

MAGNA WATER DISTRICT

FINANCIAL STATEMENTS
with
INDEPENDENT AUDITORS' REPORTS

DECEMBER 31, 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Magna Water District
Magna, Utah

Report on the Financial Statements

We have audited the accompanying basic financial statements of Magna Water District as of and for the year ended December 31, 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Magna Water District as of December 31, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9, and the schedules of funding progress on page 34 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 regarding 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 an opinion on the basic financial statements. The other supplementary information listed in the table of contents is presented for purposes 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 relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 17, 2014 on our consideration of Magna Water 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 Magna Water District's internal control over financial reporting and compliance.

Pinnock, Robbins, Posey & Richins

Salt Lake City, Utah
June 17, 2014

MAGNA WATER DISTRICT

MANAGEMENT'S 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, 2013. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements.

Financial Highlights

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$55,911,077 (total net position). Of this amount, \$15,115,289 (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 \$1,045,199 in 2013. Although this increase was less than the increase of \$2,211,351 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 \$15,115,289 or 180% of total expenses.

The District's total debt decreased by \$1,664,910 during the current fiscal year. The key factor in this decrease was the District's 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 \$55,911,077 at the close of the most recent fiscal year.

By far the largest portion of the District's net position (62%) 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>2013</u>	<u>2012</u>
Current and other assets	\$ 22,511,002	\$ 22,877,413
Capital assets	<u>52,009,887</u>	<u>52,185,626</u>
 Total Assets	 <u>\$ 74,520,889</u>	 <u>\$ 75,063,039</u>
 Long-term liabilities outstanding	 \$ 15,619,069	 \$ 17,241,913
Other liabilities	<u>2,990,743</u>	<u>2,955,248</u>
 Total Liabilities	 <u>\$ 18,609,812</u>	 <u>\$ 20,197,161</u>
 Net Position:		
Net investment in capital assets	\$ 34,914,285	\$ 33,425,114
Restricted	5,881,503	6,634,120
Unrestricted	<u>15,115,289</u>	<u>14,806,644</u>
 Total Net Position	 <u>\$ 55,911,077</u>	 <u>\$ 54,865,878</u>

The restricted portion of the District's net position (\$5,881,503) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$15,115,289) may be used to meet the District's ongoing obligations to citizens and creditors.

There was a decrease of \$752,617 in restricted net position reported by the District. This resulted primarily from the expenditure of impact fees in connection with the construction of a new wastewater treatment plant administrative building and a replacement well. An additional factor contributing to this decrease was the fact that certain general obligation bond sinking funds were funded subsequent to December 31, 2013, while prior year required amounts had been funded before year-end.

The District's net position increased by \$1,045,199 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 an increase in non-operating expenses.

Magna Water District
Condensed Statement of Revenues, Expenses, and Changes in Net Position

	2013	2012
Operating revenues	\$ 5,296,144	\$ 5,394,756
Non-operating revenues	3,943,670	3,993,506
Total Revenues	9,239,814	9,388,262
Depreciation and amortization expense	2,814,861	2,711,493
Other Operating expenses	5,114,188	4,558,402
Non-operating expenses	471,419	466,189
Total Expenses	8,400,468	7,736,084
Income before Capital Contributions	839,346	1,652,178
Capital Contributions	205,853	559,173
Change in Net Position	1,045,199	2,211,351
Net Position - Beginning of Year (as Restated)	54,865,878	52,654,527
 Net Position - Ending of Year	 \$ 55,911,077	 \$ 54,865,878

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 Districts revenues before capital contributions.

Total operating revenues decreased by approximately 2% from the prior year, while total operating expenses were up by approximately 9%, leading to a smaller increase in income before capital contributions in 2013 as compared to the previous year. The capital contributions also significantly decreased in 2013 as compared to 2012 due to decreased development within the District. The decrease in operating revenue is primarily due to weather related issues. 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. An additional factor contributing to this increase included the payment of settled amounts in connection with sewer backups.

Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets as of December 31, 2013 amounts to \$52,009,887 (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 1%. The District completed the pavement of its shop's parking lot and completed the construction of a replacement well and pump house. The District also completed work on a wastewater treatment plant retaining wall and on a non-potable water line project. As of December 31, 2013, the District was nearing the completion of a newly constructed administration building at the District's wastewater treatment plant.

**Capital Assets
Net of Accumulated Depreciation**

	2013	2012
Land	\$ 1,538,507	\$ 1,538,507
Buildings and improvements	86,404	104,031
Water system	27,104,485	26,995,567
Secondary system	4,087,469	4,226,931
Sewer treatment plant	13,411,875	14,057,440
Sewage collection lines	3,421,841	3,602,824
Machinery and equipment	844,727	741,323
Water rights and easements	465,476	444,136
Construction in progress	1,049,103	474,867
TOTAL	\$ 52,009,887	\$ 52,185,626

Additional information on the District's capital assets can be found in Note 4 to the financial statements.

