

MAGNA WATER DISTRICT
FINANCIAL STATEMENTS
DECEMBER 31, 2017

**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 Magna Water District (the District) as of and for the year ended December 31, 2017, 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 Magna Water District, as of December 31, 2017, and the changes in financial position, and 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 June 15, 2018 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
June 15, 2018

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, 2017.

Financial Highlights

The assets and deferred outflows of the District exceeded its liabilities at the close of the most recent fiscal year by \$64,470,194 (net position). Of this amount, \$10,772,557 (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 \$2,047,733. This increase is from operating sales increasing almost 8.3% from 2016, totaling approximately \$7.2 million, and the operating expenses increasing only by 1% from 2016, totaling approximately \$8.9 million. The non-operating revenues, totaling approximately \$3.8 million, remained fairly constant from 2016. The operating sales were up by \$552,499 compared to 2016 partially from a small rate increase in the base rate and the 4-tiered rate structure in water and a small increase in the sewer base rate. The District has also experienced additional growth in 2017 compared to 2016 causing additional water and sewer being used. The operating expenses increased from 2016 by \$161,944 in 2017. Expenses were maintained due to the District practicing proactive measures for maintenance rather than reactive, which is typically less expensive. The Management and Staff of the District are mindful of maintaining costs and make every effort to control costs when possible.

The District's total long-term debt increased by \$13,496,925 during the current fiscal year, as represented in Note 4 to the financial statements. A new general obligation bond was issued in 2017 for water, wastewater and secondary water infrastructure needs of the system.

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 \$64,470,194 at the close of the most recent fiscal year.

By far the largest portion of the District's net position (48%) 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.

| | 2017 | 2016 |
|-----------------------------------|---------------|---------------|
| Current and other assets | \$ 38,214,019 | \$ 24,266,281 |
| Capital assets | 57,133,045 | 54,875,639 |
| Total Assets | 95,347,064 | 79,141,920 |
| Deferred outflow of resources | 533,464 | 359,317 |
| Long-term liabilities outstanding | 29,482,443 | 15,651,869 |
| Other liabilities | 1,927,891 | 1,426,907 |
| Total Liabilities | 31,410,334 | 17,078,776 |
| Net investment in capital assets | 43,975,299 | 42,397,560 |
| Restricted | 9,722,338 | 10,022,740 |
| Unrestricted | 10,772,557 | 10,002,161 |
| Total Net Position | \$ 64,470,194 | \$ 62,422,461 |

The restricted portion of the District's net position (\$9,722,338) represents resources that are subject to external restrictions on how they may be used. There is an unrestricted fund balance amount of \$10,772,557.

There was a decrease of \$300,402 in restricted net position reported by the District. This resulted primarily from the District having used restricted impact fees for qualified infrastructure. The amount of impact fees that were used is \$293,316 of sewer funds and \$363,420 of water funds. A total spent of \$656,736. The net effect of collecting restricted impact fees and spending them in 2017 explains the decrease in the restricted net position. With having collected \$413,755 of restricted impact fees and including earned interest on other restricted reserves, the net was a decrease in restricted net position.

The District's net position increased by \$2,047,733 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)**

| | <u>2017</u> | <u>2016</u> |
|---------------------------------------|----------------------|----------------------|
| Operating revenues | \$ 7,185,964 | \$ 6,633,465 |
| Non-operating revenues | <u>3,772,230</u> | <u>3,765,121</u> |
| Total Revenues | <u>10,958,194</u> | <u>10,398,586</u> |
| Depreciation and amortization expense | 3,055,593 | 3,012,787 |
| Other operating expenses | 5,885,196 | 5,766,058 |
| Non-operating expenses | <u>466,812</u> | <u>266,603</u> |
| Total Expenses | <u>9,407,601</u> | <u>9,045,448</u> |
| Income before capital contributions | 1,550,593 | 1,353,138 |
| Capital contributions | <u>497,140</u> | <u>365,810</u> |
| Change in Net Position | 2,047,733 | 1,718,948 |
| Total Net Position, Beginning of Year | <u>62,422,461</u> | <u>60,703,513</u> |
| Total Net Position, End of Year | <u>\$ 64,470,194</u> | <u>\$ 62,422,461</u> |

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 96% of the District's revenues before capital contributions.

Total operating revenues increased by approximately 8.3% from the prior year, while total expenses also increased by approximately 4%, leading to an increase in income before capital contributions in 2017 as compared to the previous year. The capital contributions slightly increased in 2017 as compared to 2016 due to an increase 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, 2017 amounts to \$57,133,045 (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 4.1%.

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

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| Land | \$ 1,868,730 | \$ 1,788,730 |
| Buildings and improvements | 4,528,845 | 481,984 |
| Water system | 49,877,360 | 47,427,248 |
| Secondary system | 6,251,693 | 6,151,004 |
| Sewer treatment plant | 24,745,267 | 24,745,267 |
| Sewage collection lines | 9,451,249 | 9,242,906 |
| Machinery and equipment | 2,624,295 | 2,412,598 |
| Water rights and easements | 608,645 | 581,377 |
| Construction in progress | <u>2,543,349</u> | <u>4,522,282</u> |
| Total Capital Assets | 102,499,433 | 97,353,396 |
| Less accumulated depreciation | <u>(45,366,388)</u> | <u>(42,477,757)</u> |
| Total Capital Assets, net of depreciation | <u>\$ 57,133,045</u> | <u>\$ 54,875,639</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 \$29,482,443. Of this amount, \$5,569,000 is outstanding as revenue bond debt, \$544,648 relates to amounts outstanding on a water resource loan, \$21,338,866 is outstanding as general obligation bond debt, and \$258,725 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 \$1,385,434, and a debt for pension liability in the amount of \$385,770.

