

**MAGNA WATER DISTRICT**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**MAGNA WATER DISTRICT  
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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Magna Water District  
Magna, Utah

### **Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Magna Water District (the District) as of and for the year ended December 31, 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 statement 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller general of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 entity'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 opinions.

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Magna Water District, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows for the year 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 and certain disclosures relating to pensions as listed in the table of contents as noted in the table of contents 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 basic financial statements that collectively comprise the District's basic financial statements. The schedule of revenues, expenses, and changes in net position and the schedule of revenues, expenses, and changes in net position – compared with budget, listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The schedule of revenues, expenses, and changes in net position and the schedule of revenues, expenses, and changes in net position – compared with budget are the responsibility of management and were derived from and relates 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 schedule of revenues, expenses, and changes in net position and the schedule of revenues, expenses, and changes in net position – compared with budget are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Keddington & Christensen, LLC*

Keddington & Christensen, LLC

Salt Lake City, Utah

July 31, 2017

## MAGNA WATER DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS

As management of Magna Water District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2016.

### Financial Highlights

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$62,422,461 (net position). Of this amount, \$10,002,161 (unrestricted net assets) may be used to meet the District's ongoing obligations to citizens and creditors.

The District's total net position increased by \$1,718,948. This increase is from operating sales totaling approximately \$6.6 million, expenses in the amount of \$8.8 million, and the non-operating revenues at \$3.5 million. The operating sales were up by \$765,000 compared to 2015 partially from a small rate increase and also from higher usage due to record hot weather. The operating expenses increased from 2015 by \$469,102 in 2016. Expenses were maintained due to the District practicing proactive measures for maintenance rather than reactive, which is typically less expensive.

The District's total long-term debt decreased by \$1,722,416 during the current fiscal year, as represented in Note 4 to the financial statements. No new debts were incurred during 2016.

At the end of the current fiscal year, unrestricted net position was \$10,002,161 or 111% of total expenses.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or 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 and expenses and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes earned and not received and unused sick leave for employees).

The District maintains one type of proprietary fund, an enterprise fund. A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

**MAGNA WATER DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the District's budget and actual amounts.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$62,422,461 at the close of the most recent fiscal year.

By far the largest portion of the District's net position (68%) reflects its investment in capital assets (e.g., land, buildings, pipelines, machinery, and equipment); net of any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	2016	2015
Current and other assets	\$ 24,266,281	\$ 26,233,146
Capital assets	54,875,639	53,019,487
Total Assets	79,141,920	79,252,633
Deferred outflow of resources	359,317	389,168
Long-term liabilities outstanding	15,651,869	17,070,721
Other liabilities	1,426,907	1,778,379
Total Liabilities	17,078,776	18,849,100
Deferred inflow of resources	-	89,188
Net investment in capital assets	42,397,560	39,081,024
Restricted	10,022,740	9,220,933
Unrestricted	10,002,161	12,401,556
Total Net Position	\$ 62,422,461	\$ 60,703,513

The restricted portion of the District's net position (\$10,022,740) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$10,002,161) may be used to meet the District's ongoing obligations to citizens and creditors.

There was a increase of \$801,807 in restricted net position reported by the District. This resulted primarily from the collection of impact fees over the amount of the impact fees used for the year. Impact fees were used for qualifying infrastructure.

The District's net position increased by \$1,718,948 during the current fiscal year, as the District's operating and non-operating revenues exceeded expenses for the year. As noted earlier, factors contributing to the increase in net position include investment in capital assets, increase in operating revenues and impact fees collected by new subdivisions, contributed water and sewer lines by contractors.

**MAGNA WATER DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

	2016	2015
Operating revenues	\$ 6,633,465	\$ 5,868,774
Non-operating revenues	3,765,121	5,616,932
Total Revenues	10,398,586	11,485,706
Depreciation and amortization expense	3,012,787	2,929,705
Other operating expenses	5,766,058	5,380,038
Non-operating expenses	266,603	287,192
Total Expenses	9,045,448	8,596,935
Income before capital contributions	1,353,138	2,888,771
Capital contributions	365,810	955,643
Change in Net Position	1,718,948	3,844,414
Total Net Position, Beginning of Year	60,703,513	56,859,099
Total Net Position, End of Year	\$ 62,422,461	\$ 60,703,513

Major sources of revenue for the District consist of charges for services, property taxes, impact fees collected from new subdivisions, and other non-operating revenues. These sources account for approximately 98% of the District's revenues before capital contributions.

Total operating revenues increased by approximately 13% from the prior year, while total expenses also increased by approximately 5.2%, leading to an increase in income before capital contributions in 2016 as compared to the previous year. The capital contributions significantly decreased in 2016 as compared to 2015 due to a decrease of development accepted and closed out. While there is substantial growth within the District occurring, the District does not recognize the developments until the projects are complete and final, therefore, depending on the status of the project the District may show the actual growth 2 – 3 years after which the development is complete. The increase in operating revenue is primarily due to adopted rate increases. The increase in expenses is primarily due to increases in salaries and benefits, depreciation, and various other miscellaneous operational expenses.

**Capital Asset and Debt Administration**

**Capital Assets.** The District's investment in capital assets as of December 31, 2016 amounts to \$54,875,639 (net of accumulated depreciation). This investment in capital assets includes land, structures and improvements, wells and springs, supply and transmission mains for water distribution and sewer collection, construction in progress, plant and sewer systems, and machinery and equipment. The total increase in the District's investment in capital assets for the current fiscal year was approximately 3.5%.

**MAGNA WATER DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

	<u>2016</u>	<u>2015</u>
Land	\$ 1,788,730	\$ 1,788,730
Buildings and improvements	481,984	481,984
Water system	47,427,248	44,043,366
Secondary system	6,151,004	6,030,775
Sewer treatment plant	24,745,267	24,732,543
Sewage collection lines	9,242,906	9,113,359
Machinery and equipment	2,412,598	2,214,086
Water rights and easements	581,377	554,677
Construction in progress	<u>4,522,282</u>	<u>3,646,020</u>
Total Capital Assets	97,353,396	92,605,540
Less accumulated depreciation	<u>(42,477,757)</u>	<u>(39,586,053)</u>
Total Capital Assets, net of depreciation	<u>\$ 54,875,639</u>	<u>\$ 53,019,487</u>

Additional information on the District's capital assets can be found in Note 3 to the financial statements.

**Long-term debt.** At the end of the current fiscal year, the District had total long-term debt outstanding of \$15,651,869. Of this amount, \$5,842,000 is outstanding as revenue bond debt, \$592,127 relates to amounts outstanding on a water resource loan, \$7,586,956 is outstanding as general obligation bond debt, and \$193,231 relates to amounts outstanding on capital leases. Pursuant to a new GASB Ruling, the District also now recognizes a long term debt for OPEB Obligations in the amount of \$1,234,689, and a debt for pension liability in the amount of \$202,866.

