

AUDITED FINANCIAL STATEMENTS
SAINT CHARLES MESA WATER DISTRICT
PUEBLO, COLORADO
December 31, 2017 and 2016

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March 30, 2018

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Garren, Ross & DeNardo, Inc.

CERTIFIED PUBLIC ACCOUNTANTS

JAMES E. GARREN, CPA
MEL J. ROSS, CPA
SAM J. DeNARDO, CPA

SUITE 200
3673 PARKER BOULEVARD
PUEBLO, COLORADO 81008
719 / 544-9872
FAX 719 / 253-5417
www.grdcpa.com

Independent Auditor's Report

March 14, 2018

Board of Directors
Saint Charles Mesa Water District
Pueblo, Colorado

We have audited the accompanying financial statements of the business type activities of Saint Charles Mesa Water District as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Saint Charles Mesa Water District

Opinion

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 Saint Charles Mesa Water District, as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through v be presented to supplement the basic financial statements. Such 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. 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Saint Charles Mesa Water District's basic financial statements. The schedules of budgetary comparisons, water operating expenses, general and administrative expenses and debt service coverage calculation are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of budgetary comparisons, operating and administrative expenses and the debt service coverage calculation are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Harvey Ross & DeNardo, Inc.

Management's Discussion and Analysis

Management's Discussion and Analysis

St. Charles Mesa Water District

For the years ended December 31, 2017, 2016, and 2015

The intent of the management discussion and analysis is to provide highlights of the St. Charles Mesa Water District's financial activities for the fiscal year ending December 31, 2017. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

District Operations

The District operates as a Special District and is a quasi-municipal corporation duly organized under the laws of the State of Colorado authorized by the provisions of the constitution and laws of the State of Colorado. The activities of the District include; acquisition of water rights, production of potable water, maintenance of its distribution system, raw water collection system and ground water wells. This includes water meters, potable water storage tanks, pumps, booster stations, chemical storage facilities, raw water diversion structures and storage reservoirs. The District also maintains service vehicles and heavy equipment for service and maintenance. The District also owns and leases several farms. The District provides potable water to 4,086 water taps which includes commercial accounts.

Overview of Financial Statements

The District's basic financial statements include a statement of net position, a statement of revenue, expenses and changes in net position, a statement of cash flows and notes to the financial statements. This report also includes supplementary information in addition to the basic financial statements themselves.

The statement of net position (formerly the balance sheet) presents the financial position of the District. It presents information on the District's assets, deferred outflows, liabilities and deferred inflows with the net difference being reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how the District's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Revenues are recognized when earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future years.

The statement of cash flows presents information on the effects changes in assets and liabilities have on cash during the course of the year.

The notes to the financial statements provide information that is essential to the full understanding of the data provided in the District's financial statements. The notes to the financial statements can be found on pages 7 - 16 of this report

Financial Statements

A condensed summary of the District's statements of revenues, expenses and changes in net position for the years ended December 31, is presented below.

Management's Discussion and Analysis (Continued)
 St. Charles Mesa Water District
 For the years ended December 31, 2017, 2016, and 2015

TABLE-1

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>Percentage</u>	<u>2015</u>	<u>Change</u>	<u>Percentage</u>
Program Revenues							
Water Sales	\$ 2,285,805	\$ 2,356,768	\$ (70,963)	-3.01%	\$ 2,223,802	\$ 132,966	5.98%
Other operating revenue	160,555	131,639	28,916	21.97%	127,312	4,327	3.40%
General and Other Revenues							
Investment income	15,036	15,698	(662)	-4.22%	17,561	(1,863)	-10.61%
Gain on sale of assets	-	1,539	(1,539)	-100.00%	54,477	(52,938)	100.00%
Total Revenues	<u>2,461,396</u>	<u>2,505,644</u>	<u>(44,248)</u>	<u>-1.77%</u>	<u>2,423,152</u>	<u>82,492</u>	<u>3.40%</u>
Program Expenses							
Source of supply	447,617	419,870	27,747	6.61%	596,670	(176,800)	-29.63%
Water treatment	700,431	652,322	48,109	7.38%	485,819	166,503	34.27%
Transmission & distr.	599,507	538,784	60,723	11.27%	506,630	32,154	6.35%
Administrative	596,767	599,414	(2,647)	-0.44%	596,989	2,425	0.41%
Interest expense	218,044	221,293	(3,249)	-1.47%	215,740	5,553	2.57%
Amortization of loss on debt extinguishment	7,991	7,991	-	0.00%	7,991	-	0.00%
Loss on bad debt	126,743	-	126,743	-100.00%	-	-	-
Total Expenses	<u>2,697,100</u>	<u>2,439,674</u>	<u>257,426</u>	<u>10.55%</u>	<u>2,409,839</u>	<u>29,835</u>	<u>1.24%</u>
Income (loss) before contributions	(235,704)	65,970	(301,674)	-457.29%	13,313	52,657	395.53%
Contributions							
Capital Grants	26,000	9,499	16,501	173.71%	20,749	(11,250)	-54.22%
System development fees	128,653	147,465	(18,812)	-12.76%	165,803	(18,338)	-11.06%
Change in Net Position	<u>\$ (81,051)</u>	<u>\$ 222,934</u>	<u>\$ (303,985)</u>	<u>-136.36%</u>	<u>\$ 199,865</u>	<u>\$ 23,069</u>	<u>11.54%</u>

Total Revenues

The combined revenue for the 2017 fiscal year totaled \$2,461,396 compared to the prior year of \$2,505,644. This is a decrease of \$44,248 or (1.77%). The District experienced a 3.4% increase from 2015 to 2016. Combined revenues are comprised of water sales and land and water leases.

Water Sales

Water sales decreased in 2017 by \$70,963 or (3.01%) over the previous year of \$2,356,768. The District experienced a 5.98% increase in water sales from 2015 to 2016.

Interest Earnings

This past year has seen a decrease in the District's earnings from investments in 2017 compared to 2016. In 2016 the District earned \$15,698 compared to 2017 earnings of \$15,039. The decrease is due to the District's bond proceeds and capital improvement account funds being spent down. Favorable rates of return are difficult to find that meet the criteria required for Special Districts.