Long-term debt. At the end of the current fiscal year, the District had total long-term debt outstanding of \$17,095,602. Of this amount, \$6,791,000 is outstanding as revenue bond debt, \$731,761 relates to amounts outstanding on a water resource loan, \$9,316,946 is outstanding as general obligation bond debt, and \$255,895 relates to amounts outstanding on capital leases.

Outstanding Debt

	2013	2012
General obligation bonds	\$ 9,316,946	\$ 10,459,000
Revenue bonds	6,791,000	7,360,000
Water Resource Loan	731,761	777,387
Capital leases	255,895	164,125
TOTAL	\$ 17,095,602	\$ 18,760,512

Additional information of the District's long-term debt can be found in Note 5 to the financial statements.

Reserve Funds

The District held \$4,331,284 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.

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 than will serve a boundary along 4100 South and to the east along 72000 West for new development. The District is also installing a secondary water line along 8400 West and 3500 South in connection with the Arbor Park Development RDA project. No contract had been signed for this work as of December 31, 2013.

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.

MAGNA WATER DISTRICT

BALANCE SHEET

DECEMBER 31, 2013

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 15,236,044
Receivables:	
Property tax	35,772
Customers (less allowance for uncollectible accounts of \$2,075)	586,169
Other	180,064
Due from other governmental units	35,000
Prepaid expenses	100,585
Inventories	<u>235,435</u>

TOTAL CURRENT ASSETS 16,409,069

NONCURRENT ASSETS:

Restricted cash and cash equivalents	<u>5,995,763</u>
Capital assets:	
Capital assets not being depreciated	3,053,086
Capital assets being depreciated, net of accumulated depreciation	<u>48,956,801</u>

TOTAL CAPITAL ASSETS, NET 52,009,887

Prepaid pension costs	24,275
Water rights and shares held for sale	<u>81,895</u>

TOTAL NONCURRENT ASSETS 58,111,820

TOTAL ASSETS \$ 74,520,889

MAGNA WATER DISTRICT
BALANCE SHEET (CONTINUED)
DECEMBER 31, 2013

LIABILITIES AND NET POSITION

CURRENT LIABILITIES:	
Accounts payable	\$ 454,986
Accrued liabilities	179,600
Compensated absences	69,263
Retainage payable	26,621
Deferred revenue	26,968
Accrued interest payable	276,144
Capital lease obligations - current	56,133
General obligation bonds payable - current	1,165,000
Revenue bonds payable - current	418,000
Water Resource loan payable - current	<u>46,082</u>
TOTAL CURRENT LIABILITIES	<u>2,718,797</u>
NONCURRENT LIABILITIES:	
Net other postemployment benefits obligation	480,628
Capital lease obligations	199,762
General obligation bonds payable	8,151,946
Revenue bonds payable	6,373,000
Water Resource loan payable	<u>685,679</u>
TOTAL NONCURRENT LIABILITIES	<u>15,891,015</u>
TOTAL LIABILITIES	<u>18,609,812</u>
NET POSITION:	
Net investment in capital assets	34,914,285
Restricted for:	
Debt service	1,561,215
Capital projects	4,320,288
Unrestricted	<u>15,115,289</u>
TOTAL NET POSITION	<u>55,911,077</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 74,520,889</u>

See accompanying notes to the financial statements.

MAGNA WATER DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION**

FOR THE YEAR ENDED DECEMBER 31, 2013

OPERATING REVENUES:	
Water sales	\$ 3,043,881
Sewer service charges	2,071,067
Connection fees and other income	<u>181,196</u>
TOTAL OPERATING REVENUES	<u>5,296,144</u>
OPERATING EXPENSES:	
Salaries and benefits	2,401,181
Contractual services	599,571
Materials and supplies	988,503
Utilities	575,045
Depreciation and amortization	2,814,861
Lease expense	21,146
Other operating expenses	<u>528,742</u>
TOTAL OPERATING EXPENSES	<u>7,929,049</u>
OPERATING (LOSS)	<u>(2,632,905)</u>
NON-OPERATING REVENUES (EXPENSES):	
Property tax revenue	2,667,555
Non-resident fee in lieu of property taxes	45,902
Impact fees	229,183
Gain on sale of assets	33,758
Other non-operating income (Note 17)	831,150
Intergovernmental revenue	35,000
Interest income	101,122
Interest expense	(362,064)
Debt issuance costs	<u>(109,355)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>3,472,251</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>839,346</u>
CONTRIBUTED LINES, WATER SHARES AND METERS	<u>205,853</u>
CHANGE IN NET POSITION	<u>1,045,199</u>
NET POSITION - BEGINNING OF YEAR	54,991,175
Adjustment to net deferred bond issuance costs (Note 2)	<u>(125,297)</u>
NET POSITION - BEGINNING OF YEAR (AS RESTATED)	<u>54,865,878</u>
NET POSITION - END OF YEAR	<u>\$ 55,911,077</u>

See accompanying notes to the financial statements.