	<u>2016</u>	<u>2015</u>
General obligation bonds	\$ 7,586,956	\$ 8,945,953
Revenue bonds	5,842,000	6,110,000
Water resource loan	592,127	639,136
Capital lease	193,231	241,641
Net OPEB obligations	1,234,689	792,609
Net Pension Liability	<u>202,866</u>	<u>341,382</u>
Total	<u>\$ 15,651,869</u>	<u>\$ 17,070,721</u>

Additional information of the District's long-term debt can be found in Note 4 to the financial statements.

**Reserve Funds**

The District held \$4,442,642 in reserve and replacement funds at the end of the current fiscal year, which are mandated by the District's revenue bonds.

**Reserve and Fee Structure**

In 2012, the District began to update its Impact Fee Facilities Plan (the Plan) to evaluate the capital facility and revenue needs of the water, sewer, and secondary systems in order to continue to service the District's growth. The Plan looks at the condition of the District through the projected year of 2030. The District adopted the Impact Fee Facility Plan, an Impact Fee Analysis, and an Impact Fee Enactment in September of 2013. The enactment adopted increased the impact fee for the water, sewer, and secondary water system. The District evaluated the revenue requirements of the District and subsequently adopted a rate increase effective January 1, 2015. The rates are planned to increase in small increments through 2019.



MAGNA WATER DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

**Planned Future Capital Improvements**

The District has many construction plans for their facilities within the next three years. There will be a brine line installed to transfer waste brine from the water treatment facility directly to the Wastewater Treatment Plant effluent, there is a main secondary water line being installed along 3500 S from 8400 W to 8000 W. A future secondary reservoir site is being studied to build another reservoir for the future, but has not committed any funds at this time to start any construction on that reservoir.

A booster station for the culinary and secondary water system is being constructed that will replace the booster station on 8000 W and also will be expanded to provide the secondary water system with a needed booster station.

Several existing culinary and collection pipelines, old and in need of upsizing and repairs are being replaced with new piping and upgraded.

Each year, including the past couple of years the District is maintaining and lining the manholes to restore and increase the life of the manhole which is a preventative maintenance measure.

The District is still in the process of seeking funding to extend the secondary system, in addition to that, the District established a subsidy fee that is charged to each culinary water customer that will be collected and set aside for the secondary water system expansion. In 2014 the subsidy fee began at the rate of \$0.50 per month and will increase to \$3.00 per month by the beginning of 2019.

At the end of 2016, the District held a bond election which passed in November. An amount of \$22,000,000 was authorized for the District to make upgrades and modifications to the wastewater treatment plant in order to comply with new federal mandates. As always, the Board of Trustees and Management Team and Staff are working hard to satisfy our customers and to improve our system. The District follows a master plan that is reviewed each year.

The District, at the end of 2016, had approximately 98% of their new general office complete. They are anticipating a move in date in March of 2017.

**Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Magna Water District, Attention: District Manager, PO Box 303, Magna, Utah 84044.

## **BASIC FINANCIAL STATEMENTS**

**MAGNA WATER DISTRICT  
STATEMENT OF NET POSITION  
DECEMBER 31, 2016**

**Assets**

**Current Assets:**

Cash and cash equivalents	\$ 12,683,738
Receivables:	
Property tax	47,094
Customers, net	676,158
Other	287,815
Prepaid expenses	17,242
Inventories	481,284
	<u>14,193,331</u>

**Total Current Assets**

**Noncurrent Assets:**

Restricted cash and cash equivalents	10,022,742
Capital Assets:	
Capital assets not being depreciated	6,892,389
Capital assets being depreciated, net of accumulated depreciation	47,983,250
	<u>54,875,639</u>
Total Capital Assets, net of accumulated depreciation	
	<u>54,875,639</u>
Water rights and shares held for sale	50,208
	<u>50,208</u>
<b>Total Noncurrent Assets</b>	<u>64,948,589</u>
<b>Total Assets</b>	<u>79,141,920</u>

**Deferred Outflow of Resources**

Assumption changes related to Pensions	359,317
	<u>359,317</u>
<b>Total Deferred Outflow of Resources</b>	<u>\$ 359,317</u>

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

**MAGNA WATER DISTRICT  
STATEMENT OF NET POSITION (Continued)  
DECEMBER 31, 2016**

**Liabilities**

**Current Liabilities:**

Accounts payable	\$ 589,163
Accrued liabilities	287,760
Compensated absences	59,955
Retainage payable	159,609
Deferred revenue	221,863
Accrued Interest payable	108,557
Capital lease obligations - current	62,845
General obligation bonds payable - current	1,061,000
Revenue bonds payable - current	273,000
Water Resource loan payable - current	47,479

<b>Total Current Liabilities</b>	<b>2,871,231</b>
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**Noncurrent Liabilities:**

Net other postemployment benefits obligation	1,234,689
Capital lease obligations	130,386
General obligation bonds payable	6,525,956
Revenue bonds payable	5,569,000
Water Resource loan payable	544,648
Net Pension Liability	202,866

<b>Total Noncurrent Liabilities</b>	<b>14,207,545</b>
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<b>Total Liabilities</b>	<b>17,078,776</b>
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**Deferred Inflow of Resources**

Changes to earnings on pension plan investments	-
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<b>Total Deferred Inflow of Resources</b>	<b>-</b>
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**Net Position**

Net investment in capital assets	42,397,560
Restricted:	
Debt service	726,204
Capital projects	9,296,536
Unrestricted	10,002,161

<b>Total Net Position</b>	<b>\$ 62,422,461</b>
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The accompanying notes are an integral part of these financial statements.

**MAGNA WATER DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2016**

<b>Operating Revenues:</b>	
Water sales	\$ 3,526,952
Sewer service charges	2,762,599
Connection fees and other income	<u>343,914</u>
<b>Total Operating Revenues</b>	<u>6,633,465</u>
<b>Operating Expenses:</b>	
Salaries and benefits	2,928,279
Contractual services	561,714
Materials and supplies	1,130,577
Utilities	643,953
Depreciation and amortization	3,012,787
Lease expense	17,792
Other operating expenses	<u>483,743</u>
<b>Total Operating Expenses</b>	<u>8,778,845</u>
<b>Operating Income (Loss)</b>	<u>(2,145,380)</u>
<b>Nonoperating Revenues (Expenses):</b>	
Property tax revenue	2,492,552
Non-resident fee in lieu of property tax	115,463
Impact fees	930,770
Gain (loss) on sale of assets	22,515
Interest income	203,821
Interest expense	<u>(266,603)</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<u>3,498,518</u>
<b>Income Before Capital Contributions</b>	<u>1,353,138</u>
<b>Capital Contributions</b>	<u>365,810</u>
<b>Change In Net Position</b>	1,718,948
<b>Total Net Position, Beginning of Year - (As Restated)</b>	<u>60,703,513</u>
<b>Total Net Position, End of Year</b>	<u>\$ 62,422,461</u>