Management's Discussion and Analysis (Continued)

St. Charles Mesa Water District

For the years ended December 31, 2017, 2016, and 2015

Total Expenses

Combined expenses for the 2017 fiscal year totaled \$2,697,100 compared to the prior year of \$2,439,674. This is an increase of \$257,426 or 10.55%. The District had a 1.24% increase in expenses from 2015 to 2016. Combined expenses are comprised of four major categories: Source of Supply, Water Treatment, Transmission & Distribution, and Administrative.

Administrative Expenses

The District's professional service fees vary from year to year based on the legal, engineering and other services required. The major portion is budgeted for evaluating various water right issues in the Arkansas River basin to protect its water rights. The District expended \$132,784 in 2017, \$158,599 in 2016 and \$171,908 in 2015.

Capital Grants

The housing market has improved in Pueblo County and in the St. Charles Mesa Water District. The subdivisions that the District approved for water service have sold a majority of their lots. We expect to see an increase in capital grants in 2018.

A condensed summary of the District's net position at December 31, 2017, 2016, and 2015 is presented below.

TABLE-2

<u>Statement of Net Position</u>	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>Percentage</u>	<u>2015</u>	<u>Change</u>	<u>Percentage</u>
Assets							
Capital assets	\$ 14,987,423	\$ 15,085,402	\$ (97,979)	-0.65%	\$ 14,268,304	\$ 817,098	5.73%
Current and other assets	<u>3,228,631</u>	<u>3,598,843</u>	<u>(370,212)</u>	-10.29%	<u>3,659,506</u>	<u>(60,663)</u>	-1.66%
Total Assets	<u>18,216,054</u>	<u>18,684,245</u>	<u>(468,191)</u>	-2.51%	<u>17,927,810</u>	<u>756,435</u>	4.22%
Deferred outflows	<u>39,956</u>	<u>47,947</u>	<u>(7,991)</u>	-16.67%	<u>55,939</u>	<u>(7,992)</u>	-14.29%
Liabilities							
Long term liabilities	6,395,800	6,901,388	(505,588)	-7.33%	6,405,377	496,011	7.74%
Other liabilities	<u>578,560</u>	<u>468,103</u>	<u>110,457</u>	23.60%	<u>438,605</u>	<u>29,498</u>	6.73%
Total Liabilities	<u>6,974,360</u>	<u>7,369,491</u>	<u>(395,131)</u>	-5.36%	<u>6,843,982</u>	<u>525,509</u>	7.68%
Net Position							
Invested in capital assets, net of related debt	8,423,183	8,371,423	51,760	0.62%	8,332,242	39,181	0.47%
Restricted for debt service	744,581	744,581	-	0.00%	744,581	-	0.00%
Unrestricted	<u>2,113,886</u>	<u>2,246,697</u>	<u>(132,811)</u>	-5.91%	<u>2,062,944</u>	<u>183,753</u>	8.91%
Total Net Position	<u>\$ 11,281,650</u>	<u>\$ 11,362,701</u>	<u>\$ (81,051)</u>	-0.71%	<u>\$ 11,139,767</u>	<u>\$ 222,934</u>	2.00%

Net Position

The District's net position decreased in 2017. The District received bond proceeds in 2012 that are to be spent on capital assets. Some additions had been started in 2015, 2016 and 2017, but some of the proceeds are unspent and are recognized as restricted cash in the Statement of Net Position. The 2016 total assets were \$18,684,245 and \$18,216,054 in 2017 a decrease of \$468,191 or (2.51%). The District's total net position increased from 2015 to 2016 by \$222,934 or 2.00%.

Management's Discussion and Analysis (Continued)
 St. Charles Mesa Water District
 For the years ended December 31, 2017, 2016, and 2015

Capital Expenditures

During 2017 expenditures in capital projects totaled \$604,994.

Water Purchases

The District acquired 6,000 shares of Bessemer Irrigating Ditch Company stock in 2017, 2,841 shares in 2016 and 4,000 shares in 2015.

Long Term Debt

The Revenue Bonds are secured by a first lien on the net revenue of the system. The District is required to establish user fees and rates that will yield a net revenue at least 1.10 times the debt service that will become due in the following fiscal year. The District payments for the present revenue bonds are made in June and December of each year. The District has a restricted reserve in the amount of \$744,581 as required by bond covenants.

Table - 3

	<u>12/31/16</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/17</u>
2012 Series A Water Revenue Bonds	\$ 4,885,000	\$ -	\$ -	\$ 4,885,000
2012 Series B Water Enterprise Bonds	1,110,000	-	315,000	795,000
Government Agency Bonds	<u>873,379</u>	<u>-</u>	<u>177,362</u>	<u>696,017</u>
TOTAL	<u>\$ 6,868,379</u>	<u>\$ -</u>	<u>\$ 492,362</u>	<u>\$ 6,376,017</u>

The District refinanced the 2002 and 2009 revenue bonds in 2012. The new issue was used to retire two previous bond issues that were at higher interest rates and so that the District could provide funding for water main replacement projects in conjunction with Pueblo County Public Works and upgrade the electrical control equipment and distribution pumps at the water treatment plant. Since the 2004 bonds were not callable, \$500,000 was placed in escrow and the earned interest will be used for the remaining interest payments. The bond fund will also help stabilize the water rates for several years due to the fact that capital improvement projects are being funded with 2012 bond issue proceeds. It will also provide time for the District to fund its reserves.

Budget Highlights and Future Projects of the District

The following are highlights of some of the major changes and future projects:

- In 2017 the District began the process of acquiring the Zinno Subdivision. The residents of the area were unhappy with the service and cost of the water being provided. They formed a users association and requested relief from the Court. The District informed the users association that the District would provide water service if they provided funding to replace the water system. The subdivision is a separate zone within the District and will pay a higher minimum fee until the construction loan is paid. This acquisition will bring in 97 residential customers that will generate an estimated \$48,000 per year in revenue not including debt service.
- The District has changed 2054.9420 shares of Bessemer Irrigation Ditch Company stock to municipal use in case's W-373 and 374, 04CW08 and 09CW91. The District will use 1,158.1480 shares for municipal in 2018. The remaining 853.494 shares will be leased to farms until needed.

