

MAGNA WATER DISTRICT
FINANCIAL STATEMENTS
DECEMBER 31, 2014

**MAGNA WATER DISTRICT
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Keddington & Christensen, LLC
Certified Public Accountants

Gary K. Keddington, CPA
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Magna Water District
Magna, Utah

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Magna Water District (the District) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller general of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Magna Water District, as of December 31, 2014, and the respective changes in financial position, and budgetary comparison for the General Fund 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 the schedules of funding progress 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 was 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 and Expenses – Budget to Actual is 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 18, 2015 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 18, 2015

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, 2014.

Financial Highlights

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$56,910,300 (total net position). Of this amount, \$15,597,862 (unrestricted net position) may be used to meet the District's ongoing obligations to citizens and creditors.

The District's total net position increased by \$999,223 in 2014. Although this increase was less than the increase of \$1,045,199 in the prior year, total revenues of the District continue to exceed total expenses by a significant margin. Other factors contributing to the continued increase include contributed water and sewer lines by contractors, and contributed secondary water shares.

At the end of the current fiscal year, unrestricted net position was \$15,597,862 or 178% of total expenses.

The District's total debt increased by \$447,789 during the current fiscal year. The key factor in this increase was the District's issuance of the remaining general obligation bond that was authorized in 2004. The issuance was \$2,150,000. The difference is also due to the payment of debt principal payments.

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 and earned but unused vacation leave).

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.

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 \$56,910,300 at the close of the most recent fiscal year.

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

By far the largest portion of the District's net position (58%) 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 is 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.

	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 25,842,654	\$ 22,511,002
Capital assets	<u>50,671,277</u>	<u>52,009,887</u>
Total Assets	<u>76,513,931</u>	<u>74,520,889</u>
Long-term liabilities outstanding	18,178,437	15,619,069
Other liabilities	<u>1,425,194</u>	<u>2,990,743</u>
Total Liabilities	<u>19,603,631</u>	<u>18,609,812</u>
Net investment in capital assets	33,127,886	34,914,285
Restricted	7,852,952	5,881,503
Unrestricted	<u>15,929,462</u>	<u>15,115,289</u>
Total Net Position	<u>\$ 56,910,300</u>	<u>\$ 55,911,077</u>

The restricted portion of the District's net position (\$7,852,952) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$15,929,462) may be used to meet the District's ongoing obligations to citizens and creditors.

There was an increase of \$2,303,049 in restricted net position reported by the District. This resulted primarily from new development paying required impact fees, the acquiring of the 2,150,000 bond.

The District's net position increased by \$999,223 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 impact fees collected by new subdivisions, contributed water and sewer lines by contractors, contributed secondary water shares, and a decrease in operating expenses.

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

	2014	2013
Operating revenues	\$ 5,537,552	\$ 5,296,144
Non-operating revenues	4,200,909	3,943,670
Total Revenues	9,738,461	9,239,814
Depreciation and amortization expense	2,884,414	2,814,861
Other operating expenses	5,532,105	5,114,188
Non-operating expenses	361,739	471,419
Total Expenses	8,778,258	8,400,468
Income before capital contributions	960,203	839,346
Capital contributions	39,020	205,853
Change in Net Position	999,223	1,045,199
Total Net Position, Beginning of Year	55,911,077	54,865,878
Total Net Position, End of Year	\$ 56,910,300	\$ 55,911,077

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

Total operating revenues increased by approximately 4% from the prior year, while total operating expenses were up by approximately 5%, leading to an increase in income before capital contributions in 2014 as compared to the previous year. The capital contributions also significantly decreased in 2014 as compared to 2013 due to decreased development within the District. The increase in operating revenue is primarily due to an adopted rate increase in the amount of approximately 4%. The increase in expenses is primarily due to increases in depreciation and amortization, personnel costs and various operational and maintenance projects that were done in the current year.

Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets as of December 31, 2014 amounts to \$50,671,277 (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 decrease in the District's investment in capital assets for the current fiscal year was less than 3%. The District completed the wastewater treatment plant administration building, a non-potable water system at the wastewater treatment plant. The District purchased a new wastewater vac truck that enables staff to accommodate to the wastewater pipes more efficiently because of technology. The District also completed in conjunction with the CDRA a secondary water line running from 3500 S to approximately 4100 S along 8400 W.

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

	<u>2014</u>	<u>2013</u>
Land	\$ 1,538,507	\$ 1,538,507
Buildings and improvements	481,984	481,984
Water system	43,751,945	43,732,834
Secondary system	5,635,442	5,001,684
Sewer treatment plant	24,496,950	23,410,660
Sewage collection lines	8,604,610	8,596,214
Machinery and equipment	2,236,736	2,426,989
Water rights and easements	470,677	465,476
Construction in progress	<u>309,494</u>	<u>1,049,103</u>
Total Capital Assets	87,526,345	86,703,451
Less accumulated depreciation	<u>(36,855,068)</u>	<u>(34,693,857)</u>
Total Capital Assets, net of depreciation	<u>\$ 50,671,277</u>	<u>\$ 52,009,594</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 \$17,543,391. Of this amount, \$6,373,000 is outstanding as revenue bond debt, \$685,679 relates to amounts outstanding on a water resource loan, \$10,284,950 is outstanding as general obligation bond debt, and \$199,762 relates to amounts outstanding on capital leases.

	<u>2014</u>	<u>2013</u>
General obligation bonds	\$ 10,284,950	\$ 9,316,946
Revenue bonds	6,373,000	6,791,000
Water resource loan	685,679	731,761
Capital lease	<u>199,762</u>	<u>255,895</u>
Total	<u>\$ 17,543,391</u>	<u>\$ 17,095,602</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 \$3,495,533 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 from the years 2014 to 2019

MAGNA WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Planned Future Capital Improvements

The District is still in the process of seeking funding to extend the secondary system. The District is engaged in forming a Zone 3 water system that will serve a boundary along 4100 South and to the east along 7200 West for new development. The District will be modifying the sewer line on Monclair Street, they also will continue to develop the new General Office Building during 2015. A development called North Meadows Phase II will come in and the District will help them upsize the secondary water line at that development.

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, 2014**

Assets

Current Assets:

Cash and cash equivalents	\$ 16,151,375
Receivables:	
Property tax	88,906
Customers, net	571,733
Other	289,826
Prepaid expenses	104,579
Inventories	374,892

Total Current Assets	17,581,311
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Noncurrent Assets:

Restricted cash and cash equivalents	8,184,552
Capital Assets:	
Capital assets not being depreciated	2,318,678
Capital assets being depreciated, net of accumulated depreciation	48,352,599

Total Capital Assets, net of accumulated depreciation	50,671,277
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Water rights and shares held for sale	76,791
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Total Noncurrent Assets	58,932,620
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Total Assets	\$ 76,513,931
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The accompanying notes are an integral part of these financial statements.

**MAGNA WATER DISTRICT
STATEMENT OF NET POSITION (Continued)
DECEMBER 31, 2014**

Liabilities

Current Liabilities:

Accounts payable	\$ 456,496
Accrued liabilities	737,099
Compensated absences	48,730
Deferred revenue	57,936
Accrued Interest payable	124,933
Capital lease obligations - current	72,005
General obligation bonds payable - current	1,322,000
Revenue bonds payable - current	263,000
Water Resource loan payable - current	46,543

Total Current Liabilities	3,128,742
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Noncurrent Liabilities:

Net other postemployment benefits obligation	635,046
Capital lease obligations	127,757
General obligation bonds payable	8,962,950
Revenue bonds payable	6,110,000
Water Resource loan payable	639,136

Total Noncurrent Liabilities	16,474,889
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Total Liabilities	19,603,631
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Net Position

Net investment in capital assets	33,127,886
Restricted:	
Debt service	755,809
Capital projects	7,097,143
Unrestricted	15,929,462

Total Net Position	56,910,300
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Total Liabilities and Net Position	\$ 76,513,931
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The accompanying notes are an integral part of these financial statements.