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

**MAGNA WATER DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

<b>Cash Flows From Operating Activities</b>	
Receipts from customers and users	\$ 6,704,145
Payments to suppliers	(2,828,248)
Payments to employees	<u>(2,932,651)</u>
<b>Net Cash From Operating Activities</b>	<u>943,246</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
Property tax collected for maintenance and operations	<u>1,248,572</u>
<b>Net Cash From Noncapital Financing Activities</b>	<u>1,248,572</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Receipts from impact fees	930,770
Property tax collected for debt service	1,245,281
Fee in lieu of property tax	115,463
Purchases and construction of capital assets	(4,699,235)
Principal paid on capital debt	(1,657,009)
Payments on capital lease	(48,410)
Interest paid on capital debt	(292,617)
Proceeds from sale of capital assets	<u>19,400</u>
<b>Net Cash From Capital and Related Financing Activities</b>	<u>(4,386,357)</u>
<b>Cash Flows From Investing Activities</b>	
Interest income	203,821
Proceeds from sale of water rights and shares	<u>21,304</u>
<b>Net Cash From Investing Activities</b>	<u>225,125</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(1,969,414)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>24,675,894</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 22,706,480</u></u>

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

**MAGNA WATER DISTRICT  
STATEMENT OF CASH FLOWS (Continued)  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**Reconciliation of Operating Income to Net Cash From Operating Activities:**

Operating Income (Loss)	\$ (2,145,380)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation and amortization	3,012,787
Changes in operating assets and liabilities:	
(Increase) Decrease in Current Assets :	
Receivables	(26,286)
Prepaid expenses	(4,646)
Inventories	9,092
Increase (Decrease) in Current Liabilities:	
Accounts payable	(270,991)
Accrued liabilities	(258,612)
Compensated absences	10,013
Retainage payable	78,223
Deferred revenue	96,966
Net other postemployment benefits obligation	442,080
<b>Net Cash From Operating Activities</b>	<b>\$ 943,246</b>
<b>Noncash Investing, Capital, and Financing Activities</b>	<b>\$ -</b>

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

## MAGNA WATER DISTRICT NOTES TO FINANCIAL STATEMENTS

### NOTE 1 SUMMARY OF ACCOUNTING POLICIES

#### Reporting Entity

Magna Water District, Utah (the District) is a local district governed by an elected three member board. Generally accepted accounting principles require that these financial statements present the government and its component units, entities for the government is considered to be financially accountable. The District was created July 7, 1949 by a resolution of the Board of County Commissioners of Salt Lake County. Salt Lake County has no oversight responsibility over the District and the District is not reported as a component unit of Salt Lake County. The District has no blended or discretely presented component units.

#### Measurement Focus and Basis of Accounting

The District is an enterprise fund, which is 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.

Proprietary funds distinguish *operating* revenues and expenses from *operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for water and sewer services. Operating expenses include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

#### Budgetary Procedures and Budgetary Accounting

Budgetary procedures for the District have been established by the Uniform Fiscal Procedures Act adopted by the State of Utah, which requires the legal adoption of a budget for all funds. Furthermore, in accordance with state law, all appropriations lapse at the end of the budget year; accordingly, no encumbrances are recorded. The basis of accounting to the budget is the same basis as the financial statements.

A formal budget has been adopted and used as a control device during the year ended December 31, 2016.

The District follows the following procedures in its budgetary process:

1. During October or November of each year the District adopts a tentative annual budget for the upcoming calendar year.
2. The tentative budget is a public record and is available for the public inspection.
3. At least ten (10) days prior to the second Thursday in December of each year, the District publishes a notice of public hearing in an issue of a newspaper of general circulation for the purpose of adopting a budget.
4. On the second Thursday in December, the budget is formally adopted after consideration of public comment.

No budget is required to be presented with these financial statements. State law allows the District to amend the proprietary fund budget without public hearing or public notice.



**MAGNA WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 1 SUMMARY OF ACCOUNTING POLICIES (Continued)**

Statement of Cash Flows

The District considers all highly liquid investments with a maturity of three months or less when purchased to be “cash equivalents”. All restricted and non-restricted cash amounts are considered to be cash and cash equivalents for statement of cash flow purposes.

Allowance for Doubtful Accounts

Accounts receivable are stated net of allowance for doubtful accounts of \$2,975. The allowance for doubtful accounts is based on the District’s prior collection experience.

Inventories

The District maintains inventories of pipe, repair parts, hydrants, and water meters. Inventories are stated at the lower of cost or market using the first in/first out (FIFO) method.

Property and Equipment

Property and equipment include land, buildings and improvements, water and sewer systems, water shares, and machinery and equipment. Property and equipment are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects as constructed. Interest incurred during the construction phase of capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. No interest was capitalized during the current year.

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

Water utility plant	20 to 50 years
Sewer utility plant	30 to 50 years
Buildings and structures	30 to 40 years
Equipment	3 to 15 years
Furniture and fixtures	5 to 10 years

Employee Benefits and Compensated Absences

The District provides pension, medical, dental, vision, and life insurance to its employees, most of which are negotiated by contract with the Teamsters Union. Employees are also provided paid holidays and vacation pay, which does not accumulate from year to year, but a maximum of 80 hours can be cashed out at the end of each year. Sick leave accumulates at a rate of one-half day per month, can be carried over from year to year without limitation, and is paid out in full upon termination of employment to the extent that an employee is not terminated for cause.

Property Tax Revenues

Property taxes are assessed and become a lien against the property on January 1<sup>st</sup>. Property taxes become delinquent after November 30<sup>th</sup>. The District’s tax rate for 2016 was 0.002052 which is comprised of 0.000806 for operations and maintenance, and 0.001246 for debt service. The statutory maximum set by the state for operations and maintenance is 0.000885. There is no statutory maximum for the reduction of general obligation bonds.

**MAGNA WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 1 SUMMARY OF ACCOUNTING POLICIES (Continued)**

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the District to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

**NOTE 2 CASH AND CASH EQUIVALENTS**

Following are the components of the District’s cash and investments at December 31, 2016:

Cash and cash equivalents	\$ 12,683,738
Restricted cash and cash equivalents	<u>10,022,742</u>
	<u>\$ 22,706,480</u>

The District follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) (the Act) in handling its depository and temporary investment transactions. This law requires the deposit of District funds in a “qualified depository.” The Act defined a “qualified depository” as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. However, the District does not have a separate deposit and investment policy that addresses the specific types of deposit and investment risk to which the District is exposed.

*Custodial credit risk – deposits* is the risk that in event of a bank failure, the District’s deposits may not be returned to it. At December 31, 2016, the carrying amount of the District’s deposits was \$906,201, and the bank balance was \$1,976,816. Deposits are not collateralized nor are they required to be by state statute. However, the State Commissioner of Financial Institutions monitors financial institutions and establishes limits for deposits of public money at individual financial institutions, and the District follows these recommendations. Of the amounts held in deposit at December 31, 2016, \$1,476,816 was uninsured and uncollateralized.

*Custodial credit risk – investments* is the risk that in the event of the failure of a counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside party. The District’s investment in the Utah Public Treasurer’s Investment Fund (PTIF) has no custodial credit risk.

*Interest Rate Risk* is the risk that changes in the interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District invests in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity may not exceed the period of availability of the funds to be invested.

*Credit Risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District’s policy for limiting the credit risks of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as “first tier” by two nationally recognized statistical rating organizations, one of which must be Moody’s Investment Services or Standard and Poors; banker acceptance obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and

**MAGNA WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 2 CASH AND CASH EQUIVALENTS (Continued)**

variable rate securities rated “A” or higher by two nationally recognized statistical rating organizations as defined by the Act.