MAGNA WATER DISTRICT

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers and users	\$ 5,266,694
Payments to suppliers	(2,574,613)
Payments to employees	<u>(2,261,071)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>431,010</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Property tax collected for maintenance and operations	<u>1,294,715</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>1,294,715</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Receipts from impact fees	229,183
Property tax collected for debt service	1,432,636
Proceeds from capital debt	8,245,000
Purchases and construction of capital assets	(2,454,788)
Principal paid on capital debt	(10,273,626)
Payments on capital leases	(144,784)
Interest paid on capital debt	(147,965)
Receipts from industry service agreement	831,150
Proceeds from sale of capital assets	156,676
Payment of debt issuance costs	<u>(109,355)</u>
NET CASH (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(2,235,873)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	101,122
Proceeds from sale of water rights and shares	<u>4,768</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>105,890</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(404,258)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>21,636,065</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 21,231,807</u>
CASH APPEARS ON THE BALANCE SHEET AS FOLLOWS:	
Cash and cash equivalents - unrestricted	\$ 15,236,044
Cash and cash equivalents - restricted	<u>5,995,763</u>
	<u>\$ 21,231,807</u>

See accompanying notes to the financial statements.

MAGNA WATER DISTRICT

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2013

RECONCILIATION OF OPERATING (LOSS) TO NET CASH

PROVIDED BY OPERATING ACTIVITIES:

Operating (loss)	\$ (2,632,905)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:	
Depreciation and amortization	2,814,861
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Receivables	(56,217)
Prepaid expenses	(9,791)
Inventories	32,840
Prepaid pension costs	12,138
Increase (decrease) in:	
Accounts payable	76,813
Accrued liabilities	52,254
Compensated absences	4,616
Deferred revenue	26,767
Net other postemployment benefits obligation	<u>109,634</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 431,010</u>

NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

The District received water and sewer lines, water shares, and meters from developers in the amount of \$205,853 in 2013, which represents the fair value of assets deeded to the District. These additions are accounted for as capital contributions in the statement of revenues, expenses, and changes in net position.

The District acquired capital assets through the issuance of capital leases in the aggregate amount of \$236,554

MAGNA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Magna Water 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 which 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.

B. 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 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 government's policy to use restricted resources first, then unrestricted resources as they are needed.

C. 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 applied to the budget is that same basis as the financial statements.

A formal budget has been adopted and used as a control device during the year ended December 31, 2013.

No budget is required to be presented in 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)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Budgetary Procedures and Budgetary Accounting (continued)

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 public inspection.
3. At least ten 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 the budget.
4. On the second Thursday in December, the budget is formally adopted after consideration of public comment.

D. Cash and Cash Equivalents

The District considers all highly liquid investments with a maturity of three months or less when purchased to be “cash equivalents”.

E. Inventories

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

F. Capital Assets

Capital assets include land, buildings and improvements, water and sewer systems, water shares, and machinery and equipment. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful live 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 are 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 fiscal year.

Property, plant, and equipment of the District is depreciated using the straight line method over the following estimated 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

MAGNA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. 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.

H. 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 2013 was .002838, which is comprised of .001012 for operations and maintenance and .001826 for debt service. The statutory maximum set by the state for operations and maintenance is .001012. There is no statutory maximum for the reduction of general obligation bonds.

I. 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.

2. RESTATEMENT OF NET POSITION

Change in Accounting Principle

The Service Area adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective January 1, 2013. Statement No. 65 requires that debt issuance costs be recognized as an expense in the period incurred. Previously, debt issuance costs were capitalized and amortized over the life of the related debt. As a result of the adoption of this Statement, an adjustment to beginning net position was necessary to remove net deferred bond issuance costs from the balance sheet at January 1, 2013.

Net Position - Beginning of Year (as Previously Reported)	\$ 54,991,175
Adjustment to net deferred bond issuance costs	<u>(125,297)</u>
Net Position - Beginning of Year (as Restated)	<u>\$ 54,865,878</u>

MAGNA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. DEPOSITS AND INVESTMENTS

Deposits and investments for local governments are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, “the Act”) and by rules of the Utah Money Management Council (“the Council”). Following are discussions of the District’s exposure to various risks related to its cash management activities.

A. Deposits

	<u>Bank Balances</u>	<u>Book Balances</u>
Cash on hand	\$ -	\$ 1,300
Cash on deposit	<u>303,517</u>	<u>148,433</u>
TOTAL	<u>\$ 303,517</u>	<u>\$ 149,733</u>

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of a bank failure, the District’s deposits may not be recovered. The District’s policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the District to be in a *qualified depository*, defined 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. As of December 31, 2013, none of the District’s bank balance of \$303,517 was uninsured and uncollateralized.