**MAGNA WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2014**

Operating Revenues:	
Water sales	\$ 3,015,307
Sewer service charges	2,256,985
Connection fees and other income	<u>265,260</u>
Total Operating Revenues	<u>5,537,552</u>
Operating Expenses:	
Salaries and benefits	2,945,516
Contractual services	583,687
Materials and supplies	1,020,687
Utilities	561,089
Depreciation and amortization	2,884,414
Lease expense	22,796
Other operating expenses	<u>398,330</u>
Total Operating Expenses	<u>8,416,519</u>
Operating Income (Loss)	<u>(2,878,967)</u>
Nonoperating Revenues (Expenses):	
Property tax revenue	2,671,810
Non-resident fee in lieu of property tax	45,902
Impact fees	503,017
Gain (loss) on sale of assets	49,593
Other non-operating income	831,150
Intergovernmental revenue	-
Interest income	99,437
Interest expense	(316,837)
Debt issuance costs	<u>(44,902)</u>
Total Nonoperating Revenues (Expenses)	<u>3,839,170</u>
Income Before Capital Contributions	<u>960,203</u>
Capital Contributions	<u>39,020</u>
Change In Net Position	999,223
Total Net Position, Beginning of Year	<u>55,911,077</u>
Total Net Position, End of Year	<u>\$ 56,910,300</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, 2014**

Cash Flows From Operating Activities	
Receipts from customers and users	\$ 5,473,194
Payments to suppliers	(2,728,530)
Payments to employees	(2,229,857)
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Net Cash From Operating Activities	514,807
Cash Flows From Noncapital Financing Activities	
Property tax collected for maintenance and operations	1,187,830
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Net Cash From Noncapital Financing Activities	1,187,830
Cash Flows From Capital and Related Financing Activities	
Receipts from impact fees	503,017
Property tax collected for debt service	1,486,584
Proceeds from capital debt	2,150,000
Purchases and construction of capital assets	(1,508,751)
Principal paid on capital debt	(1,629,082)
Payments on capital lease	(56,133)
Interest paid on capital debt	(485,044)
Receipts from industry service agreement	831,150
Proceeds from sale of capital assets	49,325
Payment of debt issuance costs	(44,902)
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Net Cash From Capital and Related Financing Activities	1,296,164
Cash Flows From Investing Activities	
Interest income	99,437
Proceeds from sale of water rights and shares	5,882
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Net Cash From Investing Activities	105,319
Net Increase (Decrease) in Cash and Cash Equivalents	3,104,120
Cash and Cash Equivalents, Beginning of Year	21,231,807
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Cash and Cash Equivalents, End of Year	\$ 24,335,927
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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, 2014**

Reconciliation of Operating Income to Net Cash From Operating Activities:

Operating Income (Loss)	\$ (2,878,967)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation and amortization	2,884,414
Changes in operating assets and liabilities:	
(Increase) Decrease in Current Assets :	
Receivables	(95,326)
Prepaid expenses	(3,994)
Inventories	(139,457)
Prepaid pension costs	24,275
Increase (Decrease) in Current Liabilities:	
Accounts payable	1,510
Accrued liabilities	557,499
Compensated absences	(20,533)
Deferred revenue	30,968
Net other postemployment benefits obligation	154,418
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Net Cash From Operating Activities	\$ 514,807
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Noncash Investing, Capital, and Financing Activities

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 *nonoperating* 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, 2014.

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.

Inventories

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

Property and Equipment

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

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

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

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

Employee Benefits and Compensated Absences

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

Property Tax Revenues

Property taxes are assessed and become a lien against the property on January 1st. Property taxes become delinquent after November 30th. The District’s tax rate for 2014 was 0.002761 which is comprised of 0.000941 for operations and maintenance, and 0.001820 for debt service. The statutory maximum set by the state for operations and maintenance is 0.000941. There is no statutory maximum for the reduction of general obligation bonds.

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.