| | <u>2017</u> | <u>2016</u> |
|--------------------------|----------------------|----------------------|
| General obligation bonds | \$ 21,338,866 | \$ 7,586,956 |
| Revenue bonds | 5,569,000 | 5,842,000 |
| Water resource loan | 544,648 | 592,127 |
| Capital lease | 258,725 | 193,231 |
| Net OPEB obligations | 1,385,434 | 1,234,689 |
| Net Pension Liability | <u>385,770</u> | <u>202,866</u> |
| Total | <u>\$ 29,482,443</u> | <u>\$ 15,651,869</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 \$4,769,044 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, 2014. 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. An upgrade to the booster pump station on 8000 West is being upgraded for the culinary water system and to allow extra capacity to add a secondary water pump station in the same facility when needed in the future. 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.

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. The bond was also to fund water and secondary water upgrades and new infrastructure needed in the District. The District issued a part of the authorized amount of the bond for \$13,000,000. The District had huge success in obtaining a higher bond rating from the rating agencies. The District moved from a bondable rating of AA- to a solid AA. In doing so, it assisted the District in receiving a very low interest rate on the bond proceeds. Due to the timing of the bond, the taxpayers of the District will not experience much of an increase on their property taxes. The District/taxpayers have paid off a previous obligation bond. The new bond will replace the bond that was just paid off.

As always, the Board of Trustees, the Management Team, and Staff do their best to satisfy our customers and to improve our system. The District follows a master plan that is reviewed each year. The District is in the process of requesting qualifications from engineering firms to re-evaluate the master plan. In 2018 the District has awarded Bowen Collins Associates, LLC to perform this task for the District. The District in 2018, has committed \$99,307 for the first phase of the Master Plan Study.

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, 2017**

Assets

Current Assets:

| | |
|-----------------------------|-------------------|
| Cash and cash equivalents | \$ 12,386,187 |
| Receivables: | |
| Property tax | 36,770 |
| Customers, net | 800,087 |
| Other | 294,779 |
| Prepaid expenses | 14,327 |
| Inventories | <u>299,769</u> |
| Total Current Assets | <u>13,831,919</u> |

Noncurrent Assets:

| | |
|---|--------------------------|
| Restricted cash and cash equivalents | 24,333,491 |
| Capital Assets: | |
| Capital assets not being depreciated | 5,020,724 |
| Capital assets being depreciated, net of accumulated depreciation | <u>52,112,321</u> |
| Total Capital Assets, net of accumulated depreciation | <u>57,133,045</u> |
| Water rights and shares held for sale | <u>48,609</u> |
| Total Noncurrent Assets | <u>81,515,145</u> |
| Total Assets | <u><u>95,347,064</u></u> |

Deferred Outflow of Resources

| | |
|--|--------------------------|
| Assumption changes related to Pensions | <u>533,464</u> |
| Total Deferred Outflow of Resources | <u><u>\$ 533,464</u></u> |

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

**MAGNA WATER DISTRICT
STATEMENT OF NET POSITION (Continued)
DECEMBER 31, 2017**

Liabilities

Current Liabilities:

| | |
|--|--------------|
| Accounts payable | \$ 1,000,873 |
| Accrued liabilities | 416,092 |
| Compensated absences | 72,936 |
| Retainage payable | 57,660 |
| Deferred revenue | 238,713 |
| Accrued Interest payable | 141,617 |
| Capital lease obligations - current | 48,179 |
| General obligation bonds payable - current | 1,030,000 |
| Revenue bonds payable - current | 278,000 |
| Water Resource loan payable - current | 47,954 |

| | |
|----------------------------------|------------------|
| Total Current Liabilities | 3,332,024 |
|----------------------------------|------------------|

Noncurrent Liabilities:

| | |
|--|------------|
| Net other postemployment benefits obligation | 1,385,434 |
| Capital lease obligations | 210,546 |
| General obligation bonds payable | 20,308,866 |
| Revenue bonds payable | 5,291,000 |
| Water Resource loan payable | 496,694 |
| Net Pension Liability | 385,770 |

| | |
|-------------------------------------|-------------------|
| Total Noncurrent Liabilities | 28,078,310 |
|-------------------------------------|-------------------|

| | |
|--------------------------|-------------------|
| Total Liabilities | 31,410,334 |
|--------------------------|-------------------|

Net Position

| | |
|----------------------------------|------------|
| Net investment in capital assets | 43,975,299 |
| Restricted: | |
| Debt service | 727,230 |
| Capital projects | 8,995,108 |
| Unrestricted | 10,772,557 |

| | |
|---------------------------|----------------------|
| Total Net Position | \$ 64,470,194 |
|---------------------------|----------------------|