B. Investments

Credit Risk: Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The District’s policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investments transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of 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 Investors Services or Standard & Poor’s; bankers’ acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bond 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 in the Act.

The District is authorized to invest in the Utah Public Treasurer’s Investment fund (PTIF), as external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants’ average daily balance. The District’s investments in money market funds, Grand Cayman, and the PTIF are unrated.

As of December 31, 2013, the District had the following investments and maturities:

MAGNA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (continued)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Money Market Funds	\$ 608,890	\$ 608,890	\$ -	\$ -	\$ -
Grand Cayman	750,408	750,408	-	-	-
State of Utah Public Treasurer's Investment Fund	<u>19,722,776</u>	<u>19,722,776</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL	<u>\$ 21,082,074</u>	<u>\$ 21,082,074</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by investing mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limited the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less. Maturities of the District's investments are noted above.

Concentration of Credit Risk: 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 policy to reduce this risk is to adhere to the rules of the Money Management Council. The Council's Rule 17 limits investments in a single issuer of commercial paper and corporate obligations to between five and ten percent depending upon the total dollar amount held in the District's portfolio at the time of purchase.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk.

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
CAPITAL ASSETS NOT BEING DEPRECIATED:				
Land	\$ 1,538,507	\$ -	\$ -	\$ 1,538,507
Water rights, water shares, and easements	444,136	21,340	-	465,476
Construction in progress	<u>474,867</u>	<u>1,930,270</u>	<u>(1,356,034)</u>	<u>1,049,103</u>
 Total capital assets not being depreciated	 <u>2,457,510</u>	 <u>1,951,610</u>	 <u>(1,356,034)</u>	 <u>3,053,086</u>

MAGNA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
CAPITAL ASSETS BEING DEPRECIATED:				
Buildings and improvements	\$ 481,984	\$ -	\$ -	\$ 481,984
Water system	42,214,034	1,560,672	(41,872)	43,732,834
Secondary water system	4,985,124	16,915	(355)	5,001,684
Sewer treatment plant	23,272,019	138,641	-	23,410,660
Sewage collection lines	8,521,889	74,325	-	8,596,214
Machinery and equipment	<u>2,366,815</u>	<u>376,389</u>	<u>(316,215)</u>	<u>2,426,989</u>
Total capital assets being depreciated	<u>81,841,865</u>	<u>2,166,942</u>	<u>(358,442)</u>	<u>83,650,365</u>
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings and improvements	(377,953)	(17,627)	-	(395,580)
Water system	(15,218,467)	(1,451,746)	41,864	(16,628,349)
Secondary water system	(758,193)	(156,172)	150	(914,215)
Sewer treatment plant	(9,214,579)	(784,206)	-	(9,998,785)
Sewage collection lines	(4,919,065)	(255,308)	-	(5,174,373)
Machinery and equipment	<u>(1,625,492)</u>	<u>(149,802)</u>	<u>193,032</u>	<u>(1,582,262)</u>
Total accumulated depreciation	<u>(32,113,749)</u>	<u>(2,814,861)</u>	<u>235,046</u>	<u>(34,693,564)</u>
Total capital assets being depreciated, net	<u>49,728,116</u>	<u>(647,919)</u>	<u>(123,396)</u>	<u>48,956,801</u>
CAPITAL ASSETS, NET	<u>\$52,185,626</u>	<u>\$ 1,303,691</u>	<u>\$ (1,479,430)</u>	<u>\$52,009,887</u>

Depreciation expense for the year ended December 31, 2013 was \$2,814,861.

5. LONG-TERM DEBT

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, 2013 was \$13,095,000.

MAGNA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. LONG-TERM DEBT (CONTINUED)

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

<u>Purpose</u>	<u>Issue Date</u>	<u>Original Borrowing</u>	<u>Interest Rates</u>	<u>Final Maturity</u>	<u>Amount</u>
Water Treatment Plant	2005	4,850,000	4.43 - 5.12%	2014	\$ 800,000
Refunding	2013	8,245,000	2.00 - 3.00%	2029	<u>8,245,000</u>
					<u>\$9,045,000</u>

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2014	1,165,000	362,846	1,527,846
2015	515,000	185,314	700,314
2016	525,000	174,912	699,912
2017	535,000	164,312	699,312
2018	550,000	153,462	703,462
2019-2023	2,905,000	588,577	3,493,577
2024-2028	2,535,000	207,103	2,742,103
2029	<u>315,000</u>	<u>4,725</u>	<u>319,725</u>
TOTAL	<u>\$ 9,045,000</u>	<u>\$ 1,841,251</u>	<u>\$ 10,886,251</u>

Current Refunding

In 2013, the District issued \$8,245,000 of general obligation refunding bonds. The proceeds of the bonds issued were used to refund General Obligation bonds Series 2005A and Series 2007, as well as to cover bond costs of approximately \$109,000 associated with the new debt. This refunding resulted in an economic gain to the District in the amount of approximately \$229,000 and reduced cash flow required in connection with debt service requirements by approximately \$222,000.