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

NOTE 2 CASH AND CASH EQUIVALENTS

Following are the components of the District’s cash and investments at December 31, 2014:

Cash and cash equivalents	\$	16,151,375
Restricted cash and cash equivalents		8,184,552
	\$	24,335,927

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, 2014, the carrying amount of the District’s deposits was \$3,463,739, and the bank balance was \$3,903,472. 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, 2014, 3,403,472 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.

	Carrying Amounts	Fair Value	Weighted Average Maturity (Years)	Credit Rating (1)
State of Utah Public Treasurer's Investment Fund	\$ 20,519,573	\$ 20,618,559	NA	NA
Money Market Funds	55,210	55,210		
Total investments	\$ 20,574,783	\$ 20,673,769		

(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 2 CASH AND CASH EQUIVALENTS (Continued)

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 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.

**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, 2014 is as follows:

	Balance 12/31/2013	Additions	Deletions	Balance 12/31/2014
Capital Assets, not being depreciated:				
Land	\$ 1,538,507	\$ -	\$ -	\$ 1,538,507
Water rights, water shares, and easements	465,476	5,201	-	470,677
Construction in progress	1,049,103	980,272	(1,719,881)	309,494
Total Capital Assets, not being depreciated	3,053,086	985,473	(1,719,881)	2,318,678
Capital Assets, being depreciated:				
Buildings and improvements	481,984	-	-	481,984
Water system	43,732,834	80,927	(61,816)	43,751,945
Secondary water system	5,001,684	635,907	(2,149)	5,635,442
Sewer treatment plant	23,410,660	1,086,290	-	24,496,950
Sewage collection lines	8,596,214	8,396	-	8,604,610
Machinery and equipment	2,426,989	470,659	(660,912)	2,236,736
Total Capital Assets, being depreciated	83,650,365	2,282,179	(724,877)	85,207,667
Total Capital Assets	86,703,451	3,267,652	(2,444,758)	87,526,345
Less Accumulated Depreciation:				
Buildings and improvements	(395,580)	(17,627)	-	(413,207)
Water system	(16,628,642)	(1,473,405)	61,622	(18,040,425)
Secondary water system	(914,215)	(156,897)	1,362	(1,069,750)
Sewer treatment plant	(9,998,785)	(815,504)	-	(10,814,289)
Sewage collection lines	(5,174,373)	(249,164)	-	(5,423,537)
Machinery and equipment	(1,582,262)	(171,817)	660,219	(1,093,860)
Total Accumulated Depreciation	(34,693,857)	(2,884,414)	723,203	(36,855,068)
Capital Assets, net	\$ 52,009,594	\$ 383,238	\$ (1,721,555)	\$ 50,671,277

**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, 2014:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 9,045,000	\$ 2,150,000.00	\$ (1,165,000)	\$ 10,030,000	\$ 1,322,000
Premiums	271,946	-	(16,996)	254,950	-
Revenue bonds	6,791,000	-	(418,000)	6,373,000	263,000
Total bonds payable	16,107,946	2,150,000	(1,599,996)	16,657,950	1,585,000
Water resource loan	731,761	-	(46,082)	685,679	46,543
Capital leases	255,895	-	(56,133)	199,762	72,005
Total Long-Term Liabilities	\$ 17,095,602	\$ 2,150,000	\$ (1,702,211)	\$ 17,543,391	\$ 1,703,548

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, 2014 was \$10,395,000.

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

Purpose	Issue Date	Original Borrowing	Interest Rates	Final Maturity	Amount
Refunding	2013	8,245,000	2.00 - 3.00%	2029	\$ 7,880,000
Water treatment facilities	2014	2,150,000	.5 to 1.13%	2017	2,150,000
					<u>\$ 10,030,000</u>

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

Year Ending December 31,	Principal	Interest	Total
2015	\$ 1,322,000	\$ 203,754	\$ 1,525,754
2016	1,342,000	183,961	1,525,961
2017	1,061,000	167,285	1,228,285
2018	550,000	153,462	703,462
2019	555,000	142,413	697,413
2020-2024	2,975,000	521,118	3,496,118
2025-2029	2,225,000	136,875	2,361,875
Total	<u>\$ 10,030,000</u>	<u>\$ 1,508,868</u>	<u>\$ 11,538,868</u>