Management's Discussion and Analysis (Continued)

St. Charles Mesa Water District

For the years ended December 31, 2017, 2016, and 2015

Budget Highlights and Future Projects of the District (Continued)

- The District installed 13 new water taps in 2017 providing revenue of \$128,653. Water tap sales continue to range from 12 to 16 per year. Based on this, the water tap sales in 2017 will carryforward into 2018 in a certificate of deposit, and future water tap sales will be added to the account to fund capital improvements and water rights purchases.
- The District's Board and management took into account the last 5 years of water usage and increased the rate by 3.2% for 2018 to stay in alignment with the water rate study and the District's revenue requirements. Increasing demands due to State and Federal water quality regulations and infrastructure improvements will require the Board of Directors and management to closely monitor revenue demands for future needs.
- The District is continuing the process of updating the distribution system maps so they can be moved into Arc View GIS. When complete it will enable the District to use global positioning satellites to locate its facilities.
- The District's Board of Directors authorized the first purchase of radio read meters in 2008 and began installing them in 2009. The District has installed radio read meters the last five years. The District currently has 2,204 radio read meters. The District was not able to purchase any radio read meters in 2015 due to a wet spring and summer. In 2016 the District purchased 450 radio read meters and plan to install them in early 2017. The 850 meters were installed in April of 2017. The District has budgeted for another 400 radio read meters in 2018. The District currently has 4,243 service connections and 2,855 have radio read meters installed. This has reduced the time spent reading meters and provides better water usage information for the District and our customers..
- The District secured a 2% loan from the Colorado Water Resources and Power Development Authority in the amount of \$752,297 in July 2017 for a small hydro power facility. The District completed construction March 10 and started power production April 1. The savings in power costs to the District should fund the project over the next 10 years.
- The District maintains a website to educate the public about the District and to provide mandatory reports useful to our customers. The site has the District's Regulations and By-Laws, water rates, water tap fees, water quality report, and other information useful to our customers. The site is at : www.scmwd-pueblo.org

Request for Information

The financial report is designed to provide a general overview of the District's finances for those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

St. Charles Mesa Water District
Office of the District Manager
1397 Aspen Road
Pueblo, CO 81006

Basic Financial Statements

STATEMENTS OF NET POSITION
SAINT CHARLES MESA WATER DISTRICT
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 933,817	\$ 849,677
Certificates of deposit	1,122,969	1,120,324
Receivables	182,492	154,215
Inventories	162,457	164,426
Prepaid expenses	<u>64,924</u>	<u>66,227</u>
Total Current Assets	<u>2,466,659</u>	<u>2,354,869</u>
Noncurrent assets		
Restricted cash	17,391	122,317
Restricted certificates of deposit	744,581	744,581
Government Agency Bond deposit	-	250,333
Note receivable	-	126,743
Capital assets - net of depreciation	<u>14,987,423</u>	<u>15,085,402</u>
Total Noncurrent Assets	<u>15,749,395</u>	<u>16,329,376</u>
Total Assets	<u>18,216,054</u>	<u>18,684,245</u>
 Deferred Outflows	 <u>39,956</u>	 <u>47,947</u>
 Liabilities		
Current liabilities		
Accounts payable and accrued expenses	147,383	55,700
Compensated absences	14,112	-
Capital leases	18,324	17,697
Government Agency Bond	32,477	38,202
Revenue bonds	320,000	315,000
Other current liabilities	<u>46,264</u>	<u>41,504</u>
Total Current Liabilities	<u>578,560</u>	<u>468,103</u>
Noncurrent liabilities		
Compensated absences	184,970	185,658
Capital leases	21,580	23,006
Government agency bonds	663,540	835,177
Revenue bonds	<u>5,525,710</u>	<u>5,857,547</u>
Total Noncurrent Liabilities	<u>6,395,800</u>	<u>6,901,388</u>
Total Liabilities	<u>6,974,360</u>	<u>7,369,491</u>
 Net Position		
Invested in capital assets, net of related debt	8,423,183	8,371,423
Restricted	744,581	744,581
Unrestricted	<u>2,113,886</u>	<u>2,246,697</u>
Total Net Position	<u>\$ 11,281,650</u>	<u>\$ 11,362,701</u>

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

SAINT CHARLES MESA WATER DISTRICT

For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Water sales	\$ 2,285,805	\$ 2,356,768
Other operating income	160,555	131,639
Total Operating Revenues	<u>2,446,360</u>	<u>2,488,407</u>
Operating Expenses		
Source of supply	447,617	419,870
Water treatment	700,431	652,322
Transmission and distribution	599,507	538,784
Administrative	596,767	599,414
Total Operating Expenses	<u>2,344,322</u>	<u>2,210,390</u>
Net Operating Income (Loss)	<u>102,038</u>	<u>278,017</u>
Nonoperating Revenue (Expenses)		
Interest and investment income	15,036	15,698
Gain on sale of assets	-	1,539
Interest expense	(218,044)	(221,293)
Amortization of loss on debt extinguishment	(7,991)	(7,991)
Loss on bad debt	(126,743)	-
Total Nonoperating Revenues (Expenses)	<u>(337,742)</u>	<u>(212,047)</u>
Income (Loss) Before Capital Contributions	<u>(235,704)</u>	<u>65,970</u>
Capital Contributions		
System development fees	128,653	147,465
Capital grants	26,000	9,499
Total Capital Contributions	<u>154,653</u>	<u>156,964</u>
Change in Net Position	(81,051)	222,934
Total Net Position - Beginning	<u>11,362,701</u>	<u>11,139,767</u>
Total Net Position - Ending	<u>\$ 11,281,650</u>	<u>\$ 11,362,701</u>

