



Financial Statements  
December 31, 2016 and 2015

**Mountain Regional Water Special  
Service District**  
A Component Unit of Summit County, Utah

Mountain Regional Water Special Service District  
A Component Unit of Summit County, Utah

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December 31, 2016 and 2015

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## Independent Auditor's Report

The Administrative Control Board  
Mountain Regional Water Special Service District  
A Component Unit of Summit County  
Park City, Utah

### Report on the Financial Statements

We have audited the accompanying financial statements of Mountain Regional Water Special Service District (a component unit of Summit County), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### 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 audits. We conducted our audits 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of Mountain Regional Water Special Service District as of December 31, 2016 and 2015, and the respective changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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## **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 3-25, schedule of the proportionate share of the net pension liability on page 50 and schedule of contributions on page 51, 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2017 on our consideration of Mountain Regional Water Special Service 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 Mountain Regional Water Special Service District's internal control over financial reporting and compliance.



Ogden, Utah  
June 14, 2017

## **Overview of Basic Financial Statements**

This section of the Mountain Regional Water Special Service District, a component unit of Summit County, (District) report serves as an introduction to its basic financial statements for the years ended December 31, 2016 and 2015 and presents management's discussion and analysis of its financial condition.

Please read this in conjunction with the District's basic financial statements, which follow this section. The financial statements comprise three components: 1) its enterprise fund financial statements, 2) notes to the basic financial statements, and 3) required supplemental information. These statements include all District activities.

## **Component Unit Financial Statements**

The District operates as an enterprise fund and is a component unit of Summit County, Utah. Enterprise funds account for operations that are financed and operated in a manner similar to a private business where the intent of the governing body is that the costs of providing goods and services be financed or recovered primarily through user charges. The District is financed primarily through water sales, service fees, and impact fees. It does not impose any taxes.

## **Notes to Financial Statements**

The notes provide additional information essential to a full understanding of the data provided in the financial statements. The notes are a part of the basic financial statements.

## **District Background**

The District was created in 2000 by the Summit County Commission (now Council) to regionalize water service in the Snyderville Basin by consolidating several water companies. Since 2000 several new developments have annexed into the District, including the Promontory golf course and Colony mountain developments near Park City. The District now covers almost 40 square miles.

The District maintains a centralized, regional water system currently serving 3,518 customers using water. Based upon actual usage, however, the District provided water for 9,039 Equivalent Residential Connections (ERCs) in 2016 when two golf courses and wholesale sales to other water companies are included.

In addition 1,709 undeveloped lots exist within the District that have a water system installed in a ready-to-serve state for which a standby fee is assessed.

The area served by the District has two world-renowned ski resorts within five miles of each other: Park City and Deer Valley. The Sundance Film Festival is held in the area each winter.

In addition to the other world-renowned winter activities available at the facilities constructed in the Park City area to host the 2002 Winter Olympic Games - such as ski jumping, bobsledding, and cross country skiing; summer and fall activity is growing as well - including arts festivals, concerts, sporting events, and a variety of other activities. There are several upscale gated communities served by the District, two of which have golf courses.

## Summary of 2016 Financial Changes

### Change in Net Position and Cash Position

The District realized \$4.10 million change in net position (net income) for 2016. After making adjustments for non-budget year-end journal entries, the District's change in net position exceeded budget by \$2.02 million. District revenue exceeded budget by \$1.57 million (14.4%) as development related collections remained strong and hot dry weather led to improved water sales.

Excluding bond proceeds restricted for construction projects, District cash increased \$1.55 million during 2016. Further, year-end 2016 operating cash and reserves amounted to 211 days reserves, based upon annual budgeted cash operating expenditures. District policy requires a minimum 120 days reserves throughout the entire year. The 211 day balance at year-end 2016 should be sufficient to maintain the 120 day policy minimum throughout 2017.

The District attempts to finish each year with a minimum \$500,000 balance in capital facility repair and replacement funds. The year-end 2016 balance was \$965,125, compared to \$589,672 at year-end 2015.

The District maintains all required bond debt reserves at mandatory levels, and maintains additional debt reserves as well.