Covenant Requirements

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

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

NOTE 4 LONG TERM OBLIGATIONS (Continued)

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, 2014 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	\$ 248,000
Water treatment plant	2007	7,100,000	1.50%	2039	6,125,000
					<u>\$ 6,373,000</u>

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

Year Ending December 31,	Principal	Interest	Total
2015	\$ 263,000	\$ 99,141	\$ 362,141
2016	268,000	94,353	362,353
2017	273,000	89,460	362,460
2018	278,000	84,465	362,465
2019	216,000	79,362	295,362
2020-2024	1,131,000	347,220	1,478,220
2025-2029	1,218,000	259,815	1,477,815
2030-2034	1,312,000	165,645	1,477,645
2035-2039	1,414,000	64,260	1,478,260
Total	<u>\$ 6,373,000</u>	<u>\$ 1,283,721</u>	<u>\$ 7,656,721</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, 2014, 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, 2014, 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, 2014, 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, 2014 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, 2014, required reserve fund balances were fully funded.

Required reserve fund balances as of December 31, 2014 are as follows:

	1997 Series		2007 Series	
	Amount Required	Amount on Deposit	Amount Required	Amount on Deposit
Reserve accounts	\$ 67,218	\$ 67,244	\$ 296,105	\$ 296,105
Replacement accounts	2,770,069	3,074,075	-	-
Debt service accounts	66,266	71,814	295,875	320,646
Total reserve requirements	<u>\$ 2,903,553</u>	<u>\$ 3,213,133</u>	<u>\$ 591,980</u>	<u>\$ 616,751</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
2015	\$ 46,543	\$ 6,857	\$ 53,400
2016	47,009	6,391	53,400
2017	47,479	5,921	53,400
2018	47,954	5,446	53,400
2019	48,433	4,967	53,400
2020-2024	249,528	17,472	267,000
2025-2028	198,733	4,844	203,577
Total	<u>\$ 685,679</u>	<u>\$ 51,898</u>	<u>\$ 737,577</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 rates of 2.08% to 2.3% and maturity dates between 2016 and 2017. These 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. Depreciation expense for the leased vehicles was \$41,763 for the year ended December 31, 2013, 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 \$3,866 for the year ended December 31, 2013.

The assets acquired through capital leases are as follows:

Asset:		
Machinery and equipment	\$	322,167
Less: Accumulated depreciation		<u>(102,104)</u>
Total	\$	<u><u>220,063</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2014, were as follows:

Year Ending December 31,	Principal
2015	\$ 76,255
2016	76,264
2017	<u>55,328</u>
Total minimum capital lease payments	207,847
Less: amounts representing interest	<u>(8,085)</u>
Present value of net minimum capital lease payments	199,762
Less: current portion	<u>(72,005)</u>
Long-term capital lease obligations	<u><u>\$ 127,757</u></u>

NOTE 5 UNION EMPLOYEES PENSION PLAN

Most full-time District employees are members of the Western Conference Teamsters Pension Trust fund, a multiple employer union plan, under a current collective bargaining agreement covering the period June 1, 2012 through May 31, 2015. The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. Participants in the Plan normally must be vested for five year prior to receiving benefits. The District makes pension contributions to the Pension Trust fund, a defined benefit pension plan, on behalf of all employees at the rate of \$4.30 per hour.

An audited financial report that includes financial statements and required supplementary information (RSI) is separately issued by the Plan. Additional information regarding the Plan may be obtained by accessing the aforementioned audited financial report.

District contributions to the Trust Fund were \$186,437, \$185,462, and \$162,945, for 2014, 2013, and 2012, respectively.

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

NOTE 6 NON-UNION EMPLOYEES PENSION PLAN

Plan Description. The Magna Water District Defined Benefit Plan (the Plan) is a single-employer defined benefit pension plan administered by APA Benefits, Inc. (“APA”). The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. The Board of Trustees has the authority to establish and amend benefit provisions. A financial report that includes financial statements and required supplementary information (RSI) for the Plan is not separately issued.