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

STATEMENTS OF CASH FLOWS
SAINT CHARLES MESA WATER DISTRICT
For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities		
Cash received from customers	\$ 2,260,372	\$ 2,341,510
Cash payments to suppliers for goods and services	(847,309)	(935,953)
Cash payments to employees for services	(690,317)	(636,487)
Other operating revenue	<u>160,555</u>	<u>131,639</u>
Net Cash Provided by Operating Activities	<u>883,301</u>	<u>900,709</u>
 Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(529,728)	(1,440,876)
Proceeds from asset sale	-	1,539
Government agency bond advances	250,333	644,916
Principal paid on revenue bond maturities and capital lease obligations	(536,828)	(376,058)
Interest paid on revenue bonds and capital lease obligations	(230,824)	(230,533)
System development fees collected	<u>133,681</u>	<u>152,494</u>
Net Cash Used by Capital and Related Financing Activities	<u>(913,366)</u>	<u>(1,248,518)</u>
 Cash Flows From Investing Activities		
Interest income	11,924	15,590
Collections on note receivable	-	3,080
Investments purchased	<u>(2,645)</u>	<u>(54,928)</u>
Net Cash Provided by Investing Activities	<u>9,279</u>	<u>(36,258)</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 (20,786)	 (384,067)
 Cash and Cash Equivalents - Beginning	 <u>971,994</u>	 <u>1,356,061</u>
 Cash and Cash Equivalents - Ending	 <u>\$ 951,208</u>	 <u>\$ 971,994</u>
 Supplemental Disclosures of Non-Cash Financing and Investing Information		
Equipment financed by capital lease	<u>\$ 43,667</u>	<u>\$ -</u>
Capital Grants	<u>\$ 26,000</u>	<u>\$ 9,499</u>

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

STATEMENTS OF CASH FLOWS (Continued)

SAINT CHARLES MESA WATER DISTRICT
For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 102,038	\$ 278,017
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	702,973	638,337
Capitalized labor	(5,599)	(5,060)
(Increase) decrease in:		
Accounts receivable	(25,165)	(18,371)
Inventory	1,969	(2,475)
Prepaid expense	1,303	(268)
Increase (decrease) in:		
Accounts payable and accrued expenses	92,626	(4,858)
Other current liabilities	(268)	3,113
Compensated absences	13,424	12,274
	<u>13,424</u>	<u>12,274</u>
Net Cash Provided by Operations	<u>\$ 883,301</u>	<u>\$ 900,709</u>

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

NOTES TO FINANCIAL STATEMENTS
SAINT CHARLES MESA WATER DISTRICT
December 31, 2017 and 2016

Note A - Summary of Significant Accounting Policies

Reporting Entity

The Saint Charles Mesa Water District (District) is organized under the laws of the State of Colorado. It operates under the jurisdiction of a local board of directors whose members are elected by the voters of the District. The formation of the District was approved by the voters in May of 1988 and it subsequently began operations in October of 1988. Prior to the formation of the District the water needs of the District's patrons were served by the Saint Charles Mesa Water Association, a nonprofit corporation. The Association transferred all its assets to the District effective September 30, 1988 and was subsequently liquidated. The total net assets transferred at that time were \$3,261,995.

The District (the primary government) presents its financial statements in accordance with generally accepted accounting principles, as they apply to governmental units. The financial statements of the District consist only of its sole enterprise fund for water services. The District has no other funds or account groups.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met. Capital grant funding represents amounts received or paid on behalf of the District for capital asset acquisition or construction of additions to the utility plant in service.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's ongoing operations. The primary source of revenue is user charges for water services. Operating expenses are reported in functional categories for source of supply, water treatment, transmission and distribution, and administrative expenses and include depreciation on capital assets. Other revenues or expenses not meeting this definition are treated as nonoperating revenues or expenses. The principal nonoperating revenues are investment income and grants. The principal nonoperating expenses of the District include interest expense.

All assets and liabilities, both current and noncurrent, are included in the statement of net position of proprietary funds.

Use of Estimates

The preparation of the 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The statement focuses on the change in cash and cash equivalents during the period. Cash equivalents are short-term, liquid investments that are quickly converted to known cash amounts and that have maturities of three months or less so as to minimize the risk of value changes.

NOTES TO FINANCIAL STATEMENTS (Continued)
SAINT CHARLES MESA WATER DISTRICT
December 31, 2017 and 2016

Note A - Summary of Significant Accounting Policies (Continued)

Investments

The District's policy is to state investments in their financial statements at fair value. Unrealized gain or loss resulting from the change in fair market value of investments is recognized in the statement of revenues, expenses and changes in net assets.

Inventory

Inventories are stated at the lower of cost or market value using the first-in, first-out method of determining inventories on hand. Inventories were adjusted to reflect the amounts determined by physical count at year end.

Deferred Outflows - Deferred Inflows

In addition to assets, the Statement of Financial Position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The District has one item reported under this category. The District incurred a loss on the current refunding of debt. The loss of \$85,905 will be amortized over the life of the issue. Amortization expense for the years ending December 31, 2017 and 2016 was \$7,991 and \$7,991, respectively. The unamortized amount at December 31, 2017 and 2016 is \$39,956 and \$47,947, respectively.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have an item that qualifies for reporting in this category.

Capital Assets

Land, wells, reservoirs, water rights, and mutual irrigating ditch company stock are stated at cost and are not depreciated. All other components of the utility plant in service are stated at cost and depreciated using straight-line depreciation based upon the following useful lives:

Source of supply plant	15 - 25 years
Water treatment plants	25 years
Transmission and distribution system	15 - 40 years
Operating equipment	5 - 10 years
Office, shop and other buildings	10 - 30 years
Office and shop equipment	5 - 10 years
Improvements of land	20 years

Compensated Absences

Accumulated, unpaid sick leave and vacation pay are accrued and recorded as an expense in the period earned.

Vacation leave is earned on a monthly basis; the amount of which varies between six and twenty-four days per year depending upon the number of years of continuous service provided by the employee. Vacation rights are vested after six months of continuous service. Accumulations are limited to thirty days or 240 hours.

NOTES TO FINANCIAL STATEMENTS (Continued)
SAINT CHARLES MESA WATER DISTRICT
December 31, 2017 and 2016

Note A - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Continued)

Sick leave is earned at the rate of ten working days per year which is credited beginning with the first day after seven months of continuous service. Sick leave benefits are accumulating rights which may be carried forward to subsequent years. The number of unused days of sick leave an employee can accumulate is limited to one hundred twenty days or 960 hours. Accumulated, unpaid sick leave is paid to an employee, or designated beneficiaries, in the event of death or retirement based upon an employee's average base salary over the preceding five years. Retirement requires completion of twenty years of continuous service. Amounts may be paid in a lump-sum or in three equal annual installments at the discretion of the Board.