### Implementation of Governmental Accounting Standards Board (GASB) #68 and #71

In 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

In short, these pronouncements require the District to report on its financial statements any actuarially determined pension assets, unfunded pension liabilities, and pension related deferred inflows and outflows. As of December 31, 2016, the reported liability was \$968,804 and the reported assets was \$87. This compares to \$709,392 in liabilities and \$1,350 in assets reported as of December 31, 2015.

In addition, these GASB pronouncements require the District to report the actuarially determined pension expense rather than the cash contributions. For 2016, actuarial pension expense was \$231,046; while the actual 2016 cash contributions made to the pension fund were \$318,140 – a difference of \$87,094. This compares to \$177,043 in actuarial pension expense for 2015, while \$303,014 in actual 2015 cash contributions were made to the pension plan – a difference of \$125,971.

For 2015, a one-time \$606,752 reduction in unrestricted net position was made, effective January 1, 2015 to account for the new pension reporting requirements under GASB.

### Regionalization Reserve Fund Established

The District entered into a water regionalization agreement in 2013 among the three largest retail water entities in the Snyderville Basin and Weber Basin Water Conservation District. The intent of the agreement is to consolidate future water importation projects into the basin to create economies of scale.

Under the terms of this agreement, the District will start paying Weber Basin a \$200,000 annual regionalization fee in 2020. At that time, the District will also start paying an additional \$45,000 per year in new Davis Weber lease fees.

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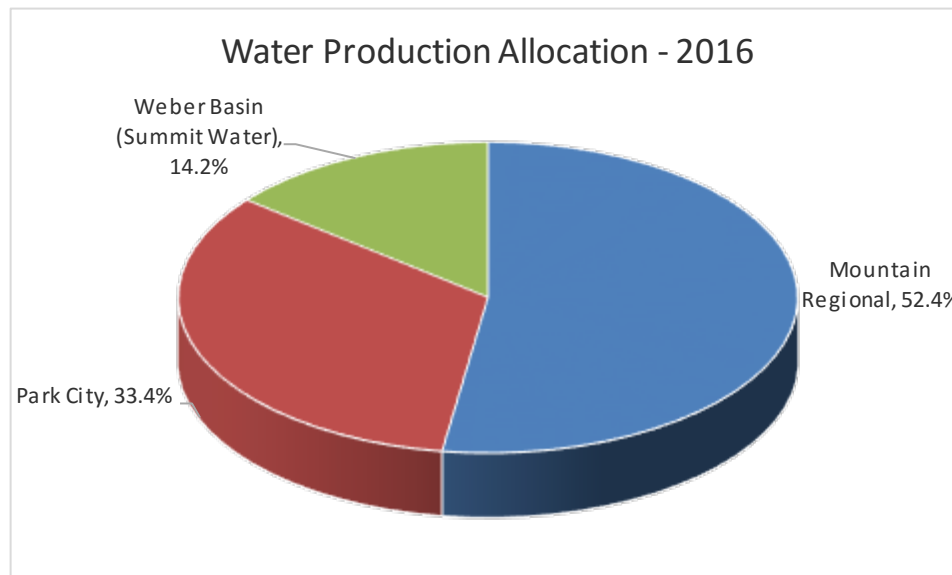
Under this agreement, the District is now selling its surplus water to Weber Basin, who is then selling it to other water entities in the basin. This will continue until the District runs out of surplus water due to customer growth, and a new importation project is constructed – which could be in the next seven to ten years.

The District generated \$684,600 of revenue from Weber Basin in 2016, compared to \$367,200 in 2015. It is anticipated these Weber Basin sales will generate between \$850,000 and \$1.0 million per year moving forward - until such time as the new project is completed. The net cash benefit is estimated to be about 30% of the revenue generated.

As such, the District created a regionalization reserve fund in 2015 into which this net cash benefit will be deposited each year. It is anticipated these reserves will be used to prepay long-term debt due between 2019 and 2023 to help offset the \$245,000 in additional annual costs related to the regionalization agreement that begin in 2020. At year-end 2016, the District held \$751,649 in this fund.

Wholesale Water Sales Now Account for Nearly 50% of District Production

About one-half of the District's 2016 water production of 4,761 acre feet was provided to other retail water entities (Park City and Weber Basin); while the other half was provided to District retail customers, as shown below.