Funding Policy. The contribution requirements of plan members and the District are established and may be amended by the Board of Trustees. No contributions are required from plan members. The District is required to contribute at an actuarially determined rate.

Annual Pension Cost and Net Pension Obligation. The District’s annual pension cost and net pension obligation to the Plan for the current year were as follows:

Annual required contribution	\$	79,336
Interest on net pension obligation		9,231
Adjustment to annual required contribution		-
Annual pension cost		88,567
Contributions made		(119,526)
Increase (decrease) in net pension obligation		(30,959)
Net pension obligation - beginning of year		(184,624)
Net pension obligation - end of year	\$	(153,665)

Funded Status and Funding Progress. As of December 31, 2014, the most recent actuarial valuation date, the plan was 60.06% funded. The actuarial accrued liability for the benefits was \$462,164 and the actuarial value of assets was \$277,598, resulting in unfunded accrued liability of \$184,566. The covered payroll (annual payroll of active employees covered by the Plan) was \$387,829 and ratio of the unfunded accrued liability costs to the covered payroll was 47.60. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions. In the December 31, 2014 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included (a) 5.0 percent investment rate of return (net of administrative expenses) and (b) projected salary increases of zero. Both (a) and (b) included an inflation component of 0.0 percent. The assumptions also include postretirement benefit increases of 0.0 percent.

The District’s annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension obligation for 2014 year and the two preceding years were as follows.

Year Ended	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
12/31/2012	\$ 90,551	100.60%	\$ (77,258)
12/31/2013	\$ 84,045	108.38%	\$ (84,305)
12/31/2014	\$ 88,567	134.96%	\$ (153,665)

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

NOTE 7 UNION EMPLOYEES OTHER POSTEMPLOYMENT BENEFITS

In accordance with the Union contract, the District contributes at the rate of \$111.66 per active employee to the Utah-Idaho Teamsters Security Fund, which in turn provides post-retirement healthcare benefits to all eligible retired employees. Contributions to the fund amounted to \$26,798 for 2014.

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 2014, the District contributed \$20,693 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, 2014, the District had set aside \$482,505 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:

Annual required contribution	\$	193,332
Interest on net pension obligation		7,209
Adjustment to annual required contribution		<u>(25,430)</u>
Annual pension cost		175,111
Contributions made		<u>(20,693)</u>
Increase (decrease) in net pension obligation		154,418
Net pension obligation - beginning of year		<u>480,629</u>
Net pension obligation - end of year	\$	<u><u>635,047</u></u>

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

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

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2014 and the two preceding years were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2012	\$ 93,042	10.68%	\$ 370,994
12/31/2013	117,432	6.64%	480,629
12/31/2014	175,112	9.86%	635,047

Funded Status and Funding Progress. As of December 31, 2014, the actuarial accrued liability for benefits was \$1,776,446, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$387,829, and the ratio of the unfunded actuarial liability to the covered payroll was 458.04 percent.

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. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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.

The following simplifying assumptions were made:

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

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

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

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

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

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

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 2015 and after.

Health insurance premiums - 2014 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, 2014, was twenty-one 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 \$10,790, \$10,617 and \$10,210 for the years ended December 31, 2014, 2013, and 2012, 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 insures with the Local Government Trust Risk Pool.

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, 2014 the District purchased 828 acre feet, at a cost of \$306,942.

The District has construction commitments outstanding at year end for projects which have been awarded and construction or design has begun, but which have not been paid for at year end. Total unpaid construction commitments at December 31, 2014 were approximately \$2,670,000 on an original contract totaling \$3,021,000.