*Concentration of Credit Risk* is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The District’s investment in the PTIF has no concentration of credit risk.

The District invests in the Utah Public Treasurer’s Investment Pool (PTIF) which is a voluntary external Local Governmental Investment Pool managed by the Utah State Treasurer’s Office and is audited by the Utah State Auditor. No separate report as an external investment pool has been issued for the PTIF. The PTIF is not registered with the SEC as an investment company and is not rated. The PTIF is authorized and regulated by the Utah Money Management Act, (Utah Code Title 51, Chapter 7). The PTIF invests in high-grade securities which are delivered to the custody of the Utah State Treasurer, assuring a perfected interest in the securities, and therefore, there is very little credit risk except in the most unusual and unforeseen circumstances. The maximum weighted average life of the portfolio does not exceed 90 days. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments. The PTIF operates and reports to participants on an amortized costs basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated to participants on the ratio of the participants’ share to the total funds in the PTIF based on the participants’ average daily balance. The PTIF allocates income and issues statements on a monthly basis. Twice a year, at June 30 and December 31, which are the accounting periods for public entities, the investments are valued at fair value and participants are informed of the fair value valuation factor. Additional information is available from the Utah State Treasurer’s Office.

The District measures its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and
- Level 3: Unobservable inputs

The fair value of PTIF investments is measured using the Level 2 as noted above. Money Market Funds are considered Level 2.

	<u>Carrying Amounts</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Credit Rating (1)</u>
<b>Cash on hand and on deposit:</b>				
Cash on hand	\$ 1,300	\$ 1,300	N/A	N/A
Cash on deposit	<u>1,976,816</u>	<u>1,976,816</u>	N/A	N/A
<b>Total cash on hand and deposit</b>	<u>\$ 1,978,116</u>	<u>\$ 1,978,116</u>		
<b>Investments</b>				
State of Utah Public Treasurer's Investment Fund	\$ 21,770,402	\$ 21,861,751	N/A	N/A
Money Market Funds	<u>28,577</u>	<u>28,577</u>		
<b>Total investments</b>	<u>\$ 21,798,979</u>	<u>\$ 21,890,328</u>		

(1) Ratings are provided where applicable to indicate associated **Credit Risk**. N/A indicates not applicable.

**MAGNA WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 3 CAPITAL ASSETS**

The District depreciates its capital assets using the straight line method. A summary of the capital asset activity for the year ended December 31, 2016 is as follows:

	<b>Balance 12/31/2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 12/31/2016</b>
Capital Assets, not being depreciated:				
Land	\$ 1,788,730	\$ -	\$ -	\$ 1,788,730
Water rights, water shares, and easements	554,677	26,700	-	581,377
Construction in progress	3,646,020	4,125,920	(3,249,658)	4,522,282
<b>Total Capital Assets, not being depreciated</b>	<b>5,989,427</b>	<b>4,152,620</b>	<b>(3,249,658)</b>	<b>6,892,389</b>
Capital Assets, being depreciated:				
Buildings and improvements	481,984	-	-	481,984
Water system	44,043,366	3,403,515	(19,633)	47,427,248
Secondary water system	6,030,775	120,797	(568)	6,151,004
Sewer treatment plant	24,732,543	12,724	-	24,745,267
Sewage collection lines	9,113,359	129,547	-	9,242,906
Machinery and equipment	2,214,086	299,595	(101,083)	2,412,598
<b>Total Capital Assets, being depreciated</b>	<b>86,616,113</b>	<b>3,966,178</b>	<b>(121,284)</b>	<b>90,461,007</b>
Total Capital Assets	92,605,540	8,118,798	(3,370,942)	97,353,396
Less Accumulated Depreciation:				
Buildings and improvements	(430,833)	(16,478)	-	(447,311)
Water system	(19,496,375)	(1,530,725)	19,631	(21,007,469)
Secondary water system	(1,244,555)	(185,315)	369	(1,429,501)
Sewer treatment plant	(11,627,061)	(817,729)	-	(12,444,790)
Sewage collection lines	(5,679,504)	(254,692)	-	(5,934,196)
Machinery and equipment	(1,107,725)	(207,848)	101,083	(1,214,490)
<b>Total Accumulated Depreciation</b>	<b>(39,586,053)</b>	<b>(3,012,787)</b>	<b>121,083</b>	<b>(42,477,757)</b>
<b>Capital Assets, net</b>	<b>\$ 53,019,487</b>	<b>\$ 5,106,011</b>	<b>\$ (3,249,859)</b>	<b>\$ 54,875,639</b>

**MAGNA WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 4 LONG TERM OBLIGATIONS**

The following is a summary of long-term debt obligations of the District for the year ended December 31, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 8,708,000	\$ -	\$ (1,342,000)	\$ 7,366,000	\$ 1,061,000
Premiums	237,953	-	(16,997)	220,956	-
Revenue bonds	6,110,000	-	(268,000)	5,842,000	273,000
Total bonds payable	15,055,953	-	(1,626,997)	13,428,956	1,334,000
Water resource loan	639,136	-	(47,009)	592,127	47,479
Capital leases	241,641	-	(48,410)	193,231	62,845
<b>Total Long-Term Liabilities</b>	<b>\$ 15,936,730</b>	<b>\$ -</b>	<b>\$ (1,722,416)</b>	<b>\$ 14,214,314</b>	<b>\$ 1,444,324</b>

**General Obligation Bonds**

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The original amount of general obligation bonds that were issued in prior years with amounts still outstanding as of December 31, 2016 was \$10,395,000.

General Obligation bonds are direct obligation and pledge the full faith and credit of the District. General obligation bonds currently outstanding are as follow:

Purpose	Issue Date	Original Borrowing	Interest Rates	Final Maturity	Amount
Refunding	2013	8,245,000	2.00 - 3.00%	2029	\$ 6,840,000
Water treatment facilities	2014	2,150,000	.5 to 1.13%	2017	526,000
					<u>\$ 7,366,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31,	Principal	Interest	Total
2017	\$ 1,061,000	\$ 167,284	\$ 1,228,284
2018	550,000	153,463	703,463
2019	555,000	142,413	697,413
2020	570,000	131,163	701,163
2021	580,000	118,938	698,938
2022-2026	3,125,000	365,819	3,490,819
2027-2029	925,000	42,075	967,075
Total	<u>\$ 7,366,000</u>	<u>\$ 1,121,155</u>	<u>\$ 8,487,155</u>

**MAGNA WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 4 LONG TERM OBLIGATIONS (Continued)**

Covenant Requirements

Both the 2013 and the 2014 bond agreements require the District to levy all taxable property, in addition to all other taxes, a direct annual tax sufficient to pay the principal and interest on these bonds.

