Sedalia Water & Sanitation District

Annual Financial Statements
and Independent Auditors' Report

December 31, 2025

Haynie

Table of Contents

Page

INDEPENDENT AUDITORS' REPORT ..... i-ii

BASIC FINANCIAL STATEMENTS:

District-wide Financial Statements:

Statement of Net Position 1

Statement of Revenues, Expenses and Change in Net Position 2

Statement of Cash Flows 3

Notes to Basic Financial Statements 4-10

SUPPLEMENTARY INFORMATION:

Schedule of Revenues, Expenditures and Changes in Funds Available Budget to Actual Comparison..... 11

Schedule of Water Expenses (Operating & Administrative) 12

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, 2025 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Sedalia Water & Sanitation District, as of December 31, 2025, 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
September 28, 2026

Basic Financial Statements

Sedalia Water & Sanitation District
Statement of Net Position
December 31, 2025

	2025
ASSETS	
Current assets	
Cash	$ 397,791
Accounts receivable - net	36,377
Grants receivable	173,336
Due from other Governments	708
Property taxes receivable	172,792
Total current assets	781,004
Capital assets	
Buildings	178,997
Computer	2,125
Equipment	51,742
Water system	2,002,083
Land	4,930
Construction in progress	1,444,583
	3,684,460
Accumulated depreciation	(945,666)
Capital assets, net	2,738,794
Total assets	$ 3,519,798
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Current liabilities	
Accounts payable	$ 98,143
Meter deposits	1,500
Total current liabilities	99,643
Total liabilities	99,643
Deferred inflows of resources	
Property tax revenue	172,792
Total deferred inflows of resources	172,792
Net Position	
Investment in capital assets	2,738,794
Restricted - TABOR reserve (Note 8)	12,777
Unrestricted	495,792
Total Net Position	$ 3,247,363

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, 2025

	2025
Operating Revenues	
Water sales	$ 148,944
Total operating revenues	148,944
Operating Expenses	
Operating expenses	299,420
General and administrative	126,474
Total operating expenses	425,894
Operating Income (loss)	(276,950)
Non-Operating Revenues (Expenses):	
Property taxes	149,431
Grant Income	858,924
Earnings on investments	4,561
Miscellaneous	1,267
Total non-operating revenues (expenses)	1,014,183
Change in Net Position	737,233
Net position—beginning of year	2,510,130
Net position—end of year	$ 3,247,363

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, 2025

Cash flows from operating activities	
Cash received from customers	$ 154,718
Cash payments for goods and services	(352,005)
Net cash from operating activities	(197,287)
Cash flows from non-capital related financing activities	
Property taxes received	149,431
Miscellaneous	1,267
Net cash from non-capital related financing activities	150,698
Cash flows from capital and related financing activities	
Proceeds from capital grants	709,613
Purchase of capital assets	(715,845)
Net cash from capital and related financing activities	(6,232)
Cash flows from investing activities	
Interest income received	4,561
Net cash from investing activities	4,561
Net change in cash and cash equivalents	(48,260)
Cash and cash equivalents—beginning of year	446,051
Cash and cash equivalents—end of year	$ 397,791
Reconciliation of operating loss to net cash from operating activities	
Operating income (loss)	$ (276,950)
Adjustments to reconcile operating loss to net cash from operating activities	
Depreciation	55,206
Change in assets and liabilities:	
Change in accounts receivable	5,774
Change in accounts payable and accrued expenses	18,683
Net cash from operating activities	$ (197,287)

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

Sedalia Water & Sanitation District
Notes to Basic Financial Statements
December 31, 2025

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, who 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.

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 of 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.

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.

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, 2025, the District had carrying balances and bank balances as follows:

	Carrying Balance	Bank Balance
Cash in checking and money market accounts	$ 397,791	$ 397,333

The District maintains cash balances at local financial institutions which are insured by the FDIC up to $250,000 per institution. At year-end $147,333 of the District's bank balance was covered by the PDPA.

4. Grant Receivable

At December 31, 2025, the District reported a grant receivable in the amount of $173,336 from Douglas County related to a pass-through of Coronavirus State and Local Fiscal Recovery Funds. The receivable represents eligible expenditures incurred by the District under the terms of the grant agreement for which reimbursement had not yet been received as of year-end.