NOTE 12 CONTINGENCIES

Contamination of the groundwater aquifer by perchlorate, a potentially hazardous substance leaked into the groundwater by private industry and the federal government, has been studied and closely monitored by the District and the private industrial firm currently involved. The private firm has been paying a portion of the District's costs of these efforts. The District and the firm entered into an agreement in December 2005 concerning the removal of perchlorate from water produced by three of the District's wells. Under the agreement, the firm agreed to pay for a substantial portion of the new treatment facility constructed by the District and for a portion of the operation and maintenance of that facility. The District issued bonds to finance this treatment facility and during 2014 the District received \$831,150

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

NOTE 12 CONTINGENCIES (Continued)

(fixed service cost) from the private industrial firm in connection with this agreement, which is reflected as other non-operating income on the statement of revenues, expenses, and changes in net position. The District also accrued as receivable approximately \$166,963 in variable service cost from the private industrial firm in connection with its share of operations and maintenance costs of the facility, which has been recorded as an offset to various expense accounts of the District on the statement of revenues, expenses, and changes in net position. The agreement has a provision for a partial refund to the firm if future perchlorate standards merit such a refund. There is also a limited waiver of liability for the firm, subject to the terms and conditions of the agreement.

REQUIRED SUPPLEMENTAL INFORMATION

**MAGNA WATER DISTRICT
SCHEDULES OF FUNDING PROGRESS**

**Magna Water District Defined Benefit Plan
Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/2012	\$ 356,836	\$ 320,423	\$ (36,413)	111.4%	\$ 353,355	-10.3%
12/31/2013	455,985	431,710	(24,275)	105.6%	368,072	-6.6%
12/31/2014	277,598	462,164	184,566	60.1%	387,829	47.6%

**Magna Water District Other Postemployment Benefit Plan
Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/2012	\$ -	\$ 912,911	\$ 912,911	0.0%	\$ 353,355	258.4%
12/31/2013	-	1,183,430	1,183,430	0.0%	368,072	321.5%
12/31/2014	-	1,776,446	1,776,446	0.0%	387,829	458.0%

OTHER SUPPLEMENTAL INFORMATION

**MAGNA WATER DISTRICT
SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
For The Year Ended December 31, 2014**

Operating Revenues:

Charges for services:	
Water sales - culinary	\$ 2,835,246
Water sales - secondary	180,061
Sewer service charges	2,256,985
Connection fees and other income	265,260
	<hr/>
Total Operating Revenues	5,537,552

Operating Expenses:

Salaries and benefits:	
Salaries and wages - plant	936,828
Salaries and wages - office	575,883
Trustees' salaries	15,000
Payroll taxes and fringe benefits	1,417,805
	<hr/>
Total salaries and benefits	2,945,516

Contractual services:

Legal	101,205
Lobbyist fees	60,000
Accounting	25,000
Engineering	298,831
Data processing services	42,118
Janitorial	4,685
Lab and testing	51,848
	<hr/>
Total contractual services	583,687

Materials and supplies:

Repairs, maintenance, and supplies	617,370
Office supplies and postage	96,375
Water purchased	306,942
	<hr/>
Total materials and supplies	1,020,687

Utilities:

Electricity and fuel for water production and sewer processing	512,043
Office and general, electricity and fuel	6,464
Telephone and paging	42,582
	<hr/>
Total materials and supplies	561,089

Depreciation and amortization	<hr/> 2,884,414
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**MAGNA WATER DISTRICT
SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION (Continued)
For The Year Ended December 31, 2014**

Lease expense	22,796
Other operating expenses:	
Transportation	92,046
Bad debts	7,758
Insurance	132,760
Training	45,634
Miscellaneous	120,132
Total other operating expenses	398,330
Operating Income (Loss)	(2,878,967)
Nonoperating Revenues (Expenses):	
Property tax revenue	2,671,810
Non-resident fee in lieu of property tax	45,902
Impact fees	503,017
Gain (loss) on sale of assets	49,593
Other non-operating income	831,150
Intergovernmental revenue	-
Interest income	99,437
Interest expense	(316,837)
Debt issuance costs	(44,902)
Total Nonoperating Expenses	3,839,170
Income Before Capital Contributions	960,203
Capital Contributions	39,020
Change In Net Position	\$ 999,223

**MAGNA WATER DISTRICT
SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION – COMPARED TO BUDGET
For The Year Ended December 31, 2014**

