost except for those assets which have been contributed which are stated at acquisition value at the date of contribution.

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. Capital asset purchases and improvements exceeding $5,000 are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. The District has recorded purchased capacity, which is capacity in water lines and facilities that are property of the Denver Water Board, for which the District was required to pay Denver Water Board.

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

Water lines	15-40 years
Sewer lines	39-40 years
Pump stations	25-40 years
Building	7-40 years
Communication and test equipment	5-40 years
Office equipment	7-10 years
Vehicles	5-7 years

Vacation, Sick Leave, and Other Compensated Absences

Vacation leave is accrued as an expense when earned by employees. Employees may carry unused vacation time into the following year; provided, however, that an employee may never have in total more than 120 hours of unused vacation time that has been carried forward from any prior year. Upon termination of employment, any accrued unused vacation is paid out to the employee.

Sick leave benefits are accrued as an expense when earned by employees. Unused sick leave accruals may be carried over into the following year; however, an employee may accumulate only a maximum of 160 hours of sick leave per year. After the maximum sick leave accrual has accrued, employees will not accrue any additional sick leave until some of the accumulated sick leave hours have been used. Sick leave is not payable upon termination.

Other compensated absence benefits provided by the District do not accumulate and are not allowed to be carried over to a subsequent year, and therefore no accrual is made for other compensated absences.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

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.

NOTE 3 - CASH AND INVESTMENTS

Cash Deposits

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 equal to 102% of the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by Statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

As of December 31, 2025, the District had cash deposits with a bank balance of $11,315,571 and a carrying balance of $11,318,093 and cash on hand of $340. As of December 31, 2024, the District had cash deposits with a bank balance of $11,982,937 and a carrying balance of $11,966,096 and cash on hand of $340.

Investments

The District has adopted an investment policy, which is more restrictive than Colorado State Statutes, that specifies investment instruments meeting defined rating and risk criteria in which the District may invest which include:

- United States Government Securities – Treasury Bills and Treasury Notes
- Interest Bearing Time Certificates
- Money Market Mutual Funds (No-load Fixed Income)
- Local Government Investment Pools

Interest Rate Risk

The District's investment policy specifies that investment maturities shall not exceed the following limits and that no maturity shall exceed three and a quarter (3 1/4) years: 1) United States Government Securities are limited to maturities not to exceed three and a quarter (3 1/4) years, however at no point in time shall more than 50% of the District's investment portfolio be invested in direct obligations of the United States Government having a maturity of three (3) years or more; 2) Interest Bearing Time Certificates are limited to maturities not to exceed three (3) years; and 3) Money Market Funds are limited to average weighted maturities not to exceed 90 days or less.

Credit Risk

The District's investment policy specifies that the approved investments above shall have a credit rating at least equal to that specified in Section 24-75-601 of the Colorado Revised Statutes.

Concentration of Credit Risk

The District's policy specifies that the District's investment portfolio may be comprised of the following concentrations: 1) 100% of United States Treasury Bills and Notes; 2) a maximum of 70% in certificates of deposit and savings accounts (individual certificates of deposits and total investment in certificates of deposit at any single institution, including all branches of one institution shall be limited to $250,000 or the current level of FDIC insurance); 3) a maximum of 60% in fixed income money market funds; and 4) 100% of local government investment pools.

As of December 31, 2025, the District had the following investment portfolio:

Investment Type	Carrying Value	Maturity Less than one year	Maturity One to two years	Percent of Investment Portfolio
United States Treasury Notes	$ 5,922,428	-	5,922,428	29.23%
Wells Fargo Government Money Market Fund	26,738	26,738	-	0.13%
COLOTRUST Plus+	14,313,091	14,313,091	-	70.64%
	$ 20,262,257	$ 14,339,829	$ 5,922,428	

As of December 31, 2024, the District had the following investment portfolio:

