

Sedalia Water & Sanitation District

Annual Financial Statements
and Independent Auditors' Report

December 31, 2023




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Independent Auditors' Report

Members of the Board of Directors
Sedalia Water & Sanitation District

Opinion

We have audited the accompanying financial statements of the business-type activities of Sedalia Water & Sanitation District as of and for the year ended December 31, 2023 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Sedalia Water & Sanitation District, as of December 31, 2023, and the respective changes in financial position and 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Sedalia Water & Sanitation 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.

Responsibilities 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; this includes 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 Sedalia Water & Sanitation 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.

Auditors' 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 auditors' report that includes our opinion. 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 Sedalia Water & Sanitation 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 Sedalia Water & Sanitation District's ability to continue as a going concern for a reasonable period of time.

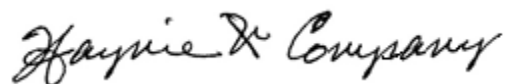
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Sedalia Water & Sanitation District's financial statements as a whole. The supplementary information section, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.



Littleton, Colorado
July 31, 2024

Basic Financial Statements

Sedalia Water & Sanitation District
Statement of Net Position
December 31, 2023

	2023
ASSETS	
Current assets	
Cash	\$ 260,143
Accounts receivable - net	36,136
Grants receivable	55,904
Due from other Governments	708
Property taxes receivable	138,833
Total current assets	491,724
Capital assets	
Buildings	178,997
Computer	2,125
Equipment	51,742
Water system	2,002,083
Land	4,930
Construction in progress	-
	2,239,877
Accumulated depreciation	(835,051)
Net property, plant and equipment	1,404,826
Total assets	\$ 1,896,550
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Current liabilities	
Accounts payable	\$ 18,733
Meter deposits	1,500
Total current liabilities	20,233
Total Liabilities	20,233
Deferred inflows of resources	
Property tax revenue	138,833
Total deferred inflows of resources	138,833
Net Position	
Investment in capital assets	1,404,826
Restricted - TABOR reserve (Note 8)	4,568
Unrestricted	328,090
Total Net Position	\$ 1,737,484

The accompanying notes are an integral part of these financial statements.

Sedalia Water & Sanitation District
Statement of Revenues, Expenses and Change in Net Position
For the Year Ended December 31, 2023

	2023
Operating Revenues	
Water sales	\$ 144,498
Total operating revenues	<u>144,498</u>
Operating Expenses	
Operating expenses	268,472
General and administrative	<u>131,614</u>
Total operating expenses	<u>400,086</u>
Operating Income (loss)	<u>(255,588)</u>
Non-Operating Revenues (Expenses):	
Property taxes	152,281
Grant Income	302,009
Earnings on investments	1,095
Miscellaneous	<u>1,069</u>
Total non-operating revenues (expenses)	<u>456,454</u>
Change in Net Position	200,866
Net position—beginning of year	<u>1,536,618</u>
Net position—end of year	<u><u>\$ 1,737,484</u></u>

The accompanying notes are an integral part of these financial statements.

Sedalia Water & Sanitation District
Statement of Cash Flows
For the Year Ended December 31, 2023

Cash flows from operating activities	
Cash received from customers	\$ 141,742
Cash payments for goods and services	<u>(363,059)</u>
Net cash from operating activities	<u>(221,317)</u>
Cash flows from non-capital related financing activities	
Property taxes received	152,281
Miscellaneous	<u>1,095</u>
Net cash from non-capital related financing activities	<u>153,376</u>
Cash flows from capital and related financing activities	
Proceeds from capital grants	248,174
Purchase of capital assets	<u>(44,699)</u>
Net cash from capital and related financing activities	<u>203,475</u>
Cash flows from investing activities	
Interest income received	<u>1,069</u>
Net cash from investing activities	<u>1,069</u>
Net change in cash and restricted cash	136,603
Cash and cash equivalents—beginning of year	<u>123,540</u>
Cash and cash equivalents—end of year	<u><u>\$ 260,143</u></u>
Reconciliation of operating loss to net cash from operating activities	
Operating income (loss)	\$ (255,588)
Adjustments to reconcile operating loss to net cash from operating activities	
Depreciation	53,554
Change in assets and liabilities:	
Change in accounts receivable	(2,756)
Change in accounts payable and accrued expenses	<u>(16,527)</u>
Net cash from operating activities	<u><u>\$ (221,317)</u></u>

The accompanying notes are an integral part of these financial statements.