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, 2017**

| | |
|---|----------------------|
| Operating Revenues: | |
| Water sales | \$ 3,768,512 |
| Sewer service charges | 3,051,351 |
| Connection fees and other income | <u>366,101</u> |
| Total Operating Revenues | <u>7,185,964</u> |
| Operating Expenses: | |
| Salaries and benefits | 2,992,533 |
| Contractual services | 318,774 |
| Materials and supplies | 1,303,597 |
| Utilities | 741,856 |
| Depreciation and amortization | 3,055,593 |
| Lease expense | 17,426 |
| Other operating expenses | <u>511,010</u> |
| Total Operating Expenses | <u>8,940,789</u> |
| Operating Income (Loss) | <u>(1,754,825)</u> |
| Nonoperating Revenues (Expenses): | |
| Property tax revenue | 2,857,052 |
| Non-resident fee in lieu of property tax | 53,707 |
| Impact fees | 378,975 |
| Gain (loss) on sale of assets | 22 |
| Other non-operating income | 206,701 |
| Interest income | 275,773 |
| Interest expense | (362,899) |
| Debt issuance costs | <u>(103,913)</u> |
| Total Nonoperating Revenues (Expenses) | <u>3,305,418</u> |
| Income Before Capital Contributions | <u>1,550,593</u> |
| Capital Contributions | <u>497,140</u> |
| Change In Net Position | 2,047,733 |
| Total Net Position, Beginning of Year | <u>62,422,461</u> |
| Total Net Position, End of Year | <u>\$ 64,470,194</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, 2017**

| | |
|---|----------------------|
| Cash Flows From Operating Activities | |
| Receipts from customers and users | \$ 7,071,921 |
| Payments to suppliers | (2,278,053) |
| Payments to employees | <u>(2,820,894)</u> |
| Net Cash From Operating Activities | <u>1,972,974</u> |
| Cash Flows From Noncapital Financing Activities | |
| Property tax collected for maintenance and operations | <u>1,197,626</u> |
| Net Cash From Noncapital Financing Activities | <u>1,197,626</u> |
| Cash Flows From Capital and Related Financing Activities | |
| Receipts from impact fees | 378,975 |
| Property tax collected for debt service | 1,669,750 |
| Fee in lieu of property tax | 53,707 |
| Proceeds from capital lease | 313,605 |
| Proceeds from capital debt | 14,844,397 |
| Purchases and construction of capital assets | (5,091,866) |
| Principal paid on capital debt | (1,381,479) |
| Payments on capital lease | (248,111) |
| Interest paid on capital debt | (362,364) |
| Receipts of non-operating revenues | 206,701 |
| Proceeds from sale of capital assets | 279,486 |
| Payment of debt issuance costs | <u>(103,913)</u> |
| Net Cash From Capital and Related Financing Activities | <u>10,558,888</u> |
| Cash Flows From Investing Activities | |
| Interest income | 275,773 |
| Proceeds from sale of water rights and shares | <u>7,937</u> |
| Net Cash From Investing Activities | <u>283,710</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 14,013,198 |
| Cash and Cash Equivalents, Beginning of Year | <u>22,706,480</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 36,719,678</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, 2017**

Reconciliation of Operating Income to Net Cash From Operating Activities:

| | |
|---|----------------------------|
| Operating Income (Loss) | \$ (1,754,825) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | |
| Depreciation and amortization | 3,055,593 |
| Changes in operating assets and liabilities: | |
| (Increase) Decrease in Current Assets : | |
| Receivables | (130,893) |
| Prepaid expenses | 2,915 |
| Inventories | 181,515 |
| Increase (Decrease) in Current Liabilities: | |
| Accounts payable | 411,710 |
| Accrued liabilities | 128,332 |
| Compensated absences | 12,981 |
| Retainage payable | (101,949) |
| Deferred revenue | 16,850 |
| Net other postemployment benefits obligation | 150,745 |
| Net Cash From Operating Activities | <u><u>\$ 1,972,974</u></u> |
| Noncash Investing, Capital, and Financing Activities | <u><u>\$ -</u></u> |

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, 2017.

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 40 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 1st. Property taxes become delinquent after November 30th. The District’s tax rate for 2017 was 0.002288 which is comprised of 0.000767 for operations and maintenance, and 0.001521 for debt service. The statutory maximum set by the state for operations and maintenance is 0.000800. 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, 2017:

| | |
|--------------------------------------|----------------------|
| Cash and cash equivalents | \$ 12,386,187 |
| Restricted cash and cash equivalents | <u>24,333,491</u> |
| | <u>\$ 36,719,678</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, 2017, the carrying amount of the District’s deposits was \$15,983,199, and the bank balance was \$15,805,702. 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, 2017, \$15,305,702 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> |
|---|-----------------------------|-----------------------|--|------------------------------|
| Cash on hand and on deposit: | | | | |
| Cash on hand | \$ 1,300 | \$ 1,300 | N/A | N/A |
| Cash on deposit | <u>15,805,702</u> | <u>15,805,702</u> | N/A | N/A |
| Total cash on hand and deposit | <u>\$ 15,807,002</u> | <u>\$ 15,807,002</u> | | |
| Investments | | | | |
| State of Utah Public Treasurer's Investment Fund | \$ 20,706,230 | \$ 20,792,546 | N/A | N/A |
| Money Market Funds | <u>156,054</u> | <u>156,054</u> | | |
| Total investments | <u>\$ 20,862,284</u> | <u>\$ 20,948,600</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, 2017 is as follows:

| | Balance 12/31/2016 | Additions | Deletions | Balance 12/31/2017 |
|--|-------------------------------|---------------------|-----------------------|-------------------------------|
| Capital Assets, not being depreciated: | | | | |
| Land | \$ 1,788,730 | \$ 80,000 | \$ - | \$ 1,868,730 |
| Water rights, water shares, and easements | 581,377 | 27,268 | - | 608,645 |
| Construction in progress | 4,522,282 | 4,307,538 | (6,286,471) | 2,543,349 |
| Total Capital Assets, not being depreciated | 6,892,389 | 4,414,806 | (6,286,471) | 5,020,724 |
| Capital Assets, being depreciated: | | | | |
| Buildings and improvements | 481,984 | 4,046,861 | - | 4,528,845 |
| Water system | 47,427,248 | 2,470,871 | (20,759) | 49,877,360 |
| Secondary water system | 6,151,004 | 104,238 | (3,549) | 6,251,693 |
| Sewer treatment plant | 24,745,267 | - | - | 24,745,267 |
| Sewage collection lines | 9,242,906 | 208,343 | - | 9,451,249 |
| Machinery and equipment | 2,412,598 | 634,272 | (422,575) | 2,624,295 |
| Total Capital Assets, being depreciated | 90,461,007 | 7,464,585 | (446,883) | 97,478,709 |
| Total Capital Assets | 97,353,396 | 11,879,391 | (6,733,354) | 102,499,433 |
| Less Accumulated Depreciation: | | | | |
| Buildings and improvements | (447,311) | (96,684) | - | (543,995) |
| Water system | (21,007,469) | (1,582,574) | 20,759 | (22,569,284) |
| Secondary water system | (1,429,501) | (189,611) | 3,549 | (1,615,563) |
| Sewer treatment plant | (12,444,790) | (723,475) | - | (13,168,265) |
| Sewage collection lines | (5,934,196) | (238,573) | - | (6,172,769) |
| Machinery and equipment | (1,214,490) | (224,676) | 142,654 | (1,296,512) |
| Total Accumulated Depreciation | (42,477,757) | (3,055,593) | 166,962 | (45,366,388) |
| Capital Assets, net | \$ 54,875,639 | \$ 8,823,798 | \$ (6,566,392) | \$ 57,133,045 |

**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, 2017:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|------------------------------------|----------------------|----------------------|-----------------------|----------------------|------------------------|
| Bonds payable | | | | | |
| General obligation bonds | \$ 7,366,000 | \$ 13,975,000 | \$ (1,061,000) | \$ 20,280,000 | \$ 1,030,000 |
| Premiums | 220,956 | 869,397 | (31,487) | 1,058,866 | - |
| Revenue bonds | 5,842,000 | - | (273,000) | 5,569,000 | 278,000 |
| Total bonds payable | 13,428,956 | 14,844,397 | (1,365,487) | 26,907,866 | 1,308,000 |
| Water resource loan | 592,127 | - | (47,479) | 544,648 | 47,954 |
| Capital leases | 193,231 | 313,605 | (248,111) | 258,725 | 48,179 |
| Total Long-Term Liabilities | \$ 14,214,314 | \$ 15,158,002 | \$ (1,661,077) | \$ 27,711,239 | \$ 1,404,133 |

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, 2017 was \$22,220,000.

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

| Purpose | Issue Date | Original Borrowing | Interest Rates | Final Maturity | Amount |
|----------------------------|------------|-----------------------|-------------------|-------------------|----------------------|
| Refunding | 2013 | 8,245,000 | 2.00 - 3.00% | 2029 | \$ 6,305,000 |
| Water treatment facilities | 2017 | 13,975,000 | 2.00 - 3.00% | 2037 | 13,975,000 |
| | | | | | <u>\$ 20,280,000</u> |

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

| Year Ending December 31, | Principal | Interest | Total |
|-----------------------------|----------------------|---------------------|----------------------|
| 2018 | \$ 1,030,000 | \$ 619,925 | \$ 1,649,925 |
| 2019 | 1,055,000 | 589,275 | 1,644,275 |
| 2020 | 1,090,000 | 557,625 | 1,647,625 |
| 2021 | 1,120,000 | 524,200 | 1,644,200 |
| 2022 | 1,160,000 | 488,509 | 1,648,509 |
| 2023-2027 | 6,010,000 | 1,835,434 | 7,845,434 |
| 2028-2032 | 4,415,000 | 964,638 | 5,379,638 |
| 2033-2037 | 4,400,000 | 337,431 | 4,737,431 |
| Total | <u>\$ 20,280,000</u> | <u>\$ 5,917,037</u> | <u>\$ 26,197,037</u> |

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

NOTE 4 LONG TERM OBLIGATIONS (Continued)

Covenant Requirements

Both the 2013 and the 2017 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, 2017 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 | \$ 65,000 |
| Water treatment plant | 2007 | 7,100,000 | 1.50% | 2039 | <u>5,504,000</u> |
| | | | | | <u>\$ 5,569,000</u> |

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

| Year Ending December 31, | Principal | Interest | Total |
|-----------------------------|---------------------|---------------------|---------------------|
| 2018 | \$ 278,000 | \$ 84,465 | \$ 362,465 |
| 2019 | 216,000 | 79,365 | 295,365 |
| 2020 | 219,000 | 76,125 | 295,125 |
| 2021 | 223,000 | 75,840 | 295,840 |
| 2022 | 226,000 | 69,495 | 295,495 |
| 2023-2027 | 1,183,000 | 295,560 | 1,478,560 |
| 2028-2032 | 1,274,000 | 204,150 | 1,478,150 |
| 2033-2037 | 1,372,000 | 105,735 | 1,477,735 |
| 2038-2039 | <u>578,000</u> | <u>13,035</u> | <u>591,035</u> |
| Total | <u>\$ 5,569,000</u> | <u>\$ 1,003,770</u> | <u>\$ 6,569,770</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, 2017, 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, 2017, 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, 2017, 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, 2017, 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, 2017, required reserve fund balances were fully funded.