Investment Type	Carrying Value	Maturity		Percent of Investment Portfolio
		Less than one year	One to three years	
United States Treasury Notes	$ 5,589,421	$ 2,368,639	$ 3,220,782	28.85%
Wells Fargo Government Money Market Fund	74,831	74,831	-	0.39%
COLOTRUST Plus+	13,708,009	13,708,009	-	70.76%
	$ 19,372,261	$ 16,151,479	$ 3,220,782	

Overall Portfolio Limitations

Notwithstanding any other provision contained in this Investment Policy, the District's investment portfolio shall at all times be subject to the following limitations: (i) the average weighted maturity of the District's investment portfolio shall never exceed 18 months, and (ii) the District shall at all times have available in a demand bank deposit account or authorized money market account at least $500,000; and (iii) in addition, each calendar quarter the District shall have investments mature in an aggregate amount that approximates as best as possible in the anticipated District expenditures for the quarter.

Wells Fargo Government Money Market Fund

As of December 31, 2025 and 2024, the District had invested in the Wells Fargo Government Money Market Fund (WF Govt MMF). The WF Govt MMF is a U.S. dollar-denominated money market fund that seeks to preserve the value of each share at $1.00. The Fund invests in US Treasury bills, notes, government agency obligations issued or guaranteed as to principal and interest by the US Treasury, and variable rate demand notes. The fund is rated AAAm by Standard & Poor’s.

COLOTRUST

As of December 31, 2025 and 2024, the District has invested in the Colorado Local Government Liquid Asset Trust (the Trust), an investment vehicle established for local government entities in

Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund. The Trust offers shares in three portfolios, COLOTRUST Prime (Prime), COLOTRUST Plus+ (Plus+) and COLOTRUST Edge (Edge). All portfolios may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain obligations of U.S. government agencies and instrumentalities, and repurchase agreements collateralized with certain U.S. government agencies or instrumentalities. COLOTRUST Plus+ and COLOTRUST Edge may also invest in the highest rated commercial paper. The Prime and Plus+ portfolios are restricted to a weighted average maturity (WAM) of 60 days or less while the Edge portfolio incorporates longer-dated securities with a WAM of 60 days or more. Both Prime and Plus+ portfolios are rated AAAm by Standard and Poor's and the EDGE portfolio is rated AAAf/S1 by Fitch Ratings. Information related to COLOTRUST, including the annual audited financial statements, can be found at the COLOTRUST website at www.colotrust.com.

Investment Valuation

The District has certain investments which are measured at fair value on a recurring basis are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Districts investments in United States Treasury Notes and Bills are valued using Level 1 inputs.

The District also has investments that are not measured at fair value and are therefore not categorized within the fair value hierarchy. These investments are measured at amortized cost or in certain circumstances the value is calculated using the net asset value (NAV) per share, or its equivalent of the investment. These investments include a money market investment and COLOTRUST. The Wells Fargo Government Money Market Fund are recorded at amortized cost. The COLOTRUST investment is measured at NAV, calculated as follows.

COLOTRUST records its investments at fair value and the District records its investments in COLOTRUST at net asset value as determined by fair value. Each share of Prime and Plus is equal in value to $1.00 and the redemption frequency is daily with no redemption notice period. Edge's net asset value is managed to approximate a $10.00 transactional share price and the redemption frequency is five business days. The principal value of an Edge investment may fluctuate and could be greater or less than $10.00 per share at time of purchase, prior to redemption, and at the time of redemption. There are no unfunded commitments.

Cash and Cash Equivalents and Investments

As of December 31, 2025 and 2024, cash and cash equivalents and investments are reflected in the statement of net position and statement of cash flows as follows:

	2025	2024
Cash and cash equivalents	$ 25,658,262	$ 25,749,276
Investments	5,922,428	5,589,421
	$ 31,580,690	$ 31,338,697

NOTE 4 - CAPITAL ASSETS

Following is an analysis of the changes in capital assets for the year ended December 31, 2025:

	Balance December 31, 2024	Additions	Disposals/ Reductions	Balance December 31, 2025
Capital assets, not being depreciated:				
Land	$ 20,636	$ -	$ -	$ 20,636
Construction in progress	393,446	709,600	(820,462)	282,584
Total capital assets, not being depreciated	414,082	709,600	(820,462)	303,220
Capital assets, being depreciated:				
Building	523,088	-	-	523,088
Pump stations	458,371	-	-	458,371
Water lines	19,981,242	1,308,361	-	21,289,603
Sewer lines	10,897,467	500,464	-	11,397,931
Water meter reading equipment	709,697	-	-	709,697
Office equipment	26,132	-	-	26,132
Vehicles	142,274	-	-	142,274
Total capital assets being depreciated	32,738,271	1,808,825	-	34,547,096
Less accumulated depreciation for:				
Building	(351,585)	(15,409)	-	(366,994)
Pump stations	(453,564)	-	-	(453,564)
Water lines	(9,515,559)	(460,671)	-	(9,976,230)
Sewer lines	(4,328,563)	(245,529)	-	(4,574,092)
Water meter reading equipment	(658,111)	(11,605)	-	(669,716)
Office equipment	(11,669)	(2,992)	-	(14,661)
Vehicles	(88,575)	(14,978)	-	(103,553)
Total accumulated depreciation	(15,407,626)	(751,184)	-	(16,158,810)
Total capital assets being depreciated, net	17,330,645	1,057,641	-	18,388,286
Total capital assets, net	$ 17,744,727	$ 1,767,241	$ (820,462)	$ 18,691,506

Following is an analysis of the changes in capital assets for the year ended December 31, 2024:

	Balance December 31, 2023	Additions	Disposals/ Reductions	Balance December 31, 2024
Capital assets, not being depreciated:				
Land	$ 20,636	$ -	$ -	$ 20,636
Construction in progress	31,902	361,544	-	393,446
Total capital assets, not being depreciated	52,538	361,544	-	414,082
Capital assets, being depreciated:				
Building	523,088	-	-	523,088
Pump stations	458,371	-	-	458,371
Water lines	19,842,079	139,958	(795)	19,981,242
Sewer lines	10,843,709	53,758	-	10,897,467
Water meter reading equipment	729,840	6,540	(26,683)	709,697
Office equipment	26,132	-	-	26,132
Vehicles	195,210	30,345	(83,281)	142,274
Total capital assets being depreciated	32,618,429	230,601	(110,759)	32,738,271
Less accumulated depreciation for:				
Building	(335,871)	(15,714)	-	(351,585)
Pump stations	(453,651)	87	-	(453,564)
Water lines	(9,021,037)	(494,522)	-	(9,515,559)
Sewer lines	(4,081,942)	(246,621)	-	(4,328,563)
Water meter reading equipment	(671,817)	(12,977)	26,683	(658,111)
Office equipment	(6,183)	(5,486)	-	(11,669)
Vehicles	(157,982)	(13,642)	83,049	(88,575)
Total accumulated depreciation	(14,728,483)	(788,875)	109,732	(15,407,626)
Total capital assets being depreciated, net	17,889,946	(558,274)	(1,027)	17,330,645
Total capital assets, net	$ 17,942,484	$ (196,730)	$ (1,027)	$ 17,744,727

NOTE 5 - NET POSITION

The District has net position consisting of two components – net investment in capital assets and unrestricted.

The net investment in capital assets consists of capital assets, net of accumulated depreciation and if applicable reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2025 and 2024, the District had a net investment in capital assets of $18,691,506 and $17,744,727, respectively, equal to its net capital assets as the District has no outstanding debt.

NOTE 6 – PENSION AND OTHER EMPLOYEE BENEFIT PLANS

Deferred Compensation Plan

The District has a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is administered by the MIssionSquare Retirement. The plan is optional for all employees and allows for the employees to defer a portion of their compensation until future years.

Under this plan, the employees may elect to defer up to 25% of the plan members' compensation which is withheld and remitted to the plan administrator along with a matching payment of up to 7.5% from the District. The plan members made contributions for the years ended December 31, 2025 and 2024, of $22,266 and $21,227, respectively. The District made contributions/recognized expenses for years ended December 31, 2025 and 2024 of $49,031 and $45,981, respectively.