Revenue Bonds

The District also issues bonds where the District pledges income derived from the acquired or constructed assets to pay debt service. The original amount of revenue bonds issued in prior years with amounts still outstanding as of December 31, 2016 was \$8,100,000. Revenue bonds outstanding at year end are as follows:

Purpose	Issue Date	Original Borrowing	Interest Rates	Final Maturity	Amount
Water facilities	1997	1,000,000	2.93%	2018	\$ 128,000
Water treatment plant	2007	7,100,000	1.50%	2039	<u>5,714,000</u>
					<u>\$ 5,842,000</u>

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending December 31,	Principal	Interest	Total
2017	\$ 273,000	\$ 89,460	\$ 362,460
2018	278,000	84,465	362,465
2019	216,000	79,365	295,365
2020	219,000	76,125	295,125
2021	223,000	72,840	295,840
2022-2026	1,165,000	313,035	1,478,035
2027-2031	1,256,000	222,990	1,478,990
2032-2036	1,351,000	126,000	1,477,000
2037-2039	<u>861,000</u>	<u>25,950</u>	<u>886,950</u>
Total	<u>\$ 5,842,000</u>	<u>\$ 1,090,230</u>	<u>\$ 6,932,230</u>

Reserve requirements

The District is required to establish reserve and replacement accounts to provide for proper service of the 1997 Water Revenue Bonds and replacement of the treatment District as considered necessary. Following is a description of these reserve accounts.

The District is required to make monthly contributions to a Debt Service Reserve Account for the 1997A Water Revenue Bond, to be used to pay principal falling due on the 1997A Bonds at any time when there are not sufficient funds to pay the same. Annual contributions to this Reserve Account are required until the account balance reaches \$67,218. As of December 31, 2016, the required reserve fund balance was fully funded.

In like manner, the District is also required to make an annual contribution to a Replacement Account. The annual contribution is 5% of the annual water operating budget, including debt service and depreciation, and must continue until the 1997A Bond is redeemed. However, the District is allowed to use and has in past years used funds from the replacement account towards various approved water related capital improvements upon providing written notice to the Division of Drinking Water Board. As of December 31, 2016, required reserve fund balances were fully funded.

**MAGNA WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 4 LONG TERM OBLIGATIONS (Continued)**

The District is also required to set aside funds sufficient to cover debt service principal and interest payments for the succeeding year. As of December 31, 2016, this required reserve fund balance was fully funded.

The District is required to establish reserve accounts to provide for proper service of the 2007 Water Revenue Bonds. Following is a description of these reserve accounts.

The District is required to make monthly contributions to a Reserve Account to be used to pay principal falling due on the 2007 Bonds at any time when there are not sufficient funds to pay the same. Required monthly contributions to this Reserve Account are \$4,935 until the account balance reaches \$296,105. As of December 31, 2016 required reserve fund balances were fully funded.

The District is also required to set aside funds sufficient to cover debt service principal and interest payments for the succeeding year. As of December 31, 2016, required reserve fund balances were fully funded.

Required reserve fund balances as of December 31, 2016 are as follows:

	1997 Series		2007 Series	
	Amount Required	Amount on Deposit	Amount Required	Amount on Deposit
Reserve accounts	\$ 67,218	\$ 67,341	\$ 296,105	\$ 296,105
Replacement accounts	3,716,439	3,716,438	-	-
Debt service accounts	66,750	66,805	295,710	295,953
Total reserve requirements	<u>\$ 3,850,407</u>	<u>\$ 3,850,584</u>	<u>\$ 591,815</u>	<u>\$ 592,058</u>

**Water Resource Loan**

The District has entered into an agreement with the State of Utah Division of Water Resources (State) for the construction of a secondary water system. The State agreed to advance the District \$1,175,000 at an annual interest rate of 1.00% to fund construction on the project.

Annual debt service requirements to maturity for the Water Resource loan are as follows:

Year Ending December 31,	Principal	Interest	Total
2017	\$ 47,479	\$ 5,921	\$ 53,400
2018	47,954	5,446	53,400
2019	48,433	4,967	53,400
2020	48,917	4,483	53,400
2021	49,407	3,993	53,400
2022-2026	254,543	12,457	267,000
2027-2028	95,394	1,383	96,778
Total	<u>592,127</u>	<u>\$ 38,650</u>	<u>\$ 630,778</u>

**MAGNA WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 4 LONG TERM OBLIGATIONS (Continued)**

**Capital Leases**

The District has entered into lease agreements as lessee for financing the acquisition of various vehicles. The leases carry interest rate of 2.3% and maturity dates in 2019. During 2015, the District returned the vehicles from all previous capital leases and then subsequently entered into two new capital lease agreements. These new lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Total depreciation expense for the leased vehicles was \$59,203 for the year ended December 31, 2016, and is included in depreciation and amortization on the statement of revenues, expenses, and changes in net position. Interest expense related to the leases was \$5,965 for the year ended December 31, 2016.

The assets acquired through capital leases are as follows:

Asset:		
Machinery and equipment	\$	296,014
Less: Accumulated depreciation		<u>(85,342)</u>
Total	\$	<u><u>210,672</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2016, were as follows:

Year Ending December 31,	Principal
2017	\$ 67,616
2018	67,616
2019	<u>67,616</u>
Total minimum capital lease payments	202,848
Less: amounts representing interest	<u>(9,617)</u>
Present value of net minimum capital lease payments	193,231.57
Less: current portion	<u>(62,845)</u>
Long-term capital lease obligations	<u><u>\$ 130,386</u></u>

**NOTE 5 UNION EMPLOYEES PENSION PLAN**

Most full-time District employees are members of the Western Conference Teamsters Pension Plan (the Plan). The Plan is a cost-sharing multiple-employer defined benefit pension plan. The Plan is administered by the Board of Trustees of the Plan, who have authority to amend the benefits provided by the Plan. The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. As of December 31, 2016 there were 20 employees participating in the Plan. Participants in the Plan normally must be vested over a five-year period prior to receiving benefits.

The District makes pension contributions to the Plan, on behalf of covered employees at the rate of \$4.45 per hour from January 1, 2015 through December 31, 2016. The District will make pension contributions to the Plan, on behalf of covered employees at the rate of \$ 4.60 effective January 1, 2016 and 2017 respectively. The contribution rates of the district are determined pursuant to a collective-bargaining agreement, covering the period June 1, 2015 through May 31, 2019. The Plan has no minimum contribution requirements. If the District withdraws from the Plan, they will



**MAGNA WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 5 UNION EMPLOYEES PENSION PLAN (Continued)**

be liable to the Plan in the amount determined under the Plan’s Agreement & Declaration of Trust section 10 which can be found at <http://www.wctpension.org/forms-documents-webcasts/plan-documents>.

The WCTPP issues a publicly available financial report which can be obtained at <http://www.wetpension.ort/forms-documents-webcasts/plan-documents>. Additional information regarding the Plan may be obtained by accessing the aforementioned audited financial report.

District contributions to the Plan were \$210,274, \$201,929, and \$186,437, for 2016, 2015, and 2014, respectively. The District did not have any amount due the Plan as of December 31, 2016.

**NOTE 6 NON-UNION EMPLOYEES PENSION PLAN**

*Plan Description.* The Magna Water District Defined Benefit Plan (the Plan) is a single-employer defined benefit pension plan. The Plan’s provisions were adopted by a resolution of the Water District’s Board of Trustees, which appoints those who serve as trustees of the Plan. Any amendments to the plan are adopted by a resolution of the Water District’s Board of Trustees.