Required reserve fund balances as of December 31, 2017 are as follows:

| | 1997 Series | | 2007 Series | |
|----------------------------|---------------------|----------------------|--------------------|----------------------|
| | Amount Required | Amount on Deposit | Amount Required | Amount on Deposit |
| Reserve accounts | \$ 67,218 | \$ 68,258 | \$ 296,105 | \$ 296,105 |
| Replacement accounts | 4,041,880 | 4,041,880 | - | - |
| Debt service accounts | 66,905 | 66,905 | 295,560 | 295,896 |
| Total reserve requirements | <u>\$ 4,176,003</u> | <u>\$ 4,177,043</u> | <u>\$ 591,665</u> | <u>\$ 592,001</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 |
|-----------------------------|----------------|---------------|-------------------|
| 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 | 49,901 | 3,499 | 53,400 |
| 2023-2027 | 257,088 | 9,911 | 267,000 |
| 2028 | 42,948 | 429 | 43,378 |
| Total | <u>544,648</u> | <u>32,728</u> | <u>\$ 577,378</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 2.590% and maturity dates in 2021. During 2017, 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 \$53,053 for the year ended December 31, 2017 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 \$3,192 for the year ended December 31, 2017.

The assets acquired through capital leases are as follows:

| | |
|--------------------------------|--------------------------|
| Asset: | |
| Machinery and equipment | \$ 313,605 |
| Less: Accumulated depreciation | <u>(18,902)</u> |
| Total | <u><u>\$ 294,703</u></u> |

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2017, were as follows:

| December 31, | Payments |
|---|--------------------------|
| 2018 | \$ 54,880 |
| 2019 | 73,848 |
| 2020 | 73,848 |
| 2021 | <u>73,849</u> |
| Total minimum capital lease payments | 276,425 |
| Less: amounts representing interest | <u>(17,700)</u> |
| Present value of net minimum capital lease payments | 258,725 |
| Less: current portion | <u>(48,179)</u> |
| Long-term capital lease obligations | <u><u>\$ 210,546</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, 2017 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 \$4.60 \$4.75 and \$4.90 an hour for the years ended December 31, 2016, 2017 and 2018. 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 be liable to

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

NOTE 5 UNION EMPLOYEES PENSION PLAN (Continued)

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.org/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 \$207,315, \$210,274, and \$201,929, for 2017, 2016, and 2015, respectively. The District did not have any amount due the Plan as of December 31, 2017.

NOTE 6 NON-UNION EMPLOYEES PENSION PLAN

Plan Description. The Magna Water District Defined Benefit Plan (the Plan) is a single-employer defined benefit 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. Retirement benefits are as follows:

| | | |
|---|---|--|
| 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, 2017, there were 5 active participants, -0- inactive participants and -0- retirees and beneficiaries.

Contributions. Through December 31, 2017 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, \$120,419 for 2017, and \$143,000 through 2035. 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 \$102,551 from the 01/01/2018 plan funding valuation. The actual amount contributed by the employer during the 2017 fiscal year was \$120,419.

Reporting. The Plan issues a publicly available financial report that includes statements and required supplementary information of that plan. This report may be requested from the Water District’s Controller’s office.

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

By Email: 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, 2017, the District reported a net pension liability of \$385,770. The net pension liability was measured as of December 31, 2017, and was determined by an actuarial valuation as of January 1, 2017 and rolled-forward using generally accepted actuarial procedures.

Deferred outflows of resources and deferred inflows of resources: At December 31, 2017, 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 | \$ - | \$ 221,685 |
| Changes of assumptions | | 281,948 |
| Net difference between projected and actual earnings | | 29,831 |
| Contributions made subsequent to measurement date | | |
| Total | \$ - | \$ 533,464 |

Average remaining service as of the beginning of the year is: 9.8

| Year ended December 31 | Deferred outflows (inflows of resources) |
|---------------------------|---|
| 2018 | 76,142 |
| 2019 | 76,142 |
| 2020 | 76,142 |
| 2021 | 76,142 |
| Thereafter | 228,896 |

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, 2017 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 | 3.00% |
| | Expected arithmetic nominal return | | 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% | Discount Rate 5% | 1% increase 6% |
|-------------------------|----------------------|---------------------|----------------------|
| Total pension liability | \$ 1,589,150 | \$ 1,337,682 | \$ 1,140,771 |
| Fiduciary net position | 951,912 | 951,912 | 951,912 |
| Net pension liability | 637,238 | 385,770 | 188,859 |

Schedule of funding progress. The following tables show the pension plan's funding progress over the past 5 years.

| Year ended | Actuarial determined contribution | Actual employer contribution | % of actual to actuarial contribution | Balance net pension obligation/ prepaid |
|------------|---|------------------------------------|---|--|
| 12/31/2017 | \$ 130,018 | \$ 120,419 | 92.62% | \$ (9,599) |
| 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 |

**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 |
|--------------------------|---------------------------|-----------------------------|---------------------|---------------|-----------------------------|--------------------------------|
| 12/31/2017 | \$ 951,912 | \$ 1,337,682 | \$ 385,770 | 71.16% | \$ 544,150 | 70.89% |
| 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% |

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 per month 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 2018.