All amounts deferred for the plan members are held in trust for the exclusive benefit of the participating employees and not be accessible by the District or its creditors.

Defined Contribution Plan

The employees of the District may participate in Governmental Profit-Sharing Plan created in accordance with Internal Revenue Section 401(a), which is a defined contribution plan established by the District and is maintained and administered by MissionSquare Retirement. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees may become plan members after twelve months of employment. Under this plan, plan members may elect to contribute a percentage of the plan members' compensation, which is withheld and remitted to the Plan Administrator along with a matching payment equal to the plan members' contribution up to a maximum contribution of 10% of the plan members' compensation from the District. The District's contributions, plus earnings, become vested at a rate of 20% for each year of participation in the plan. District contributions for plan members who leave employment before they are fully vested are used to reduce the District's current period contribution requirement. There is no liability for benefits under the plan beyond the District's matching payments. Plan provisions and contribution requirements are established and may be amended by the District's Board of Directors. Contributions made by the District and the plan members for the year ended December 31, 2025 were $55,557 and $55,657, respectively. Contributions made by the District and the plan members for the year ended December 31, 2024 were $49,718 and $49,711, respectively.

NOTE 7 - RISK MANAGEMENT

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

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2025. 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 property, liability, public officials' liability, boiler and machinery, and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Service Contract - Metro Water Recovery (MWR)

The District has an agreement with MWR for final treatment and disposal of the District's sewage. The agreement provides for annual estimated charges that are assessed through the application of a predetermined formula. Adjustments to the estimated charge will be based on meter flows, content, and actual costs. The adjustments are billed or credited to the District during the two succeeding years. The District retains responsibility for the maintenance and future construction costs of all public sanitary sewer lines and retains title to all public sanitary sewer lines in the District.

The composition of the sewer treatment charges for 2025 and 2024 is as follows:

	2025	2024
Estimate for current year	$ 2,176,569	$ 1,997,347
Preliminary adjustment for preceding year estimate	28,980	208,198
Adjustment for second preceding year estimate	19,494	197,212
Total annual charges	$ 2,225,043	$ 2,402,757

The total 2026 annual charge is expected to be $2,105,074, which is comprised of the 2026 sewer treatment estimate of $2,254,134, a favorable 2024 final adjustment of $80,356 and a favorable 2025 preliminary adjustment of $68,704.

NOTE 9 - 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 is of the opinion that its water and sewer operations, and all activities related thereto are carried on as an Enterprise within the meaning of TABOR and the Enterprise Act, C.R.S. 37-45.;1-01, et seq. The District adopted a resolution on or about July 24, 1995 establishing and reaffirming as an "Enterprise" the business represented by the District's water and wastewater systems. The District's annual budget and financial statements are deemed by the District to be the annual budget and financial statements of the Enterprise.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and many of the provisions, including the calculation of fiscal year spending limits, growth factors, and qualification as an Enterprise, may require judicial interpretation.

SUPPLEMENTAL INFORMATION

LAKEHURST WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended December 31, 2025