Sedalia Water & Sanitation District

Notes to Basic Financial Statements

December 31, 2023

1. Organization

The Sedalia Water and Sanitation District is a special district formed under the Laws of Colorado in 1958 to provide water services for its residents. This report includes all of the funds and account groups of the District.

The District provides no sanitation services despite its name.

The governmental units reported are responsible to the District's Board of Directors of five people, are elected by the people in a General Election.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organization and functions should be included within the 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 governmental entity.

2. 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 in a manner similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

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

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 property, plant and equipment are shown as increases in total assets.

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.

Sedalia Water & Sanitation District
Notes to Basic Financial Statements (continued)
December 31, 2023

2. Summary of Significant Accounting Policies (continued)

Budgets - The District adheres to the following procedures in establishing its annual budget:

- A. The District files an annual budget in accordance with state law.
- B. The budget officer is required to submit a proposed budget to the Water District Board (the Board) each year by October 15.
- C. Public hearings are conducted by the Board.
- D. Expenses may not legally exceed appropriations at the fund level. Board approval is required for changes in the budget.
- E. Budget appropriations lapse at the end of each year.
- F. The District adopts budgets on a modified accrual basis with the exclusion of depreciation.

While the District reports net position, results of operations and changes in net position on the basis of accounting principles generally accepted in the United States of America (U.S. GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts and disbursements. The Schedule of Revenues, Expenditures, and Changes in Funds Available- Budget to Actual Comparison presented as supplemental information is presented on the budgetary basis to provide meaningful comparison of actual results with the budget.

Cash and Cash Equivalents – For the purposes of the Statement of Cash Flows, the District considers all highly liquid assets that are readily converted to cash or have a maturity of three months or less to be cash equivalents.

Accounts Receivable – Accounts receivable is for Water services. The receivables are recorded net of an allowance for doubtful accounts. The allowance is set at \$375.

Property Taxes Receivable – Property taxes are levied by the Water District Board. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set before December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of December 31 of each year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or in equal installments, at the taxpayers' election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November. The County Treasurer remits the taxes collected monthly to the District.

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

Capital Assets – Capital assets are recorded at cost and depreciated over their estimated useful lives of 7 to 40 years on a straight-line basis.

Sedalia Water & Sanitation District
Notes to Basic Financial Statements (continued)
December 31, 2023

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition – Revenues are recognized when earned. Metered water accounts are read and billed on a quarterly cycle.

Operating revenue are those revenues derived from daily operations. Non-operating revenue are derived from other sources, i.e. grants, taxes, and earnings on investments.

Grant revenue is recorded when amounts become known and due to the District. Reimbursement grant revenue is recorded when eligible expenditures occur, and the grant revenue is earned.

Contributed Capital - Tap fees, as well as inclusion fees, are recorded as capital contributions when received.

Net Position

The District’s Net Position is classified as follows:

Investment in Capital Assets – This category groups all capital assets into one component of net position. Accumulated depreciation of these assets and related debt balances reduce this category.

Restricted Net Position – Restricted expendable net position includes resources in which the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted Net Position – Unrestricted net position represents resources derived from general District revenues. The resources are used to conduct the District’s operations.

Use of Restricted/Unrestricted Net Position – When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District’s policy is to apply restricted net position first.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncements

The GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* or “SBITAs”, in fiscal year 2023. This Statement was issued in May 2020 and increases the usefulness of government financial statements by requiring recognition of certain subscription-based IT assets and liabilities for subscriptions that previously were

Sedalia Water & Sanitation District
Notes to Basic Financial Statements (continued)
December 31, 2023

2. Summary of Significant Accounting Policies (continued)

classified as expenses and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this Statement were effective for the District as of January 1, 2023. There was no impact to the District as a result of implementing this statement.