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 2017, the District contributed \$32,072 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, 2017, the District had set aside \$1,385,434 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 | \$ 225,026 |
| Interest on net pension obligation | 18,521 |
| Adjustment to annual required contribution | <u>(60,730)</u> |
| | |
| Annual pension cost | 182,817 |
| Contributions made | <u>(32,072)</u> |
| | |
| Increase (decrease) in net pension obligation | 150,745 |
| Net pension obligation - beginning of year | <u>1,234,689</u> |
| | |
| Net pension obligation - end of year | <u><u>\$ 1,385,434</u></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 2017 and the two preceding years were as follows:

| Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|------------|---------------------|---|------------------------|
| 12/31/2015 | \$ 181,444 | 13.16% | \$ 792,609 |
| 12/31/2016 | 478,349 | 7.58% | 1,234,688 |
| 12/31/2017 | 182,817 | 17.54% | 1,385,434 |

Funded Status and Funding Progress. As of December 31, 2017, the actuarial accrued liability for benefits was \$2,008,657, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$544,150, and the ratio of the unfunded actuarial liability to the covered payroll was 369 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 60 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 2017 and after.

Health insurance premiums - 2017 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, 2017, 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 \$15,343, \$16,455, and \$13,199 for the years ended December 31, 2017, 2016, and 2015, 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. There were no significant reductions in coverage from the prior year, and there have not been any claims settled in excess of coverage for the past three years.

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, 2017 the District purchased 786.34 acre feet, at a cost of \$307,630.

The District has construction commitments outstanding at year end for projects which have been awarded, but which have not incurred costs as of December 31, 2017. Total construction commitments at December 31, 2017 were approximately \$2,544,000.

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 industry 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 2017 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 did not receive any funds for the fixed service costs due to the fact that those payments were for a length of time only, and the last payment for the fixed service costs was received in 2015. The District also accrued as receivable approximately \$149,000 in variable service costs from the private industrial firm in connection with its share of operations and maintenance costs of the facility, which is reflected as other non-operating income on the statement of revenues, expenses, and changes in net position. The agreement that was signed in 2005 has been renewed, having expired in 2015. The new agreement still states that the private industrial firm involved will make operation and maintenance contributions to assist on the ongoing maintenance of the treatment plant. The new agreement, as in the old, 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, 2017 and three preceding years

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

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|-------------------|-------------------|-------------------|---------------------|
| Total Pension Liability | | | | |
| Service cost | \$ 47,685 | \$ 32,718 | \$ 34,243 | \$ 75,558 |
| Interest on total pension liability | 53,257 | 49,389 | 24,820 | 33,039 |
| Effect on economic/demographic (gains) or losses | (62,648) | (333,724) | 65,248 | - |
| Effect of assumption changes and inputs | 281,948 | 313,988 | 368,595 | - |
| Benefit payments | - | - | - | (231,637) |
| Net change in total pension liability | <u>\$ 320,242</u> | <u>\$ 62,371</u> | <u>\$ 492,906</u> | <u>\$ (123,040)</u> |
| Total pension liability, beginning | \$ 1,017,441 | \$ 955,070 | \$ 462,164 | \$ 585,204 |
| Total pension liability, ending (a) | 1,337,683 | 1,017,441 | 955,070 | 462,164 |
| FIDUCIARY NET POSITION | | | | |
| Employer contributions | \$ 120,419 | \$ 188,030 | \$ 257,245 | \$ 119,526 |
| Investment income net of investment expenses | 16,919 | 12,857 | 9,629 | 2,940 |
| Benefit payments | - | - | - | (231,637) |
| Administrative expenses | - | - | - | - |
| Net change in plan fiduciary net position | <u>\$ 137,338</u> | <u>\$ 200,887</u> | <u>\$ 266,874</u> | <u>\$ (109,171)</u> |
| Fiduciary net position, beginning | \$ 814,575 | \$ 613,688 | \$ 346,814 | \$ 455,985 |
| Fiduciary net position, ending (b) | 951,913 | 814,575 | 613,688 | 346,814 |
| Net pension liability, ending (a) - (b) | 385,770 | 202,866 | 341,382 | 115,350 |
| Fiduciary net position as a % of total pension liability | 71.16% | 80.06% | 64.26% | 75.04% |
| Covered payroll | \$ 544,150 | \$ 404,799 | \$ 407,340 | \$ 355,160 |
| Net pension liability as a % of covered payroll | 70.89% | 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, 2009 through 2017

| 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 |
|-------------|--|---|---|-------------------------------------|--|
| 2017 | \$ 130,018 | \$ 120,419 | \$ 9,599 | \$ 544,150 | 22.13% |
| 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, 2017. This is the date as of which the actuarial valuation was performed. The Measurement Date is December 31, 2017. This is the date as of which the net pension liability is determined. The Reporting Date is December 31, 2017. 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 table | 1994 GAM Blended |

OTHER SUPPLEMENTAL INFORMATION

**MAGNA WATER DISTRICT
SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
For The Year Ended December 31, 2017**

Operating Revenues:

| | |
|----------------------------------|-------------------------|
| Charges for services: | |
| Water sales - culinary | \$ 3,534,524 |
| Water sales - secondary | 233,988 |
| Sewer service charges | 3,051,351 |
| Connection fees and other income | <u>366,101</u> |
| Total Operating Revenues | <u>7,185,964</u> |