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget
REVENUES			
Water sales and service charges	$ 5,949,677	$ 5,385,035	$ (564,642)
Sewer service charges	3,994,795	3,565,532	(429,263)
Net investment income	475,000	890,265	415,265
Legal and engineering back charges	50,000	6,681	(43,319)
Meter fees	9,000	-	(9,000)
Miscellaneous	50,000	58,617	8,617
Turn off, turn on, and late charges	13,000	23,600	10,600
Inclusion fees	800	1,200	400
Water tap fees	60,000	-	(60,000)
Sewer tap fees	30,375	3,225	(27,150)
Total Revenues	10,632,647	9,934,155	(698,492)
EXPENDITURES			
Administration:			
Salaries and wages	649,909	671,059	(21,150)
Health insurance	236,000	226,029	9,971
Retirement contribution	116,441	104,588	11,853
Worker's compensation insurance	9,000	8,912	88
FICA	9,400	9,480	(80)
Unemployment tax	4,200	1,621	2,579
Legal	80,000	73,117	6,883
Election	25,000	-	25,000
Consultants	55,000	29,467	25,533
Insurance	40,000	38,141	1,859
Communication and utilities	39,200	24,507	14,693
Office operation and maintenance	15,500	29,151	(13,651)
Auditing and accounting	10,500	9,700	800
Billing system update	58,000	54,695	3,305
Office equipment, furniture and contracts	11,300	3,871	7,429
Meetings, training and books	20,520	10,263	10,257
Miscellaneous office expense	5,000	2,435	2,565
Newsletter	3,000	1,045	1,955
Publications, memberships and dues	5,000	694	4,306
Travel	400	-	400
Bank charges	7,500	4,560	2,940
Total Administration	1,400,870	1,303,335	97,535
Sewer Operations:			
Metro Wastewater Reclamation District Treatment and Distribution	2,225,043	2,225,043	-
Sewer operation and maintenance	155,103	76,854	78,249
Sewer service - Twin Shores/DWW	146,190	120,430	25,760
Engineering	67,800	23,283	44,517
Vehicle operation and maintenance	16,000	12,316	3,684
Communications	4,000	1,703	2,297
Office and field supplies	800	-	800
Postage	750	758	(8)
Small equipment	8,000	3,248	4,752

(continued)

LAKEHURST WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended December 31, 2025
(continued)

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget
Clothing and uniforms	1,200	798	402
Building and grounds improvements	14,000	8,767	5,233
Outsource billing/online payment services	26,600	18,642	7,958
Total Sewer Operations	2,665,486	2,491,842	173,644
Water Operations:			
Water purchased	4,790,479	4,418,633	371,846
Water systems operations and maintenance	271,200	312,359	(41,159)
Water meter repair and replacement	122,250	72,754	49,496
Back bill engineering	-	3,359	(3,359)
Engineering	87,000	23,283	63,717
Utility service	13,000	7,255	5,745
Water meters	-	607	(607)
Vehicle operation and maintenance	16,000	12,316	3,684
Communications	4,000	1,703	2,297
Office and field supplies	800	-	800
Small equipment	8,000	3,248	4,752
Postage	750	777	(27)
Clothing and uniforms	1,200	798	402
Building and grounds improvements	14,000	8,767	5,233
Outsource billing/online payment services	26,600	18,642	7,958
Equipment-meter reading device	12,000	-	12,000
Total Water Operations	5,367,279	4,884,501	482,778
Capital Outlay:			
Sewer:			
2024 Sewer rehabilitation project	-	19,223	(19,223)
2025 Sewer rehabilitation project	900,000	282,583	617,417
Water:			
Quincy water line	1,200,000	-	1,200,000
Fire hydrant replacements	75,000	70,950	4,050
Zone 3 emergency connection	714,360	407,794	306,566
Total Capital Outlay	2,889,360	780,550	2,108,810
Contingency	616,150	-	616,150
Total expenditures	12,939,145	9,460,228	3,478,917
REVENUES OVER (UNDER) EXPENDITURES	(2,306,498)	473,927	2,780,425
FUNDS AVAILABLE - BEGINNING OF YEAR	32,045,728	31,618,817	(426,911)
FUNDS AVAILABLE - END OF YEAR	$ 29,739,230	$ 32,092,744	$ 2,353,514

Funds available is computed as follows:

Current assets	$ 32,461,454
Current liabilities	(368,710)
	$ 32,092,744

LAKEHURST WATER AND SANITATION DISTRICT
RECONCILIATION OF BUDGETARY BASIS TO STATEMENT OF
REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Year Ended December 31, 2025

Revenue (budgetary basis)	$ 9,934,155
Contributed capital assets	917,413
Revenues per Statement of Revenues, Expenses and Changes in Fund Net Position	10,851,568
Expenditures (budgetary basis)	9,460,228
Depreciation and amortization	751,184
Capital outlay	(780,550)
Expenses per Statement of Revenues, Expenses and Changes in Fund Net Position	9,430,862
Change in net position per Statement of Revenues, Expenses and Changes in Fund Net Position	$ 1,420,706