3. Cash and Investments

Custodial Credit Risk – Deposits

The Colorado Public Deposit Protection Act (PDPA) governs the District’s deposits. The statutes specify eligible depositories for public cash deposits which must be Colorado institutions and must maintain federal deposit insurance (FDIC) on deposits held. Each eligible depository with deposits in excess of the insured levels must pledge a collateral pool of defined eligible assets maintained by another institution or held in trust for all of its local government depositors as a group with a market value at least equal to 102% of the uninsured deposits. The Colorado Division of Banking is required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2023, the District had carrying balances and bank balances as follows:

	<u>Carrying Balance</u>	<u>Bank Balance</u>
Cash in checking and money market accounts	<u>\$ 260,143</u>	<u>\$ 259,993</u>

The District maintains cash balances at local financial institutions which are insured by the FDIC up to \$250,000 per institution. At year-end \$9,993 of the District’s bank balance was covered by the PDPA.

4. Grant Receivable

On April 11, 2023, the District entered into a beneficiary agreement with Douglas County to receive Coronavirus State and Local Fiscal Recovery Funds (“SLFRF”) in an amount not to exceed \$2,653,134 (the “Grant Funds”). The funds will be used largely for project-related costs associated with leak repair, the installation of water mains, and a connection to the Eastern Regional Pipeline. Grant revenue received for the year ended December 31, 2023, was \$302,009.

Sedalia Water & Sanitation District
Notes to Basic Financial Statements (continued)
December 31, 2023

5. Property, Plant and Equipment

Capital Assets are recorded at cost and depreciated using the straight-line method over the following estimated useful lives.

Water System	20-40 years
Equipment	7 years
Land	N/A
Buildings	20 years

The Water system was not booked until 1988, and an estimated fair value has been assigned, considering the original date was 1958. Much of the system was not formally recorded on the books.

An analysis of the changes in capital assets for the year ended December 31, 2023 follows:

	Balance December 31, 2022	Additions	Retirements	Balance December 31, 2023
Capital assets, not being depreciated:				
Land	\$ 4,930	\$ -	\$ -	\$ 4,930
Construction in progress	<u>1,957</u>	<u>-</u>	<u>(1,957)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>6,887</u>	<u>-</u>	<u>(1,957)</u>	<u>4,930</u>
Capital assets, being depreciated:				
Buildings	178,997	-	-	178,997
Water System	1,957,751	44,332	-	2,002,083
Computer	2,125	-	-	2,125
Equipment	<u>49,418</u>	<u>2,324</u>	<u>-</u>	<u>51,742</u>
Total capital assets, being depreciated	<u>2,188,291</u>	<u>46,656</u>	<u>-</u>	<u>2,234,947</u>
Accumulated depreciation	<u>(781,497)</u>	<u>(53,554)</u>	<u>-</u>	<u>(835,051)</u>
Capital assets being depreciated, Net	<u>1,406,794</u>	<u>(6,898)</u>	<u>-</u>	<u>1,399,896</u>
Total capital assets, net	<u>\$ 1,413,681</u>	<u>\$ (6,898)</u>	<u>\$ (1,957)</u>	<u>\$ 1,404,826</u>

Depreciation expense for the year ended December 31, 2023 was \$53,554 of which \$49,367 is included in Operating Expenses and \$4,187 is included in Administrative Expenses.

Sedalia Water & Sanitation District
Notes to Basic Financial Statements (continued)
December 31, 2023

6. Leases

The District leases property on which its storage tank is placed. The lease is with the Burlington Northern and Santa Fe Railroad and calls for an annual lease payment of \$1,661. The lease requires six months written notification to terminate the lease and as either party can terminate the lease at any time it is considered a short-term arrangement and not reported under GASBS 87 *Leases*.

7. Risk Management

The District is exposed to various risks of loss related to torts, thefts of, damages to and destruction of assets; error or omissions; and natural disasters.

The District has elected to manage its risk of losses through an Intergovernmental Agreement with the Special District Association of Colorado. Premiums are based on revenues with surcharges and assessments being available to the Risk Management Pool for Excessive Claims.

The Pool is sponsored by the Special District Association of Colorado. Districts joining the Pool are required to make a surplus contribution in addition to normal premiums. 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. In the event aggregate losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and capital and surplus accumulated by the Pool, the Pool may require additional contributions from the Pool members.

8. Tax Spending and Debt Limitation

In 1992, Colorado voters approved Amendment 1, commonly known as the Taxpayer Bill of Rights (TABOR), which adds a new Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments. Enterprises, defined by TABOR 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.