*Benefits provided.* The Plan covers all eligible employees and provides retirement benefits to plan members and their beneficiaries. Eligible employees are the executive employees who do not qualify to participate in the Union Employees Pension Plan described in the previous note.

Years of service <u>required</u> 5 years	Age eligibility <u>for benefit</u> Must be age 55 or older	Monthly Benefit <u>amount per year</u> \$204.38 per year of credited service
---	---	--

*Participation.* As of December 31, 2016, there were 4 active participants, -0- inactive participants and -0- retirees and beneficiaries.

*Contributions.* Through December 31, 2016 contributions to the Plan were recommended by the annual actuarial report and are approved by the Water District’s Board of Trustees. As of January 1, 2014 a contribution bases on a fixed dollar amount was approved by the Water District’s Board of Trustees. The dollar amount will be reviewed by the Board of Trustees annually as updated actuarial valuation reports become available. The Board of Trustees approved a contribution of \$188,030 for 2015, \$188,080 for 2016 and \$120,419 for 2017 through 2034. This contribution rate is consistent with the Water District’s adopted Plan funding policy which is focused on keeping the Plan’s funding at 100% within 8 years. Post 2034 contributions are assumed equal to the \$55,644 from the 01/01/2017 plan funding valuation. The actual amount contributed by the employer during the 2016 fiscal year was \$188,030.

*Reporting.* The Plan issues a publicly available financial report that includes statements and required supplementary information of that plan. This report may be requested

By Mail: Magna Water District  
District Controller’s Office  
8885 West 3500 South  
Magna, UT 84044

By Email: [leisle@magnawater.com](mailto:leisle@magnawater.com)  
By Phone: 801-250-2118 ext. 107

**MAGNA WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 6 NON-UNION EMPLOYEES PENSION PLAN (Continued)**

*Net Pension Liability.* At December 31, 2016, the District reported a net pension liability of \$202,866. The net pension liability was measured as of December 31, 2016, and was determined by an actuarial valuation as of January 1, 2016 and rolled-forward using generally accepted actuarial procedures.

*Deferred outflows of resources and deferred inflows of resources.* At December 31, 2016, the District reported deferred outflows of resources and deferred inflows related to pensions from the following sources:

	Deferred inflows of resources	Deferred outflows of resources
Differences between expected and actual experience	\$ -	\$ 18,100
Changes of Assumptions		313,988
Net difference between projected and actual earnings		27,229
Contributions made subsequent to measurement date		
Total	\$ -	\$ 359,317

*Pension expense.* For the year ended December 31, 2016, the District recognized pension revenue of \$9,823:

Average remaining service as of the beginning of the year is: 6.75

Year ended December 31	Deferred outflows (inflows of resources)
2017	55,444
2018	55,444
2019	55,444
2020	55,444
Thereafter	137,541

*Actuarial assumptions.* The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	0%	
Salary increases	0%	
Investment rate of return	5%	
Mortality		1994 Group annuity mortality table using blended rate No pre-retirement mortality was used.

*Long-term rate of return.* The long-term rate of return is selected by the Plan's Pension Committee after a review of expected inflation and long-term real returns, reflecting volatility and correlation. Best estimates of arithmetic real rates of return for major asset class included in the Plan's target asset allocations as of December 31, 2016 is summarized in the table below:

**MAGNA WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 6 NON-UNION EMPLOYEES PENSION PLAN (Continued)**

Asset Class	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term Expected Return
Cash & Fixed Income	100%	3.00%	3.00%
Total	100%	inflation Expected arithmetic nominal return	3.00% 2.00% 5.00%

The 5% assumed investment rate of return is comprised of an inflation rate of 2% and a real return of 3%.

*Discount rate.* The discount rate used to measure the total pension liability was 5%. The projection of cash flows used to determine the discount rate assumed contributions rates as recommended by the District's Pension Committee and approved by the Board of Trustees. Based on the assumptions, the pension plan fiduciary net position was projected to be available to make all projected future benefit payments on current active and inactive participants. Therefore, the Long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following sensitivity analysis assumes rate volatility of plus and minus one percent of the discount rate of 5%.

	1% Decrease 4%	1% Discount Rate 5%	1% increase 6%
Total pension liability	\$ 1,177,407	\$ 1,017,441	\$ 887,556
Fiduciary net position	\$ 814,575	\$ 814,575	\$ 814,575
Net pension liability	\$ 362,832	\$ 202,866	\$ 72,981

*Schedule of funding progress.* The following tables show the pension plan's funding progress over the past 8 years.

Year ended	Actuarial determined contribution	Actual employer contribution	% of actual to actuarial contribution	Balance net pension obligation/ prepaid
12/31/2016	\$ 92,570	\$ 188,030	203.12%	\$ 95,460
12/31/2015	\$ 101,980	\$ 257,245	252.25%	\$ 155,265
12/31/2014	\$ 79,336	\$ 119,526	150.66%	\$ 40,190
12/31/2013	\$ 87,908	\$ 91,092	103.62%	\$ 3,184
12/31/2012	\$ 93,980	\$ 18,778	19.98%	\$ (75,202)
12/31/2011	\$ 93,980	\$ 91,092	96.93%	\$ (2,888)
12/31/2010	\$ 92,814	\$ 115,793	124.76%	\$ 22,979
12/31/2009	\$ 66,274	\$ 91,092	137.45%	\$ 24,818

**MAGNA WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 6 NON-UNION EMPLOYEES PENSION PLAN (Continued)**

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability	Unfunded AAL (UAAL)	Funded ration	Approximate covered payroll	UAAL as a % of covered payroll
12/31/2016	\$ 814,575	\$ 1,017,441	\$ 202,866	80.06%	\$ 404,799	50.12%
12/31/2015	\$ 613,688	\$ 955,070	\$ 341,382	64.26%	\$ 407,340	83.81%
12/31/2014	\$ 416,028	\$ 462,164	\$ 46,136	90.02%	\$ 355,160	12.99%
12/31/2013	\$ 455,985	\$ 431,710	\$ (24,275)	105.62%	\$ 368,051	-6.60%
12/31/2012	\$ 356,836	\$ 222,149	\$ (134,687)	160.63%	\$ 354,104	-38.04%
12/31/2011	\$ 309,296	\$ 222,149	\$ (87,147)	139.23%	\$ 353,342	-24.66%
12/31/2010	\$ 213,768	\$ 189,863	\$ (23,905)	112.59%	\$ 455,185	-5.25%
12/31/2009	\$ 91,092	\$ 66,274	\$ (24,818)	137.45%	\$ 232,081	-10.69%

**NOTE 7 UNION EMPLOYEES OTHER POSTEMPLOYMENT BENEFITS**

In accordance with the Union contract, the District contributes at the rate of \$111.66 per active employee to the Utah-Idaho Teamsters Security Fund, which in turn provides post-retirement healthcare benefits to all eligible retired employees. Contributions to the fund amounted to \$26,798 for 2016.