MAGNA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. LONG-TERM DEBT (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, 2013 was \$10,420,000. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Issue Date</u>	<u>Original Borrowing</u>	<u>Interest Rates</u>	<u>Final Maturity</u>	<u>Amount</u>
Sewer facilities	1994	2,320,000	3.50%	2014	\$ 159,000
Water facilities	1997	1,000,000	2.93%	2018	306,000
Water treatment plant	2007	7,100,000	1.50%	2039	<u>6,326,000</u>
					<u>\$6,791,000</u>

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2014	418,000	109,421	527,421
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
2019-2023	1,114,000	363,930	1,477,930
2024-2028	1,200,000	277,815	1,477,815
2029-2033	1,293,000	185,040	1,478,040
2034-2038	1,393,000	85,155	1,478,155
2039	<u>291,000</u>	<u>4,365</u>	<u>295,365</u>
TOTAL	<u>\$ 6,791,000</u>	<u>\$ 1,393,145</u>	<u>\$ 8,184,145</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.

MAGNA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. LONG-TERM DEBT (CONTINUED)

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2014	46,082	7,322	53,404
2015	46,539	6,861	53,400
2016	47,004	6,396	53,400
2017	47,474	5,926	53,400
2018	47,949	5,451	53,400
2019-2023	247,034	19,966	267,000
2024-2028	249,679	7,365	257,044
 TOTAL	 <u>\$ 731,761</u>	 <u>\$ 59,287</u>	 <u>\$ 791,048</u>

Changes in Long-Term Debt:

Long-term debt activity for the year ended December 31, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:				-	
General obligation bonds	\$ 10,459,000	\$ 8,245,000	\$ (9,659,000)	\$ 9,045,000	\$ 1,165,000
Premiums	-	285,265	(13,319)	271,946	
Revenue bonds	<u>7,360,000</u>	<u>-</u>	<u>(569,000)</u>	<u>6,791,000</u>	<u>418,000</u>
Total bonds payable	17,819,000	8,530,265	(10,241,319)	16,107,946	1,583,000
Water resource loan	777,387	-	(45,626)	731,761	46,082
Capital leases	<u>164,125</u>	<u>236,554</u>	<u>(144,784)</u>	<u>255,895</u>	<u>56,133</u>
TOTAL LONG-TERM DEBT	<u>\$ 18,760,512</u>	<u>\$ 8,766,819</u>	<u>\$ (10,431,729)</u>	<u>\$ 17,095,602</u>	<u>\$ 1,685,215</u>

MAGNA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. RESERVE REQUIREMENTS OF THE 1994 SEWER REVENUE BOND RESOLUTIONS

The District is required to establish three reserve accounts to provide for proper servicing of the 1994 Revenue Bond and repairs and replacement of the treatment facility as considered necessary. Following is a description of these reserve accounts.

Bond and Hardship Grant Assessment Account

This account is to assure the “prompt payment of the Series 1994 Bonds and Hardship Grant Assessment as it becomes due”. The amount set aside and allocated each month should be 1/12 of the principal and interest due the succeeding year. As of December 31, 2013, required reserve fund balances were fully funded.

Reserve Account

The District is also required to make monthly contributions to a Reserve Account to be used to pay the principal falling due on the 1994 Bonds at any time when there are not sufficient funds in the Bond and Hardship Assessment Account to pay the same. Required monthly contributions to this Reserve Account were \$2,275 until the account balance reached \$163,785. As of December 31, 2013, required reserve fund balances were fully funded.

Emergency Reserve Account

In like manner, the District is also required to make a monthly contribution to an Emergency Repair and Replacement Account. The monthly contribution is \$1,137 plus such additional amounts as may be required to meet any monthly installment to said account which has not been previously paid. These contributions were to continue until the account balance reached \$81,893. As of December 31, 2013, required reserve fund balances were fully funded.

Required reserve fund balances as of December 31, 2013 are as follows:

	<u>Amount Required</u>	<u>Amount on Deposit</u>
Bond and Hardship grant assessment account:		
Amounts allocated to principal	\$ 159,000	\$ 159,000
Amounts allocated to interest	<u>5,565</u>	<u>5,565</u>
 TOTAL	 <u>\$ 164,565</u>	 <u>\$ 164,565</u>
 Reserve account	 \$ 163,785	 \$ 163,785
Emergency reserve account	<u>81,893</u>	<u>81,893</u>
 TOTAL RESERVE REQUIREMENTS	 <u>\$ 245,678</u>	 <u>\$ 245,678</u>

The District maintains control of these accounts. However, withdrawals from these accounts are not allowed except for purposes stated in the 1994 Bond and Hardship Grant agreement.

MAGNA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. RESERVE REQUIREMENTS OF THE 1997 WATER REVENUE BOND RESOLUTIONS

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 facility as considered necessary. Following is a description of these reserve accounts.