At December 31, 2017 and 2016 the amount of accrued sick leave and vacation pay was \$199,082 and \$185,658, respectively. A portion of compensated absences will be shown as a current liability for 2017, \$14,112 will be paid out in 2018 to an employee that is retiring from the District. The remaining portion of \$184,970 will be presented as long term debt.

System Development Fees

The District charges fees to join the utility system. The fees vary depending upon the size and setting of the meter installation required. The basic connection charge (tap fee) is currently \$11,738. The District's policy is to review these fees on an ongoing basis and adjust them for cost increases. These fees are recorded in the statement of revenues, expenses and changes in net assets.

Risk Management

The District is exposed to various risks of loss related to torts; theft of; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The District carries commercial insurance for such risks, including workers' compensation and accident insurance. Settled claims resulting from these risks did not exceed commercial insurance coverage during 2017 or 2016.

Current Refunding

A bond refunding in 2012 resulted in a difference between the reacquisition price and the net carrying amount of \$85,905. This was included in deferred outflows and is being amortized over the life of the bond issue as described earlier in Note A. The District completed the refunding to reduce its total debt service payments by \$174,890 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$53,007.

Note B - Stewardship, Compliance and Accountability

Budgets and Budgetary Data

Formal budgetary accounting is employed as a management control tool for the proprietary fund of the District. Annual operating budgets are adopted each fiscal year through passage of an annual budget resolution. The budgetary amounts presented in the accompanying financial statements/schedules reflect original and most recent amended amounts which were adopted in accordance with the appropriate provisions of state law. Encumbrance accounting is not employed as part of the budgetary process. Encumbrance accounting allows a governmental entity to account for open purchase orders (purchase orders for which the underlying goods or services have not been received before the end of an accounting period) as expenditures against the budget of that accounting period. Differences between the budgetary reporting basis and the generally accepted accounting principles (GAAP) basis used to reflect actual revenues and expenses are described as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)
SAINT CHARLES MESA WATER DISTRICT
December 31, 2017 and 2016

Note B - Stewardship, Compliance and Accountability (Continued)

Budgets and Budgetary Data (Continued)

1. Depreciation, amortization, and unrealized gains or losses on investments are not recognized on the budgetary basis and are treated as expenses on the GAAP basis.
2. Debt proceeds are treated as revenue and debt repayments and capital expenditures are treated as expenditures on the budgetary basis. Debt proceeds are not treated as revenue and debt repayments and capital expenditures are not treated as expenses on the GAAP basis.
3. Labor costs for District employees on construction projects are capitalized on the GAAP basis and are treated as expenses on the budgetary basis.

All unencumbered budget appropriations lapse at the end of each fiscal year.

Tax, Spending, and Debt Limitations

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which imposes several limitations, including revenue raising, spending limitations, and other specific requirements on state and local governments. The Amendment is complex and subject to judicial interpretation. The District believes it is in compliance with any applicable requirement of the Amendment. However, the District has made certain interpretations of the Amendment's language in order to determine its compliance.

The Colorado legislature enacted legislation concerning water activities which allows governments to establish enterprise status, as defined in the Amendment, for water services. The District, by resolution of its Board of Directors, established such a water enterprise for the purpose of providing continuing service to its constituents and further resolved that the enterprise will not levy a tax nor accept any government grant which would jeopardize such status unless specifically authorized by its Board of Directors.

Note C - Cash Deposits and Investments

Deposits

Colorado State statutes govern the District's deposits of cash. The statutes specify eligible depositories for public cash deposits which must be Colorado institutions and must maintain insurance (FDIC or FSLIC) 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 the total uninsured deposits held by that institution. The State Regulatory Commissions for banks and savings and loan associations are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pool. At December 31, 2017 the District had deposits in excess of \$250,000 in the amount of \$2,068,557. These deposits are required to be collateralized under State Statutes.

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District's policy for custodial credit risk parallels Colorado statutes.

NOTES TO FINANCIAL STATEMENTS (Continued)
SAINT CHARLES MESA WATER DISTRICT
 December 31, 2017 and 2016

Note C - Cash Deposits and Investments (Continued)

Deposits (Continued)

A summary of cash and deposits held at year end follows:

<u>Cash and Deposits</u>	<u>Carrying Amount</u>	<u>Less Than One Year</u>	<u>Less Than Five Years</u>
<u>Deposits</u>			
Cash on hand	\$ 200	\$ 200	\$ -
Checking	401,358	401,358	-
Money Market	549,650	549,650	-
<u>Investments</u>			
Certificates of deposit	1,867,550	1,092,630	774,920
Total Deposits	<u>\$ 2,818,758</u>	<u>\$ 2,043,838</u>	<u>\$ 774,920</u>

Investments

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest. The law outlines the types of securities that public entities in Colorado may acquire and hold as investments. These include U.S. government and agency securities, certain bonds of political subdivisions, bankers' acceptances, commercial paper, local government investment pools, repurchase agreements, money market funds, and guaranteed insurance contracts. The statute also includes a provision limiting any investment to a five-year maturity unless the governing body authorizes a longer period.

Interest rate risk - The District's policy of limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates parallels Colorado statutes. Specifically, all securities are limited to a maximum maturity of five years from the date of purchase unless the governing body authorizes a longer period. Credit risk - The District does not have a policy that would further limit its choices beyond the requirements of Colorado statutes.

The District had no such investments during the years ending December 31, 2017 or 2016.

Note D - Receivables

Receivables consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Due from customers for water usage	\$ 142,138	\$ 143,465
Miscellaneous receivables	36,715	10,223
Interest receivable	3,639	527
Total Receivables	<u>\$ 182,492</u>	<u>\$ 154,215</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

SAINT CHARLES MESA WATER DISTRICT

December 31, 2017 and 2016

Note E - Note Receivable

Effective February 5, 2010, the District sold its Huerfano Cucharas Irrigation Company stock for a total price of \$1,900 per share, for a total of \$128,250. A deposit of \$6,750 was received in 2009 which was applied to the purchase price leaving a balance due of \$121,500 for the year ended December 31, 2010. The note requires interest payments each month at 6% per annum. The promissory note required a balloon payment of the entire \$121,500 on March 31, 2013. The District granted a six month extension on the balloon payment. The due date was September 30, 2013.