**NOTE 8 NON-UNION EMPLOYEES OTHER POSTEMPLOYMENT BENEFITS**

*Plan Description.* The District administers a single-employer defined benefit healthcare plan (the “OPEB Plan”). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the District’s group health insurance plan, which covers both active and retired members. It also provides life and long-term care insurance for eligible retirees through age 75. Benefit provisions are established by the Board of Trustees and are defined in the District’s Administrative Rules and Regulations. The OPEB Plan does not issue a publicly available financial report.

*Funding Policy.* The District contributes 100 percent of the cost of current-year premiums for eligible retired plan members and their spouses. For fiscal year 2016, the District contributed \$36,270 to the OPEB Plan. The OPEB Plan is financed on a pay-as-you-go basis. It is the current policy of the District to set aside funds in a separate interest bearing account, which is held by the District, in order to help meet, at least partially, the anticipated obligations of the OPEB Plan. As of December 31, 2016, the District had set aside \$1,234,689 for the purpose of funding current and future OPEB obligations. However, as these funds are not held in trust and are unrestricted assets of the District, as no external restriction has been placed upon them, they are not considered assets of the OPEB Plan.

*Annual OPEB Cost and Net OPEB Obligation.* The District’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation to the OPEB Plan:

**MAGNA WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 8 NON-UNION EMPLOYEES OTHER POSTEMPLOYMENT BENEFITS (Continued)**

Annual required contribution	\$ 505,446
Interest on net pension obligation	11,890
Adjustment to annual required contribution	<u>(38,986)</u>
Annual pension cost	478,350
Contributions made	<u>(36,270)</u>
Increase (decrease) in net pension obligation	442,080
Net pension obligation - beginning of year	<u>792,609</u>
Net pension obligation - end of year	<u>\$ 1,234,689</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2015 and the two preceding years were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2014	\$ 175,112	11.81%	\$ 635,047
12/31/2015	181,444	13.16%	792,609
12/31/2016	478,349	7.58%	1,234,688

*Funded Status and Funding Progress.* As of December 31, 2016, the actuarial accrued liability for benefits was \$4,161,504, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$582,520, and the ratio of the unfunded actuarial liability to the covered payroll was 714 percent. Because the OPEB Plan is 100% Unfunded, no schedule of Funding progress has been presented in the required supplementary information.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

*Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**MAGNA WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 8 NON-UNION EMPLOYEES OTHER POSTEMPLOYMENT BENEFITS (Continued)**

The following simplifying assumptions were made:

*Retirement age for active employees* – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at ages ranging from 59 to 69, or at the first subsequent year in which the member would qualify for benefits.

*Marital Status* – Marital status of members at the calculation date was assumed to continue throughout retirement.

*Mortality* – Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2010 United States Life Tables for Males and Females were used.

*Turnover* – Non-group-specific age-based turnover data from GASB Statement 45 was used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

*Healthcare cost trend rate* – The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 6.0 percent was used for years 2016 and after.

*Health insurance premiums* - 2015 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid. *Inflation rate* – The expected long-term inflation assumption of 1.5 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2014 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* for an intermediate growth scenario.

*Payroll growth rate* – The expected long-term payroll growth rate was assumed to equal the rate of inflation. Based on the historical and expected returns of the District's short-term investment portfolio, a discount rate of 1.5 percent was used. In addition, a simplified version of the projected unit cost method was used. The unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis. The remaining amortization period as December 31, 2016, was twenty years.

**NOTE 9 DEFINED CONTRIBUTION PLAN**

Eligible (non-union) employees of the District may participate in the Magna Water District 401(k) Plan. The 401(k) Plan permits additional matching contributions up to three percent of eligible employee compensation. The District contributed \$16,455, \$13,199 and \$10,790 for the years ended December 31, 2016, 2015, and 2014, respectively.

**NOTE 10 RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omission; and natural disasters for which the District purchased insurance through commercial policies.

**MAGNA WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 11 COMMITMENTS**

The District has entered into an agreement with the Jordan Valley Water Conservancy District to purchase a minimum of 800 acre feet of water annually. During the year ended December 31, 2016 the District purchased 822.90 acre feet, at a cost of \$315,243.

The District has construction commitments outstanding at year end for projects which have been awarded and construction or design has begun, but which have not been paid for at year end. Total unpaid construction commitments at December 31, 2016 were approximately \$469,000 on an original contract totaling approximately \$4,986,000.

**NOTE 12 CONTINGENCIES**

Contamination of the groundwater aquifer by perchlorate, a potentially hazardous substance leaked into the groundwater by private industry and the federal government, has been studied and closely monitored by the District and the private industrial firm currently involved. The private firm has been paying a portion of the District's costs of these efforts. The District and the firm entered into an agreement in December 2005 concerning the removal of perchlorate from water produced by three of the District's wells. Under the agreement, the firm agreed to pay for a substantial portion of the new treatment facility constructed by the District and for a portion of the operation and maintenance of that facility. The District issued bonds to finance this treatment facility and during 2016 the District received \$-0- (fixed service cost) from the private industrial firm in connection with this agreement, which is reflected as other non-operating income on the statement of revenues, expenses, and changes in net position. The District also accrued as receivable approximately \$156,000 in variable service cost from the private industrial firm in connection with its share of operations and maintenance costs of the facility, which has been recorded as an offset to various expense accounts of the District on the statement of revenues, expenses, and changes in net position. The agreement has a provision for a partial refund to the firm if future perchlorate standards merit such a refund. There is also a limited waiver of liability for the firm, subject to the terms and conditions of the agreement.

**REQUIRED SUPPLEMENTAL INFORMATION**



**MAGNA WATER DISTRICT  
REQUIRED SUPPLEMENTAL INFORMATION  
Years ended December 31, 2016 and two preceding years**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS - 10 YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability			
Service Cost	\$ 32,718	\$ 34,243	\$ 75,558
Interest on total pension liability	49,389	24,820	33,039
Effect on economic/demographic (gains) or losses	(19,736)	65,248	-
Effect of assumption changes and inputs	-	368,595	-
Benefit payments	-	-	(231,637)
Net change in total pension liability	<u>\$ 62,371</u>	<u>\$ 492,906</u>	<u>\$ (123,040)</u>
Total pension liability, beginning	\$ 955,070	\$ 462,164	\$ 585,204
Total pension liability, ending (a)	\$ 1,017,441	\$ 955,070	\$ 462,164
<b>FIDUCIARY NET POSITION</b>			
Employer Contributions	\$ 188,030	\$ 257,245	\$ 119,526
Investment income net of investment expenses	12,857	9,629	2,940
Benefit payments	-	-	(231,637)
Administrative expenses	-	-	-
Net change in plan fiduciary net position	<u>\$ 200,887</u>	<u>\$ 266,874</u>	<u>\$ (109,171)</u>
Fiduciary net position, beginning	\$ 613,688	\$ 346,814	\$ 455,985
Fiduciary net position, ending (b)	814,575	613,688	346,814
Net pension liability, ending (a) - (b)	\$ 202,866	\$ 341,382	\$ 115,350
Fiduciary net position as a % of total pension liability	80.06%	64.26%	75.04%
Covered payroll	\$ 404,799	\$ 407,340	\$ 355,160
Net pension liability as a % of covered payroll	50.12%	83.81%	32.48%

This schedule is intended to present 10 years of information. Subsequent years will be added as the information becomes available.