	<u>Approved Budget</u>	<u>Actual</u>	<u>Difference Favorable (Unfavorable)</u>
Operating Revenues:			
Water sales	\$ 3,015,000	\$ 3,015,307	\$ 307
Sewer service charges	2,200,000	2,256,985	56,985
Connection fees and other income	170,400	265,260	94,860
Total Operating Revenues	<u>5,385,400</u>	<u>5,537,552</u>	<u>152,152</u>
Operating Expenses:			
Salaries and benefits	2,487,500	2,945,516	(458,016)
Contractual services	542,500	583,687	(41,187)
Materials and supplies	1,342,700	1,020,687	322,013
Utilities	705,900	561,089	144,811
Depreciation and amortization	3,133,400	2,884,414	248,986
Lease expense	25,000	22,796	2,204
Other operating expenses	439,600	398,330	41,270
Total Operating Expenses	<u>8,676,600</u>	<u>8,416,519</u>	<u>260,081</u>
Operating Income (Loss)	<u>(3,291,200)</u>	<u>(2,878,967)</u>	<u>(107,929)</u>
Nonoperating Revenues:			
Property tax revenue	2,334,750	2,671,810	337,060
Non-resident fee in lieu of property tax	45,000	45,902	902
Impact fees	240,000	503,017	263,017
Gain (loss) on sale of assets	4,500	49,593	45,093
Other non-operating income	831,150	831,150	-
Intergovernmental revenue	-	-	-
Interest income	100,000	99,437	(563)
Total Nonoperating Revenues	<u>3,555,400</u>	<u>4,200,909</u>	<u>645,509</u>
Nonoperating Expenses:			
Interest expense	366,204	316,837	49,367
Debt issuance costs	-	44,902	(44,902)
Total Nonoperating Expenses	<u>366,204</u>	<u>361,739</u>	<u>4,465</u>
Income Before Capital Contributions	(102,004)	960,203	533,115
Capital Contributions	<u>720,000</u>	<u>39,020</u>	<u>(680,980)</u>
Change In Net Position	<u>\$ 617,996</u>	<u>\$ 999,223</u>	<u>\$ (147,865)</u>



Keddington & Christensen, LLC
Certified Public Accountants

Gary K. Keddington, CPA
Phyl R. Warnock, CPA
Marcus K. Arbuckle, CPA

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE
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, 2014, 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 18, 2015.

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. Given these limitations, during our audit, we did not identify any deficiencies in internal that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and result 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 18, 2015



Keddington & Christensen, LLC
Certified Public Accountants

Gary K. Keddington, CPA
Phyl R. Warnock, CPA
Marcus K. Arbuckle, CPA

**INDEPENDENT AUDITOR'S REPORT IN
ACCORDANCE WITH THE *STATE COMPLIANCE
AUDIT GUIDE* ON COMPLIANCE WITH GENERAL
STATE COMPLIANCE REQUIREMENTS AND
INTERNAL CONTROL OVER COMPLIANCE**

Board of Trustees
Magna Water District
Magna, Utah

We have audited Magna Water District's (the District) compliance with the applicable general state compliance requirements described in the *State Compliance Audit Guide*, issued by the Office of the Utah State Auditor that could have a direct and material effect on the District for the year ended December 31, 2014.

General state compliance requirements were tested for the year ended December 31, 2014 in the following areas:

Budgetary Compliance
Fund Balance
Government Records Access Management Act (GRAMA)
Conflicts of Interest
Nepotism

The District did not receive any state funding classified as a major program during the year ended December 31, 2014.

Management's Responsibility

Management is responsible for compliance with the general state requirements referred to above and the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the District's compliance based on our audit of the 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 compliance requirements referred to above that could have a direct and material effect on the District 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 with general state compliance requirements. However, our audit does not provide a legal determination of the District's compliance.

Opinion on General State Compliance Requirements

In our opinion, Magna Water District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the District for the year ended December 31, 2014.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with the *State Compliance Audit Guide*.

Report On Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the compliance requirements that could have a direct and material effect on the District to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with general 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 detect and correct, noncompliance with a general state or major state program 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 general state or major state program 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 general state or major state program 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, material weaknesses may exist that have not been identified.

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 18, 2015