During 2013 the District agreed to an additional extension and a modification to this note. A payment of \$6,600 was required by June 2013 and the principal of the note was adjusted to \$139,200, which is to be amortized over 20 years with required monthly payments of \$997.27. A final balloon payment was due on June 30, 2016.

During 2016 the District agreed to a third amendment to this note. The note was extended three years. The principle balance at June 30, 2016 of \$127,349 will be amortized over a twelve year period. At February 15, 2017, or before, a payment of \$6,367 will be due and the new balance will be amortized for eleven years and five months. A final balloon payment is due on July 1, 2019.

The entire remaining balance of \$126,743 has been reserved as of December 31, 2017 and the carrying value is reduced to zero for financial statement purposes. The loss has been included in non-operating expenses.

Note F - Changes in Capital Assets

The following is a summary of the changes in capital assets for the year ended December 31, 2017.

	Balance at				Balance at
	12/31/16	Additions	Deletions		12/31/17
Land and land rights	\$ 402,580	\$ -	\$ -		\$ 402,580
Water rights	561,412	-	-		561,412
Mutual irrigating company stock	3,214,199	39,000	-		3,253,199
Source of supply plant	6,427,063	6,037	-		6,433,100
Pumping plant	418,495	32,641	-		451,136
Water treatment plant	4,543,886	99,629	-		4,643,515
Transmission and distribution system	9,618,684	468,807	-		10,087,491
General plant	391,153	3,180	-		394,333
Equipment and vehicles	946,504	73,697	27,985		992,216
Non-utility property	497,834	-	-		497,834
Construction in progress	117,997	-	117,997		-
Totals	\$ 27,139,807	\$ 722,991	\$ 145,982		\$ 27,716,816
Less accumulated depreciation	(12,054,405)				(12,729,393)
Net Capital Assets	\$ 15,085,402				\$ 14,987,423

Depreciation expense for the years ended December 31, 2017 and 2016 was \$702,973 and \$638,337 respectively.

NOTES TO FINANCIAL STATEMENTS (Continued)
SAINT CHARLES MESA WATER DISTRICT
 December 31, 2017 and 2016

Note G - Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Accounts payable	\$ 113,288	\$ 24,522
Accrued property taxes	22,943	19,083
Accrued payroll taxes	360	360
Accrued interest	10,792	11,735
Total Accrued Liabilities	<u>\$ 147,383</u>	<u>\$ 55,700</u>

Note H - Property Taxes

The District has not levied a property tax for 2017 or 2016.

Note I - Other Current Liabilities

Other current liabilities consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Customer deposits	\$ 19,468	\$ 14,440
Fire hydrant maintenance	10,447	10,447
Rents - non-utility property	16,349	16,617
	<u>\$ 46,264</u>	<u>\$ 41,504</u>

Customer deposits consist of payments received for system development (tap) fees and other services. These services must be paid in full prior to the extension of service to the customer. Amounts recorded as customer deposits will remain in current liabilities until applied against unpaid billings or refunded.

The fire hydrant maintenance liability consists of funds received from the District and Pueblo Rural Fire Protection District for maintenance on fire hydrants within the District.

Rents on non-utility property consist of the unexpired portion of rental fees that have been paid in full at the beginning of the rental term.

Note J - Defined Contribution Pension Plan

The District contributes to a retirement plan for all of its full-time employees, through a defined contribution money purchase pension plan. The plan is administered by New England Financial.

NOTES TO FINANCIAL STATEMENTS (Continued)

SAINT CHARLES MESA WATER DISTRICT

December 31, 2017 and 2016

Note J - Defined Contribution Pension Plan (Continued)

Benefit terms, including contribution requirements, are established and may be amended by the Board of Directors of the District. For each employee the District contributes 7% of each eligible employee's earnings. Employees are permitted to make voluntary contributions to the pension plan, up to applicable Internal Revenue Code limits. For the years ended December 31, 2017 and 2016, employee contributions totaled \$21,382 and \$19,741, and the District recognized pension expense of \$31,274 and \$29,126, respectively.

Employees are immediately vested in their own contributions and earnings on those contributions and become vested in District contributions and earnings on District contributions after five years of continuous service. Nonvested District contributions are forfeited upon termination of employment. Such forfeitures are used first to cover the pension plan's administrative expenses and if there are any forfeitures remaining they may be used towards employer contributions to the plan. There were no forfeitures for the years ended December 31, 2017 and 2016.

There was no outstanding liability for pension contributions as of December 31, 2017 and 2016.

Note K - Line of Credit

The District has a line of credit with Sunflower Bank that is annually renewable and will mature May 12, 2018. The maximum loan amount is \$200,000, and interest is due on the outstanding principal at the rate of 4.0%. There was no borrowing on the credit line and no balance outstanding at December 31, 2017.

Note L - Capital Leases

On March 17, 2014 the District entered into a lease with Merchants Capital in the amount of \$86,306. Payments are due in twenty quarterly installments of \$4,722.72 including interest at 3.49%

On November 15, 2016 the District entered into a lease with Forsythe Solutions Group with an equipment acceptance date of January 1, 2017. Payments are due in three annual installments of \$14,757 including interest at 9.494%.