TABOR establishes 1992 as the initial base for spending and revenue limits. Future spending and revenue limits can be adjusted for inflation and local growth without voter approval. TABOR requires the establishment of Emergency Reserves that must be at least 3% of spending (excluding bonded debt service). Excess funds within the spending and revenue limits can be reserved for general use and, when spent in subsequent years, are not subject to the spending limits mentioned above. The District's TABOR reserve at December 31, 2023 is \$4,568.

Sedalia Water & Sanitation District
Notes to Basic Financial Statements (continued)
December 31, 2023

8. Tax Spending and Debt Limitation (continued)

In a special election the District held November 3, 1998, the District obtained approval from its electorate to increase District debt by \$350,000, and to increase District taxes by not more than \$30,184 annually.

In the special election the District held November 8, 2023, the District obtained approval from its electorate to increase District debt by \$8,370,000, and to increase District taxes by not more than \$16,990,000 annually. In the special election of the District held November 2, 2004, the District obtained approval from its electorate to impose an additional ad valorem property tax levy not to exceed 6 mills for District operations, capital improvements, and any other lawful purpose, and to collect, retain and expend the full amount of revenues received from all sources during tax collection year 2005 and subsequent years, as a voter-approved revenue change and exception to the limits that would otherwise apply under Article X, Section 20, of the Colorado Constitution (TABOR), Section 29-1-301, et. Seq. C.R.S. and any other law.

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 qualifications as an Enterprise, will require judicial interpretation.

9. Subsequent Events

On June 17, 2024, the District signed a letter of intent to meet certain conditions for a funding obligation with the United States Department of Agriculture Rural Department (USDA). Upon meeting the conditions, the District anticipates receiving an approximately \$5,000,000 grant award, and an approximately \$561,000 loan. The funds will be used largely for an infrastructure project.

Supplementary Information

Sedalia Water & Sanitation District
Schedule of Revenues, Expenditures and Changes in Funds Available
Budget to Actual Comparison
For the Year Ended December 31, 2023

	<u>Original & Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
Enterprise Activities:			
Revenue			
Taxes - property	\$ 127,957	\$ 152,281	\$ 24,324
Charges for services	141,500	144,498	2,998
Grants	1,623,700	302,009	(1,321,691)
Other revenues	<u>13,350</u>	<u>2,164</u>	<u>(11,186)</u>
Total revenues	<u>1,906,507</u>	<u>600,952</u>	<u>(1,305,555)</u>
Expenditures			
Water operating expenditures	210,943	219,105	(8,162)
General and administrative	90,650	127,427	(36,777)
Debt service	24,362	-	24,362
Capital expenditures	<u>1,523,700</u>	<u>44,699</u>	<u>1,479,001</u>
Total expenditures	<u>1,849,655</u>	<u>391,231</u>	<u>1,458,424</u>
Excess of revenue over expenditures	<u>\$ 56,852</u>	<u>209,721</u>	<u>\$ 152,869</u>
Beginning funds available		471,491	
Ending funds available		<u>\$ 681,212</u>	
Reconciling difference between budgetary basis and generally accepted accounting principles (GAAP)			
Excess of revenues over expenditures, budgetary basis		\$ 209,721	
Adjustments			
Expenses which are not expenditures for budgetary purposes			
Depreciation		(53,554)	
Expenditures for budgetary purposes			
Capital outlay		<u>44,699</u>	
Change in Net Position (GAAP basis)		<u>\$ 200,866</u>	

Sedalia Water & Sanitation District
Schedule of Water Expenses
For the Year Ended December 31, 2023

Schedule of Water Operating Expenses

Sources of Supply		
Depreciation		\$ 757
Total		757
 Water Treatment Expenses		
Consulting		45,689
Water treatment & tests		35,588
Total		81,277
 Transmission and Distribution Expenses		
Engineering		88,739
Depreciation		48,610
Maintenance		31,644
Utilities		17,445
Total		186,438
 Total Water Operating Expenses		\$ 268,472

Schedule of Water Administrative Expenses

Depreciation		\$ 4,187
Contract labor		2,388
Accounting and audit		33,777
Legal		72,261
Miscellaneous		1,039
Telephone		103
Insurance		12,968
Office supplies		1,038
Treasurer fees		2,091
Rent		1,762
Total		131,614
 Total Administrative Expenses		\$ 131,614