Debt Service Reserve Account

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, 2013, the required reserve fund balance was fully funded.

Replacement Account

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, 2013, required reserve fund balances were fully funded.

Debt Service Accounts

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, 2013, this required reserve fund balance was fully funded.

Required reserve fund balances as of December 31, 2013 are as follows:

	<u>Amount Required</u>	<u>Amount on Deposit</u>
Reserve accounts	\$ 67,218	\$ 67,244
Replacement accounts	2,770,069	2,770,069
Debt service accounts	<u>66,966</u>	<u>74,548</u>
 TOTAL RESERVE REQUIREMENTS	 <u>\$ 2,904,253</u>	 <u>\$ 2,911,861</u>

MAGNA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. RESERVE REQUIREMENTS OF THE 2007 WATER REVENUE BOND RESOLUTIONS

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.

Reserve Account

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, 2013 required reserve fund balances were fully funded.

Debt Service Accounts

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, 2013, required reserve fund balances were fully funded.

Required reserve fund balances as of December 31, 2013 are as follows:

	<u>Amount Required</u>	<u>Amount on Deposit</u>
Reserve accounts	\$ 296,105	\$ 296,105
Debt service accounts	<u>295,890</u>	<u>329,262</u>
TOTAL RESERVE REQUIREMENTS	<u>\$ 591,995</u>	<u>\$ 625,367</u>

9. 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.

MAGNA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. CAPITAL LEASES (CONTINUED)

The assets acquired through capital leases are as follows:

Asset:	
Machinery and equipment	322,167
Less: Accumulated depreciation	<u>(44,671)</u>
Total	277,496

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2013, were as follows:

<u>Year Ending December 31,</u>	
2014	61,595
2015	75,954
2016	76,264
2017	<u>55,329</u>
Total minimum capital lease payments	269,142
Less: amounts representing interest	<u>(13,247)</u>
Present value of net minimum capital lease payments	255,895
Less: current portion	<u>(56,133)</u>
Long-term capital lease obligations	<u>\$ 199,762</u>

10. UNION EMPLOYEES PENSION PLAN

Most full-time District employees are members of the Western Conference of 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 District makes pension contributions to the Pension Trust fund, a defined benefit pension plan, on behalf of all employees at the rate of \$4.15 per hour.

District contributions to the Trust Fund were \$185,462, \$162,945 and \$168,831, for 2013, 2012, and 2011, respectively.

MAGNA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. 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	\$ 87,908
Interest on net pension obligation	(3,863)
Adjustment to annual required contribution	<u>-</u>
Annual pension cost	84,045
Contributions made	<u>(91,092)</u>
Increase (decrease) in net pension obligation	(7,047)
Net pension obligation - beginning of year	<u>(77,258)</u>
Net pension obligation - end of year	<u><u>\$ (84,305)</u></u>

Funded Status and Funding Progress. As of December 31, 2013, the most recent actuarial valuation date, the plan was 105.6% percent funded. The actuarial accrued liability for the benefits was \$431,710 and the actuarial value of assets was \$455,985, resulting in prepaid pension costs of \$24,275. The covered payroll (annual payroll of active employees covered by the Plan) was \$368,072, and the ratio of the prepaid pension costs to the covered payroll was 6.6%. 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, 2013 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 fiscal year 2013 and the two preceding years were as follows:

Fiscal Year Ended	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
12/31/11	\$ 86,746	105.01%	\$ (57,939)
12/31/12	\$ 90,551	100.60%	\$ (77,258)
12/31/13	\$ 84,045	108.38%	\$ (84,305)

MAGNA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. 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 2013.

13. 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 2013, the District contributed \$7,797 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, 2013, the District had set aside \$372,626 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	\$ 123,951
Interest on net OPEB obligation	18,550
Adjustment to annual required contribution	<u>(25,069)</u>
Annual OPEB cost (expense)	117,432
Contributions made	<u>(7,797)</u>
Increase in net OPEB obligation	109,635
Net OPEB obligation - beginning of year	<u>370,994</u>
Net OPEB obligation - end of year	<u>\$ 480,629</u>

MAGNA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. 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 2013 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/11	\$ 117,557	16.50%	\$ 287,890
12/31/12	\$ 93,042	10.68%	\$ 370,994
12/31/13	\$ 117,432	6.64%	\$ 480,629

Funded Status and Funding Progress. As of December 31, 2013, the actuarial accrued liability for benefits was \$1,183,430, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$368,072, and the ratio of the unfunded actuarial liability to the covered payroll was 321.5 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 2009 United States Life Tables for Males and Females were used.

MAGNA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. NON-UNION EMPLOYEES OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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 6.1 percent was used initially, subsequently ranging from 5.6 to 6.6 percent between 2015 and 2020, then adjusting to an ultimate rate of 6.5 percent after 2021.

Health insurance premiums - 2013 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 2.8 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2013 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 5.0 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, 2013, was twenty-four years.