**MAGNA WATER DISTRICT  
REQUIRED SUPPLEMENTAL INFORMATION (Continued)  
Years ended December 31, 2016 and 2014**

Year	Actuarial determined contribution	Contributions in relation to Actuarial determined contribution	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of Covered-employee payroll
2016	\$ 92,570	\$ 188,030	\$ (95,460)	\$ 404,799	46.45%
2015	\$ 101,980	\$ 257,245	\$ (155,265)	\$ 407,340	63.15%
2014	\$ 79,336	\$ 119,526	\$ (40,190)	\$ 355,160	33.65%
2013	\$ 87,908	\$ 91,092	\$ (3,184)	\$ 368,051	24.75%
2012	\$ 93,980	\$ 18,778	\$ 75,202	\$ 354,104	5.30%
2011	\$ 93,980	\$ 91,092	\$ 2,888	\$ 353,342	25.78%
2010	\$ 92,814	\$ 115,793	\$ (22,979)	\$ 455,185	25.44%
2009	\$ 66,274	\$ 91,092	\$ (24,818)	\$ 232,081	39.25%

**NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION**

**Note 1 - Valuation Date**

The valuation date is January 1, 2016. This is the date as of which the actuarial valuation was performed. The Measurement Date is December 31, 2016. This is the date as of which the net pension liability is determined. The Reporting Date is December 31, 2016. This is the employer's fiscal year ending date.

**Note 2 - Methods and Assumptions used to determine contribution rates**

Actuarial cost method	Entry Age Normal
Asset Valuation method	Current Asset Values
Discount Rate	5.00%
Expected long-term rate of return on plan assets	5.00%
Projected salary increases incorporated into the calculation	0
Projection inflation rate increases	0
Projected rate of post-retirement benefit cost increases	0
Mortality Tables	1994 GAM Blended

**OTHER SUPPLEMENTAL INFORMATION**

**MAGNA WATER DISTRICT  
SCHEDULE OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
For The Year Ended December 31, 2016**

**Operating Revenues:**

Charges for services:	
Water sales - culinary	\$ 3,308,271
Water sales - secondary	218,681
Sewer service charges	2,762,599
Connection fees and other income	<u>343,914</u>
<b>Total Operating Revenues</b>	<u><b>6,633,465</b></u>

**Operating Expenses:**

Salaries and benefits:	
Salaries and wages - plant	999,441
Salaries and wages - office	666,492
Trustees' salaries	15,000
Payroll taxes and fringe benefits	<u>1,247,346</u>
Total salaries and benefits	<u><b>2,928,279</b></u>
Contractual services:	
Legal	88,624
Lobbyist fees	15,000
Accounting	22,000
Engineering	309,408
Data processing services	44,012
Janitorial	4,500
Lab and testing	<u>85,188</u>
Total contractual services	<u><b>568,732</b></u>
Materials and supplies:	
Repairs, maintenance, and supplies	741,072
Office supplies and postage	69,911
Water purchased	<u>315,367</u>
Total materials and supplies	<u><b>1,126,350</b></u>
Utilities:	
Electricity and fuel for water production and sewer processing	587,503
Office and general, electricity and fuel	13,709
Telephone and paging	<u>42,941</u>
Total materials and supplies	<u><b>644,153</b></u>
Depreciation and amortization	<u><b>3,012,787</b></u>

**MAGNA WATER DISTRICT  
SCHEDULE OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION (Continued)  
For The Year Ended December 31, 2016**

Lease expense	10,774
Other operating expenses:	
Transportation	50,894
Bad debts	12,875
Insurance	83,338
Training	47,584
Miscellaneous	293,079
Total other operating expenses	487,770
<b>Operating Income (Loss)</b>	<b>(2,145,380)</b>
<b>Nonoperating Revenues (Expenses):</b>	
Property tax revenue	2,492,552
Non-resident fee in lieu of property tax	115,463
Impact fees	930,770
Gain (loss) on sale of assets	22,515
Other non-operating income	-
Interest income	203,821
Interest expense	(266,603)
<b>Total Nonoperating Expenses</b>	<b>3,498,518</b>
<b>Income Before Capital Contributions</b>	1,353,138
<b>Capital Contributions</b>	<b>365,810</b>
<b>Change In Net Position</b>	<b>\$ 1,718,948</b>

**MAGNA WATER DISTRICT  
SCHEDULE OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION – COMPARED TO BUDGET  
For The Year Ended December 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Operating Revenues:</b>				
Water sales	\$ 3,594,000	\$ 3,594,000	\$ 3,526,952	\$ (67,048)
Sewer service charges	2,500,000	2,500,000	2,762,599	262,599
Connection fees and other income	361,400	361,400	343,914	(17,486)
<b>Total Operating Revenues</b>	<u>6,455,400</u>	<u>6,455,400</u>	<u>6,633,465</u>	<u>178,065</u>
<b>Operating Expenses:</b>				
Salaries and benefits	3,032,500	3,032,500	2,928,279	104,221
Contractual services	587,200	587,200	561,714	25,486
Materials and supplies	1,367,200	1,367,200	1,130,577	236,623
Utilities	697,900	697,900	643,953	53,947
Depreciation and amortization	3,317,000	3,317,000	3,012,787	304,213
Lease expense	17,000	17,000	17,792	(792)
Other operating expenses	397,850	397,850	483,743	(85,893)
<b>Total Operating Expenses</b>	<u>9,416,650</u>	<u>9,416,650</u>	<u>8,778,845</u>	<u>637,805</u>
<b>Operating Income (Loss)</b>	<u>(2,961,250)</u>	<u>(2,961,250)</u>	<u>(2,145,380)</u>	<u>(459,740)</u>
<b>Nonoperating Revenues:</b>				
Property tax revenue	2,040,008	2,050,987	2,492,552	441,565
Non-resident fee in lieu of property tax	53,000	53,000	115,463	62,463
Impact fees	610,000	610,000	930,770	320,770
Gain (loss) on sale of assets	33,000	33,000	22,515	(10,485)
Other non-operating income	335,000	335,000	-	(335,000)
Interest income	115,000	115,000	203,821	88,821
<b>Total Nonoperating Revenues</b>	<u>3,186,008</u>	<u>3,196,987</u>	<u>3,765,121</u>	<u>568,134</u>
<b>Nonoperating Expenses:</b>				
Interest expense	265,800	265,800	266,603	(803)
<b>Total Nonoperating Expenses</b>	<u>265,800</u>	<u>265,800</u>	<u>266,603</u>	<u>(803)</u>
<b>Income Before Capital Contributions</b>	(41,042)	(30,063)	1,353,138	109,197
<b>Capital Contributions</b>	<u>720,000</u>	<u>720,000</u>	<u>365,810</u>	<u>(354,190)</u>
<b>Change In Net Position</b>	<u>\$ 678,958</u>	<u>\$ 689,937</u>	<u>\$ 1,718,948</u>	<u>\$ (244,993)</u>