Operating Expenses:

| | |
|-----------------------------------|-------------------------|
| Salaries and benefits: | |
| Salaries and wages - plant | 1,040,738 |
| Salaries and wages - office | 705,815 |
| Trustees' salaries | 15,000 |
| Payroll taxes and fringe benefits | <u>1,230,980</u> |
| Total salaries and benefits | <u>2,992,533</u> |

Contractual services:

| | |
|----------------------------|-----------------------|
| Legal | 48,847 |
| Lobbyist fees | - |
| Accounting | 12,500 |
| Engineering | 123,856 |
| Data processing services | 40,993 |
| Janitorial | 6,030 |
| Lab and testing | 79,941 |
| Payroll | <u>6,607</u> |
| Total contractual services | <u>318,774</u> |

Materials and supplies:

| | |
|------------------------------------|-------------------------|
| Repairs, maintenance, and supplies | 922,633 |
| Office supplies and postage | 73,334 |
| Water purchased | <u>307,630</u> |
| Total materials and supplies | <u>1,303,597</u> |

Utilities:

| | |
|--|-----------------------|
| Electricity and fuel for water production and sewer processing | 646,671 |
| Office and general, electricity and fuel | 31,971 |
| Telephone and paging | <u>63,214</u> |
| Total materials and supplies | <u>741,856</u> |

| | |
|-------------------------------|-------------------------|
| Depreciation and amortization | <u>3,055,593</u> |
|-------------------------------|-------------------------|

**MAGNA WATER DISTRICT
SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION (Continued)
For The Year Ended December 31, 2017**

| | |
|--|---------------------|
| Lease expense | 17,426 |
| Other operating expenses: | |
| Transportation | 59,033 |
| Bad debts | 9,430 |
| Insurance | 97,155 |
| Training | 47,997 |
| Miscellaneous | 297,395 |
| Total other operating expenses | 511,010 |
| Operating Income (Loss) | (1,754,825) |
| Nonoperating Revenues (Expenses): | |
| Property tax revenue | 2,857,052 |
| Non-resident fee in lieu of property tax | 53,707 |
| Impact fees | 378,975 |
| Gain (loss) on sale of assets | 22 |
| Other non-operating income | 206,701 |
| Interest income | 275,773 |
| Interest expense | (362,899) |
| Debt issuance costs | (103,913) |
| Total Nonoperating Expenses | 3,305,418 |
| Income Before Capital Contributions | 1,550,593 |
| Capital Contributions | 497,140 |
| Change In Net Position | \$ 2,047,733 |

**MAGNA WATER DISTRICT
SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION – COMPARED TO BUDGET
For The Year Ended December 31, 2017**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Operating Revenues: | | | | |
| Water sales | \$ 3,455,186 | \$ 3,455,186 | \$ 3,768,512 | \$ 313,326 |
| Sewer service charges | 2,627,000 | 2,627,000 | 3,051,351 | 424,351 |
| Connection fees and other income | 374,400 | 374,400 | 366,101 | (8,299) |
| Total Operating Revenues | <u>6,456,586</u> | <u>6,456,586</u> | <u>7,185,964</u> | <u>729,378</u> |
| Operating Expenses: | | | | |
| Salaries and benefits | 3,080,500 | 3,080,500 | 2,992,533 | 87,967 |
| Contractual services | 535,700 | 535,700 | 318,774 | 216,926 |
| Materials and supplies | 1,358,000 | 1,358,000 | 1,303,597 | 54,403 |
| Utilities | 751,600 | 751,600 | 741,856 | 9,744 |
| Depreciation and amortization | 3,232,200 | 3,232,200 | 3,055,593 | 176,607 |
| Lease expense | 17,000 | 17,000 | 17,426 | (426) |
| Other operating expenses | 449,605 | 449,605 | 511,010 | (61,405) |
| Total Operating Expenses | <u>9,424,605</u> | <u>9,424,605</u> | <u>8,940,789</u> | <u>483,816</u> |
| Operating Income (Loss) | <u>(2,968,019)</u> | <u>(2,968,019)</u> | <u>(1,754,825)</u> | <u>245,562</u> |
| Nonoperating Revenues: | | | | |
| Property tax revenue | 2,469,458 | 2,511,595 | 2,857,052 | 345,457 |
| Non-resident fee in lieu of property tax | 115,000 | 115,000 | 53,707 | (61,293) |
| Impact fees | 585,000 | 585,000 | 378,975 | (206,025) |
| Gain (loss) on sale of assets | 330,540 | 330,540 | 22 | (330,518) |
| Other non-operating income | 155,518 | 155,518 | 206,701 | 51,183 |
| Intergovernmental revenue | - | - | - | - |
| Interest income | 180,000 | 180,000 | 275,773 | 95,773 |
| Total Nonoperating Revenues | <u>3,835,516</u> | <u>3,877,653</u> | <u>3,772,230</u> | <u>(105,423)</u> |
| Nonoperating Expenses: | | | | |
| Interest expense | 305,500 | 305,500 | 362,899 | (57,399) |
| Debt issuance costs | - | - | 103,913 | (103,913) |
| Total Nonoperating Expenses | <u>305,500</u> | <u>305,500</u> | <u>466,812</u> | <u>(161,312)</u> |
| Income Before Capital Contributions | <u>561,997</u> | <u>604,134</u> | <u>1,550,593</u> | <u>301,451</u> |
| Capital Contributions | <u>720,000</u> | <u>720,000</u> | <u>497,140</u> | <u>(222,860)</u> |
| Change In Net Position | <u>\$ 1,281,997</u> | <u>\$ 1,324,134</u> | <u>\$ 2,047,733</u> | <u>\$ 78,591</u> |