14. 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 \$10,617, \$10,210 and \$10,207 for the years ended December 31, 2013, 2012, and 2011, respectively.

15. 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, 2013 the District purchased 811 acre feet, at a cost of \$267,121.

16. 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.

MAGNA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

17. 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 2013 the District received \$831,150 (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 \$155,000 in variable service cost from the private industrial firm in connection with its share of operations and maintenance costs of the facility, which has been recorded as an offset to various expense accounts of the District on the statement of revenues, expenses, and changes in net position. The agreement has a provision for a partial refund to the firm if future perchlorate standards merit such a refund. There is also a limited waiver of liability for the firm, subject to the terms and conditions of the agreement.

On December 31, 2012 the District experienced a sewer backup that affected eight residential homes. The District responded to the backup according to the standards set forth for the District. The District reported a claim for damage incurred in connection with the backup to its insurance carrier and upon research and review by the insurance company, the incident was deemed as a "no fault" incident in which the insurance company typically provides to the damaged residents a payout of \$5,000 to each home owner to assist in the repair of the damage. A total of \$40,000 was paid by the insurance company to the eight homeowners. Upon further concern of the District's Board of Trustees regarding the affected residents, the Board also approved a voluntarily match, with no admittance of liability, to the insurance company's "no-fault" claim payout. In 2013, the District paid from its cash reserves \$40,000 in aggregate to the residents. Following further deliberation by the Board, additional meetings with the damaged homeowners, and public outcry, the Board felt it necessary to further assist in the financial burden placed on the homeowners. The District settled with each homeowner in an aggregate cost to the District of \$180,970 (including the \$40,000 paid to match the insurance "no fault" payment). The amount of the settlement was paid from the District's unrestricted cash reserve accounts. Each homeowner provided the District with a Property Damage – Liability Release upon accepting the payment of the settlement.

18. SUBSEQUENT EVENTS

Subsequent to December 31, 2013, the District entered into a construction contract in the amount of approximately \$524,000 in connection with a secondary waterline project.

Additionally, subsequent to December 31, 2013, the District purchased a utility vehicle for approximately \$365,000.

REQUIRED SUPPLEMENTARY 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]
4/1/2011	\$ 309,296	\$ 290,304	\$ (18,992)	106.5%	\$ 353,342	-5.4%
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%

**Magna Water District Other Postemployment Benefits 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]
12/31/2011	\$ -	\$ 1,128,033	\$ 1,128,033	0.0%	\$ 353,342	319.2%
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%

OTHER SUPPLEMENTARY INFORMATION

MAGNA WATER DISTRICTSCHEDULE OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITIONFOR THE YEAR ENDED DECEMBER 31, 2013

OPERATING REVENUES:

Charges for services:

Water sales - culinary	\$ 2,911,162
Water sales - secondary	132,719
Sewer service charges	2,071,067
Connection fees and other income	181,196
	<u>5,296,144</u>

OPERATING EXPENSES

Salaries and benefits:

Salaries and wages - plant	882,844
Salaries and wages - office	506,553
Trustees' salaries	15,000
Payroll taxes and fringe benefits	996,784
	<u>2,401,181</u>

Contractual services:

Legal	99,154
Lobbyist fees	60,000
Accounting	25,000
Engineering	326,666
Data processing services	32,774
Janitorial	4,500
Lab and testing	51,477
	<u>599,571</u>

Materials and supplies:

Repairs, maintenance and supplies	635,694
Office supplies and postage	85,688
Water purchased	267,121
	<u>988,503</u>

Utilities:

Electricity & fuel for water production & sewer processing	540,094
Office and general, electricity and fuel	6,265
Telephone and paging	28,686
	<u>575,045</u>

Depreciation and amortization	<u>2,814,861</u>
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MAGNA WATER DISTRICT
SCHEDULE OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2013

Lease expense	\$ 21,146
Other operating expenses:	
Transportation	79,809
Bad debts	803
Insurance	122,551
Training	31,330
Miscellaneous	<u>294,249</u>
	<u>528,742</u>
 TOTAL OPERATING EXPENSES	 <u>7,929,049</u>
 OPERATING (LOSS)	 <u>(2,632,905)</u>
 NON-OPERATING REVENUES (EXPENSES):	
Property tax revenue	2,667,555
Non-resident fee in lieu of property taxes	45,902
Impact fees	229,183
Gain on sale of assets	33,758
Other non-operating income	831,150
Intergovernmental revenue	35,000
Interest income	101,122
Interest (expense)	(362,064)
Debt issuance costs	<u>(109,355)</u>
 TOTAL NON-OPERATING REVENUES (EXPENSES)	 <u>3,472,251</u>
 INCOME BEFORE CAPITAL CONTRIBUTIONS	 <u>839,346</u>
 CONTRIBUTED LINES, WATER SHARES AND METERS	 <u>205,853</u>
 CHANGE IN NET POSITION	 <u>\$ 1,045,199</u>