	<u>December 31, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2017</u>	<u>Current Portion</u>
Merchants Capital	\$ 40,703	\$ -	\$ 17,697	\$ 23,006	\$ 18,324
Forsythe Solutions	-	43,667	26,769	16,898	-
	<u>\$ 40,703</u>	<u>\$ 43,667</u>	<u>\$ 44,466</u>	<u>\$ 39,904</u>	<u>\$ 18,324</u>

Future years repayment schedule:

	Principal	Interest	Total
2018	\$ 18,324	\$ 566	\$ 18,890
2019	17,835	1,645	19,480
2020	3,745	355	4,100
	<u>\$ 39,904</u>	<u>\$ 2,566</u>	<u>\$ 42,470</u>

NOTES TO FINANCIAL STATEMENTS (Continued)
SAINT CHARLES MESA WATER DISTRICT
December 31, 2017 and 2016

Note M - Long-Term Debt

The following is a summary of revenue bond transactions of the District for the year ended December 31, 2017:

	<u>December 31, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2017</u>	<u>Current Portion</u>
Series 2012A water enterprise bonds	\$ 4,885,000	\$ -	\$ -	\$ 4,885,000	-
Series 2012B water enterprise bonds	1,110,000	-	315,000	795,000	320,000
Government Agency Bonds	873,379	-	177,362	696,017	32,477
Unamortized premiums	177,547	-	11,837	165,710	-
Total	<u>\$ 7,045,926</u>	<u>\$ -</u>	<u>\$ 504,199</u>	<u>\$ 6,541,727</u>	<u>\$ 352,477</u>

Long-term debt at December 31, 2017 follows:

- The District issued series 2012 A and 2012 B water revenue bonds. The proceeds were used in part to effect a current refunding of both the 2002 and 2009 water revenue bonds. The remaining amount, after the costs of issuance, was used to increase the required bond reserve fund to \$744,580 and to provide funds in the approximate amount of \$3,910,103 for various constructions projects.

The bonds are secured by a first lien on the net revenue of the system. Net revenues are defined in the bond agreements. The District is required to maintain a bond reserve fund as well as establishing user rates and fees that will yield net revenues of at least 1.10 times the debt service that will come due in the succeeding year.

Future years repayment schedule:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 320,000	\$ 202,582	\$ 522,582
2019	330,000	193,623	523,623
2020	340,000	183,392	523,392
2021	355,000	172,613	527,613
2022	365,000	166,962	531,962
2023 - 2027	2,050,000	580,938	2,630,938
2028 - 2031	<u>1,920,000</u>	<u>179,700</u>	<u>2,099,700</u>
	<u>\$ 5,680,000</u>	<u>\$ 1,679,810</u>	<u>\$ 7,359,810</u>

- The District issued a governmental agency bond pursuant to a loan agreement with Colorado Water Resources and Power Development Authority. Proceeds are to be used for specified capital improvements. The loan amount is \$895,249 and payments began in May of 2016 including interest at 2%.

NOTES TO FINANCIAL STATEMENTS (Continued)
SAINT CHARLES MESA WATER DISTRICT
 December 31, 2017 and 2016

Note M - Long-Term Debt (Continued)

The bonds are secured by a lien on the net revenue of the system. Net revenues are defined in the loan documents. The District is required to establish user rates and fees equal to at least 110% of the annual debt service requirements. The District is also required to maintain a reserve in the form of unobligated fund balances of at least 25% of its expected operating and maintenance expenses. The District believes it is in compliance with all loan requirements.

Future years repayment schedule:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 32,477	\$ 13,759	\$ 46,236
2019	33,129	13,106	46,235
2020	33,795	12,440	46,235
2021	34,475	11,761	46,236
2022	35,168	11,067	46,235
2023 - 2027	186,730	44,448	231,178
2028 - 2032	206,266	24,912	231,178
2033 - 2035	133,977	4,728	138,705
	\$ 696,017	\$ 136,221	\$ 832,238

Note N - Net Position

The basic financial statements utilize a net position presentation. Net position is categorized as invested in capital assets (net of related debt), restricted and unrestricted.

Invested in capital assets (net of related debt) is intended to reflect the portion of net position that is associated with non-liquid, capital assets, less outstanding capital asset related debt.

Restricted net position has a third-party (statutory, bond covenant or water user) limitation on their use. The District has bond covenants which require it to establish and maintain a reserve fund in the amount of \$744,581 to be used solely to prevent a default in payment of the debt service on the bonds. Further, the District is required to make monthly deposits into a bond fund account to provide for the annual debt service payments. At the end of December 31, 2017 the District had unspent bond money of \$17,391 that must be used for capital expenditures.

Unrestricted net position are amounts that do not meet the definition of “invested in capital assets” or “restricted assets” and are available for the District’s operations.

Other Supplementary Information

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
BUDGETARY BASIS - BUDGET AND ACTUAL
SAINT CHARLES MESA WATER DISTRICT
For the year ended December 31, 2017

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>2017 Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues				
Water revenues	\$ 2,253,000	\$ 2,253,000	\$ 2,285,805	\$ 32,805
Interest income	12,000	12,000	15,036	3,036
Other income	111,052	111,052	160,555	49,503
Total Operating Revenues	<u>2,376,052</u>	<u>2,376,052</u>	<u>2,461,396</u>	<u>85,344</u>
Nonoperating Revenues				
Capital contributions	74,728	74,728	154,653	79,925
Debt proceeds	114,150	114,150	16,897	(97,253)
Total Nonoperating Revenues	<u>188,878</u>	<u>188,878</u>	<u>171,550</u>	<u>(17,328)</u>
Total Revenues	<u>2,564,930</u>	<u>2,564,930</u>	<u>2,632,946</u>	<u>68,016</u>
Operating Expenses				
Source of Supply				
Salaries and employee benefits	47,296	47,296	58,841	(11,545)
Repairs and maintenance	82,000	82,000	88,340	(6,340)
Water assessments	206,305	206,305	174,842	31,463
Supplies and other expenses	6,500	6,500	1,493	5,007
Total Source of Supply	<u>342,101</u>	<u>342,101</u>	<u>323,516</u>	<u>18,585</u>
Water Treatment Expense				
Salaries and employee benefits	155,441	155,441	173,199	(17,758)
Repairs and maintenance	108,000	108,000	84,401	23,599
Chemicals	80,000	80,000	77,059	2,941
Power purchased for pumping	180,000	180,000	176,202	3,798
Supplies and other expenses	89,015	89,015	25,595	63,420
Total Water Treatment Expense	<u>612,456</u>	<u>612,456</u>	<u>536,456</u>	<u>76,000</u>
Transmission and Distribution Expense				
Salaries and employee benefits	255,091	255,091	230,786	24,305
Repairs and maintenance	45,913	45,913	91,803	(45,890)
Supplies and other expenses	13,500	13,500	12,744	756
Total Transmission and Distribution Expense	<u>314,504</u>	<u>314,504</u>	<u>335,333</u>	<u>(20,829)</u>
Administrative and General Expenses				
Salaries and employee benefits	239,369	239,369	240,916	(1,547)
Utilities and miscellaneous	25,180	25,180	18,123	7,057
Insurance	60,424	60,424	43,075	17,349
Office supplies and expenses	65,800	65,800	66,650	(850)
Professional services	181,200	181,200	132,784	48,416
Building repairs and maintenance	77,500	77,500	43,770	33,730
Directors, elections and other	16,200	16,200	8,900	7,300
Travel	17,000	17,000	5,728	11,272
Dues and subscriptions	13,500	13,500	13,115	385
Contingencies	-	-	-	-
Total Administrative and General Expenses	<u>696,173</u>	<u>696,173</u>	<u>573,061</u>	<u>123,112</u>
Total Operating Expenses	<u>1,965,234</u>	<u>1,965,234</u>	<u>1,768,366</u>	<u>196,868</u>

The accompanying notes to financial statements are an integral part of this schedule.