MAGNA WATER DISTRICT
SUPPLEMENTAL REPORTS
DECEMBER 31, 2017

**MAGNA WATER DISTRICT
SUPPLEMENTAL REPORTS
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For The Fiscal Year Ended December 31, 2017**

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**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Magna Water District
Magna, Utah

We have audited, in accordance with the 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, the financial statement of the governmental activities and each major fund of Magna Water District (the District), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 15, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as finding A1 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Magna Water District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Magna Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Keddington & Christensen, LLC

Keddington & Christensen, LLC

Salt Lake City, Utah

June 15, 2018

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE AS REQUIRED
BY THE STATE COMPLIANCE AUDIT GUIDE**

Board of Trustees
Magna Water District
Magna, Utah

Report on Compliance with General State Compliance Requirements

We have audited Magna Water District's (the District) compliance with the following applicable state requirements described in the *State Compliance Audit Guide*, issued by the Office of the Utah State Auditor, for the year ended December 31, 2017.

- Budgetary Compliance
- Fund Balance
- Open and Public Meetings Act
- Public Treasurer's Bond
- Cash Management
- Impact Fees

Management's Responsibility

Management is responsible for compliance with the general state requirements referred to above.

Auditor's Responsibility

Our responsibility is to express an opinion on the District's compliance based on our audit of the state compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and the State Compliance Audit Guide. Those standards and the State Compliance Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the state compliance requirements referred to above that could have a direct and material effect on a state compliance requirement occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each state compliance requirement reported above. However, our audit does not provide a legal determination of the District's compliance with those requirements.

Opinion on General State Compliance Requirements

In our opinion, Magna Water District complied, in all material respects, with the compliance requirements referred to above for the year ended December 31, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the State Compliance Audit Guide and which is described in the accompanying schedule of findings and recommendations as item B1. Our opinion on compliance is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying *Management's Response to the Findings and Recommendations*. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report On Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the state compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the state compliance requirements referred to above to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with those state compliance requirements and to test and report on internal control over compliance in accordance with the State Compliance Audit Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or to detect and correct noncompliance with a state compliance requirement on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a state compliance requirement will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a state compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings as item B1 that we consider to be a significant deficiency.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control and compliance and the results of that testing based on the requirements of the *State Compliance Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Keddington & Christensen, LLC

Keddington & Christensen, LLC
Salt Lake City, Utah
June 15, 2018

**MAGNA WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2017**

A. FINDINGS - FINANCIAL AUDIT AND GOVERNMENT AUDITING STANDARDS

A1. SEGREGATION OF DUTIES (*Significant Deficiency*)

Finding:

Management best practices dictate that record keeping functions and control of assets should be handled by separate individuals to have proper segregation of duties. During our audit we noted that the Controller, who is responsible for the record keeping functions of the District, is also responsible for receiving payments from customers on occasion. This situation would make it possible for the Controller to keep the payment received, then adjust the records of the customer to cover the discrepancy. This situation is caused by trying to run the District office efficiently, with minimal staff. When the front desk is unstaffed the Controller can take payments from customers.

Recommendation:

We recommend the District continue to produce the high quality financial statements they have in the past, and install internal control procedures that will mitigate the segregation of duties without expending the resources to hire another full time employee.

B. FINDINGS – STATE COMPLIANCE AUDIT GUIDE

B1. CASH MANAGEMENT (*Significant Deficiency*)

Finding:

Utah code 51-7-15(3) requires the treasurer to file a written report with the council as of December 31 and June 30 each year. The report contains the information about all deposits and investments of the entity as of the date of the report. During our audit we noted that the District did not include all of its deposits and investments for the “Deposits and Investments Report”. The District is not in compliance with the requirements of UT code 51-7-15(3). This appears to be the result of an oversight by management.

Recommendation:

We recommend the Magna Water District comply with the requirements of UT code 51-7-15(3).

**MAGNA WATER DISTRICT
MANAGEMENT'S RESPONSE TO THE FINDING AND RECOMMENDATIONS
For the Year Ended December 31, 2017**

A1: This situation has been addressed often and management has already installed internal control procedures to mitigate the segregation of duties without spending resources of hiring another employee. The Controller very rarely takes any money from customers. The past year the number of times that the controller has taken money is substantially less than in years past. Management can and will ensure that the controller WILL NOT be accepting any payments in cash or check or EFT's or credit payments from customers AT ANY TIME from here on out.

B1: Management has never forgotten to file the semi-annual report to the council. December of 2017, the report was filed with the council, however, there was a new investment account during that period of time and the account was inadvertently left off of the report. Management realized the error before the audit and made the decision to report the missing investment in the next semi-annual report to the council. Management reached out to the Council to get their advice on the situation, the council's reply was this: "It will not affect your report with the Council, just list it going forward". In the future, management will be more mindful of new accounts and ensure that all accounts are included on the report.