MAGNA WATER DISTRICT
SCHEDULE OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION – COMPARED WITH BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Approved Budget</u>	<u>Actual</u>	<u>Difference Favorable (Unfavorable)</u>
OPERATING REVENUES:			
Water sales	\$ 2,875,000	\$ 3,043,881	\$ 168,881
Sewer service charges	2,000,000	2,071,067	71,067
Connection fees and other income	121,074	181,196	60,122
	<u>4,996,074</u>	<u>5,296,144</u>	<u>300,070</u>
OPERATING EXPENSES:			
Salaries and benefits	2,409,500	2,401,181	8,319
Contractual services	507,500	599,571	(92,071)
Materials and supplies	1,255,200	988,503	266,697
Utilities	631,100	575,045	56,055
Depreciation and amortization	2,968,700	2,814,861	153,839
Lease expense	18,000	21,146	(3,146)
Other operating expense	434,700	528,742	(94,042)
	<u>8,224,700</u>	<u>7,929,049</u>	<u>295,651</u>
OPERATING (LOSS)	<u>(3,228,626)</u>	<u>(2,632,905)</u>	<u>595,721</u>
NON-OPERATING REVENUES:			
Property tax revenue	2,226,775	2,667,555	440,780
Non-resident fee in lieu of property taxes	45,000	45,902	902
Impact fees	205,000	229,183	24,183
Gain on disposal of assets	72,000	33,758	(38,242)
Intergovernmental revenue	-	35,000	35,000
Other non-operating income	831,150	831,150	-
Interest income	100,000	101,122	1,122
	<u>3,479,925</u>	<u>3,943,670</u>	<u>463,745</u>
NON-OPERATING EXPENSE:			
Interest expense	406,000	362,064	43,936
Debt issuance costs	-	109,355	(109,355)
	<u>406,000</u>	<u>471,419</u>	<u>(65,419)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	<u>(154,701)</u>	<u>839,346</u>	<u>994,047</u>
CONTRIBUTED LINES, WATER SHARES AND METERS	<u>793,132</u>	<u>205,853</u>	<u>(587,279)</u>
CHANGE IN NET POSITION	<u>\$ 638,431</u>	<u>\$ 1,045,199</u>	<u>\$ 406,768</u>



PINNOCK, ROBBINS, POSEY & RICHINS

Certified Public Accountants • A Professional Corporation

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

Board of Trustees
Magna Water District
Magna, Utah

We have audited, 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, the financial statements of Magna Water District (the District) as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated June 17, 2014.

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 opinion 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 a 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 over financial reporting 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 control 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 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.

Pinnock, Robbins, Posey & Richins

Salt Lake City, Utah
June 17, 2014



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE *STATE OF UTAH LEGAL COMPLIANCE AUDIT GUIDE***

To the Board of Trustees and Management
Magna Water District
Magna, Utah

REPORT ON COMPLIANCE

We have audited Magna Water District's (the District) compliance with the general compliance requirements described in the *State of Utah Legal Compliance Audit Guide* for the year ended December 31, 2013.

The general compliance requirements applicable to the Service Area are identified as follows:

- Cash Management
- Budgetary Compliance
- Impact Fees
- Government Records Access Management Act
- Conflicts of Interest

The District did not receive any major assistance programs from the State of Utah during the year ended December 31, 2013.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the District's management.

Auditor's Responsibility

Our responsibility is to express an opinion on the District's compliance based on our audit.

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 of Utah Legal Compliance Audit Guide*. Those standards and the *State of Utah Legal 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 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. Our audit does not provide a legal determination of the District's compliance with those requirements.

Opinion

In our opinion, the District complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the *State of Utah Legal Compliance Audit Guide* and which is described in the accompanying schedule of findings and recommendations as item 2013-1.

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, we considered the District's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, 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.

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 that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A deficiency in internal control over compliance 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, noncompliance 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 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 of Utah legal 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and recommendations as item 2013-1 to be a significant deficiency.

District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of 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.

Purpose of Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance over general compliance requirements described in the *State of Utah Legal Compliance Audit Guide* and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. Accordingly, this communication is not suitable for any other purpose.

Dinnock, Robbins, Posey & Richins

Salt Lake City, Utah
June 17, 2014

MAGNA WATER DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
UTAH STATE LEGAL COMPLIANCE

YEAR ENDED DECEMBER 31, 2013

2013-1 Financial Reports Provided to the Board of Trustees

Utah State law requires that management provide to the Board of Trustees quarterly financial statements. Although the Board of Trustees has regularly been provided with sufficient reporting in connection with the District's disbursements, we noted during our audit that the board has not been provided with complete financial statements on, at a minimum, a quarterly basis. We recommend that controls be established to ensure that the Board of Trustees is provided with quarterly financial statements.

Management's Response

Management will comply with providing the Board of Trustees interim financial statements on at least a quarterly basis.