The grant was awarded to the District as a beneficiary under the Coronavirus State and Local Fiscal Recovery Funds federal program administered by the County and is being used for project-related costs associated with leak repair, the installation of water mains, and a connection to the Eastern Regional Pipeline. All amounts are expected to be collected within one year and are recorded as current receivables. Management considers the full amount collectible and, therefore, has not recorded an allowance for doubtful accounts. Grant revenue recognized under this agreement during 2025 was $828,924.

5. Capital Assets

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, 2025 follows:

	Balance December 31, 2024	Additions	Retirements	Balance December 31, 2025
Capital assets, not being depreciated:				
Land	$ 4,930	$ -	$ -	$ 4,930
Construction in progress	728,738	715,845	-	1,444,583
Total capital assets, not being depreciated	733,668	715,845	-	1,449,513
Capital assets, being depreciated:				
Buildings	178,997	-	-	178,997
Water System	2,002,083	-	-	2,002,083
Computer	2,125	-	-	2,125
Equipment	51,742	-	-	51,742
Total capital assets, being depreciated	2,234,947	-	-	2,234,947
Accumulated depreciation	(890,460)	(55,206)	-	(945,666)
Capital assets being depreciated, Net	1,344,487	(55,206)	-	1,289,281
Total capital assets, net	$ 2,078,155	$ 660,639	$ -	$ 2,738,794

Depreciation expense for the year ended December 31, 2025 was $55,206 of which $50,890 is included in Operating Expenses and $4,316 is included in Administrative Expenses.

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.

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, 2025 is $12,777.

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 April 20, 2026, the District adopted a resolution authorizing financing through the United States Department of Agriculture (USDA) to fund planned water distribution system improvements. The resolution authorizes the issuance of bonds in an amount not to exceed $561,000 and acceptance of a USDA grant in an amount not to exceed $5,045,000.As of the date of these financial statements, the financing transaction had not closed, the USDA funding agreements had not been finalized, and the final terms of the debt, including the interest rate and repayment schedule, had not been established. Accordingly, no related debt obligations had been incurred by the District as of year-end.

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, 2025

	Original Budget	Final Budget	Actual Amounts	Variance Favorable (Unfavorable)
Enterprise Activities:				
Revenue				
Taxes - property	$ 147,014	$ 147,014	$ 149,431	$ 2,417
Charges for services	136,500	136,500	148,944	12,444
Grants	829,000	829,000	858,924	29,924
Other revenues	17,150	17,150	5,828	(11,322)
Total revenues	1,129,664	1,129,664	1,163,127	33,463
Expenditures				
Water operating expenditures	115,488	115,488	94,676	20,812
General and administrative	156,350	156,350	122,158	34,192
Capital expenditures	729,000	814,695	869,699	(55,004)
Total expenditures	1,000,838	1,086,533	1,086,533	-
Excess of revenue over expenditures	$ 128,826	$ 43,131	76,594	$ 33,463
Beginning funds available			681,361	
Ending funds available			$ 757,955	
Reconciling difference between budgetary basis and generally accepted accounting principles (GAAP)				
Excess of revenues over expenditures, budgetary basis			$ 76,594	
Adjustments				
Expenses which are not expenditures for budgetary purposes				
Depreciation			(55,206)	
Expenditures for budgetary purposes				
Capital outlay			869,699	
Budgeted capital expenditures expensed as maintenance			(153,854)	
Change in Net Position (GAAP basis)			$ 737,233	

Sedalia Water & Sanitation District
Schedule of Water Expenses
For the Year Ended December 31, 2025

Schedule of Water Operating Expenses

Sources of Supply	
Depreciation	$ 781
Total	781
Water Treatment Expenses	
Consulting	16,634
Water treatment & tests	25,983
Total	42,617
Transmission and Distribution Expenses	
Engineering	31,245
Depreciation	50,109
Maintenance	158,471
Utilities	16,197
Total	256,022
Total Water Operating Expenses	$ 299,420

Schedule of Water Administrative Expenses

Depreciation	$ 4,316
Contract labor	2,610
Accounting and audit	45,814
Legal	54,208
Miscellaneous	13,738
Telephone	411
Insurance	450
Office supplies	885
Treasurer fees	2,058
Rent	1,984
Total Administrative Expenses	$ 126,474