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
BUDGETARY BASIS - BUDGET AND ACTUAL (Continued)
 SAINT CHARLES MESA WATER DISTRICT
 For the year ended December 31, 2017

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>2017 Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Nonoperating Expenditures				
Interest expense	\$ 210,458	\$ 210,458	\$ 229,881	\$ (19,423)
Principal paid on debt	315,000	315,000	365,838	(50,838)
Capital outlay	<u>504,000</u>	<u>504,000</u>	<u>422,080</u>	<u>81,920</u>
Total Nonoperating Expenditures	<u>1,029,458</u>	<u>1,029,458</u>	<u>1,017,799</u>	<u>11,659</u>
Total Expenditures	<u>2,994,692</u>	<u>2,994,692</u>	<u>2,786,165</u>	<u>208,527</u>
Excess of Revenues Over (Under) Expenditures (Budgetary Basis)	(429,762)	(429,762)	(153,219)	276,543
Funds Available - Beginning of Year	<u>1,621,636</u>	<u>1,621,636</u>	<u>2,938,951</u>	<u>1,317,315</u>
Funds Available - End of Year	<u>\$ 1,191,874</u>	<u>\$ 1,191,874</u>	<u>\$ 2,785,732</u>	<u>\$ 1,593,858</u>

The accompanying notes to financial statements are an integral part of this schedule.

BUDGET RECONCILIATION
SAINT CHARLES MESA WATER DISTRICT
 December 31, 2017

Reconciliation From Budgetary Basis to GAAP Basis of Accounting

Revenue (Budgetary Basis)	\$ 2,632,946
Less:	
Debt proceeds	(16,897)
Capital grants	(26,000)
System development fees	(128,653)
Plus:	
Gain on sale of assets	-
Revenue (GAAP Basis)	2,461,396
Expenses (Budgetary Basis)	2,786,165
Plus:	
Amortization	7,991
Depreciation	702,973
Loss on bad debt	126,743
Less:	
Capital outlay	(543,497)
Labor costs capitalized	(5,600)
Principal payments	(377,675)
Expenses (GAAP Basis)	2,697,100
Income (Loss) Before Capital Contribution	\$ (235,704)

The accompanying notes to financial statements are an integral part of this schedule.

SCHEDULES OF WATER OPERATING EXPENSES

SAINT CHARLES MESA WATER DISTRICT

For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Source of Supply		
Salaries and employee benefits	\$ 57,173	\$ 26,478
Repairs and maintenance	49,662	48,355
Water assessments	174,842	180,286
Supplies and other expenses	1,493	640
Depreciation	<u>164,447</u>	<u>164,111</u>
Total Source of Supply	<u>447,617</u>	<u>419,870</u>
 Water Treatment Expense		
Salaries and employee benefits	173,199	154,507
Repairs and maintenance	56,959	53,444
Chemicals	77,059	85,170
Power purchased for pumping	176,202	185,065
Supplies and other expenses	23,501	14,817
Depreciation	<u>193,511</u>	<u>159,319</u>
Total Water Treatment Expense	<u>700,431</u>	<u>652,322</u>
 Transmission and Distribution Expense		
Salaries and employee benefits	226,854	229,706
Repairs and maintenance	75,866	33,945
Supplies and other expenses	10,650	9,617
Depreciation	<u>286,137</u>	<u>265,516</u>
Total Transmission and Distribution Expense	<u>599,507</u>	<u>538,784</u>
 Total Water Operating Expenses	 <u>\$ 1,747,555</u>	 <u>\$ 1,610,976</u>

The accompanying notes to financial statements are an integral part of this schedule.

SCHEDULE OF ADMINISTRATIVE AND GENERAL EXPENSES

SAINT CHARLES MESA WATER DISTRICT

For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Depreciation	\$ 58,878	\$ 49,391
Directors' fees and meeting expenses	8,900	8,100
Dues and subscriptions	13,115	10,169
Insurance	43,075	45,234
Office supplies and expenses	39,881	39,680
Professional fees	132,784	158,599
Repairs and maintenance	35,367	42,090
Salaries and employee benefits	240,916	233,010
Travel	5,728	4,261
Utilities	<u>18,123</u>	<u>8,880</u>
Total Administrative and General Expenses	<u>\$ 596,767</u>	<u>\$ 599,414</u>

The accompanying notes to financial statements are an integral part of this schedule.

SCHEDULE OF DEBT SERVICE COVERAGE CALCULATION

SAINT CHARLES MESA WATER DISTRICT

For the year ended December 31, 2017

	<u>2017</u>
Gross operating revenue	\$ 2,446,360
Investment income	15,036
Gain on sale of assets	-
System development fees	<u>128,653</u>
Total Revenue (Excluding Capital Grants)	<u>2,590,049</u>
Total operating expenses	2,344,322
Less depreciation expense	<u>(702,973)</u>
Adjusted Operating Expenses	<u>1,641,349</u>
Net Revenue	<u>\$ 948,700</u>
Debt service expenditures:	
Series 2012 A water enterprise bonds	\$ -
Series 2012 B water enterprise bonds	315,000
Government agency bonds	<u>177,362</u>
Total Debt Service Expenditures	<u>492,362</u>
Required ratio	110%
Net Revenue Required	<u>541,598</u>
Excess (Deficit)	<u>\$ 407,102</u>

The accompanying notes to financial statements are an integral part of this schedule.