Increasing wholesale water sales provide some revenue stability to help mitigate the cyclical nature of retail water sales to District customers due to weather patterns; as the wholesale water sales to Park City and Summit Water (through Weber Basin) are take-or-pay contracts. Under take-or-pay contracts, the wholesale customer pays the total price for the full quantity of water for which it has contracted each year – even if the customer does not use it all.

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As part of the regionalization agreement discussed above, Weber Basin paid the District for 700 acre feet of wholesale water in 2016. Weber Basin then resold this water to Summit Water. Of this, Summit Water used 677 acre feet – which is the quantity represented in the graph above.

Park City paid for 2,900 acre feet of wheeled water on a take-or-pay basis in 2016. Of this, 1,591 acre feet of raw water was actually wheeled to Park City's treatment plant as part of an agreement between the District and Park City. This 1,591 acre feet is the amount represented in the graph above.

Meanwhile, District retail customers used 2,493 acre feet in 2016. This compares to 2,162 acre feet consumed by District retail customers in 2015. This increase resulted from hot dry weather and customer growth. As discussed later, water sales can vary significantly each year depending on weather patterns.

Prior to 2015, the quantity of water provided to District retail customers always easily exceeded the quantity of actual wholesale water provided to other water entities.

It is anticipated that wholesale water sales as a percent of total production could increase moving forward, as Weber Basin agreed to purchase 800 acre feet in 2017, compared to 700 acre feet in 2016, and when Park City takes a larger portion of its 2,900 acre foot contract.

## **Financial Policies and Controls**

### Financial Planning

The District updates its five year financial plan during each budget cycle to identify financial issues before they become problems. Along with the rate stabilization reserves, this helps stabilize rates and charges despite fluctuations in building related revenue and the impact of weather on water sales. This analysis shows the next rate increase will be needed in 2019.

In addition, the District updated its capital facilities plans and adjusted the related impact fees in 2014. The District anticipates updating this capital facilities plan by 2018.

### Budgeting

The District utilizes zero-based budgeting in order to fund programs based upon current needs and priorities. District management and the Control Board review budgets and revenue projections monthly, and more often near year-end. The District has demonstrated the ability to make expenditure cuts when necessary due to revenue shortfalls.

### Rate Stabilization Fund

The District has established a rate stabilization fund to help deal with cyclical development related revenue, assessment prepayments, and treatment plant costs that vary dramatically year to year. Further the impact of weather on annual water sales can be significant.



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Debt Service Sub Fund

District policy is to maintain at least \$1.0 million in the Debt Service Sub Fund. The balance can only be used to make parity debt payments in the unlikely case insufficient cash is generated from operations any given year. In this unlikely event of a cash shortfall, the amount transferred from this fund to cover the shortfall can be included in that year's debt coverage calculation. However, it is a violation of District policy to use these funds to calculate debt coverage for budget purposes.

If the balance in this fund drops below \$1.0 million, the District has three years to replenish it. The year-end 2016 balance is approximately \$1.08 million.

Prepaid Assessment Sub Fund

Two developments in the District are required to pay assessments that are applied to related debt payments. As some of these assessments are prepaid before related debt payments are due, these prepayments are deposited in the Prepaid Assessment Sub Fund.

In future years when lower assessments are collected, the Prepaid Assessment Sub Fund balance may be used to calculate both budgeted and actual year-end debt coverage ratios. The year-end 2016 balance is \$56,393.

Treatment Plant Sub Fund

The District budgeted the same \$65,000 amount each year through 2016 for high cost carbon and membrane filters whether it planned to acquire any or not. Starting in 2017, this amount increased to \$115,000. This represents one-tenth the amount it is anticipated will be spent over the next ten years on these two items.

In most years little or no funds will be spent on these items, and the unused budget amount is deposited into the Treatment Plant Sub Fund.

In years when the actual amount expended is expected to exceed the annual budget amount, the District will include the portion of the Treatment Plant Sub Fund needed to pay for the amount spent on carbon and membrane filters beyond the annual budget amount for both its budget and actual year-end debt coverage calculations.

The 2016 year-end balance is \$87,895. During 2016, \$87,968 was spent on carbon.

Detail Policies and Internal Controls

The District has established purchasing policies and controls, in compliance with state law, to ensure proper procedures are followed and that District purchases represent best value.

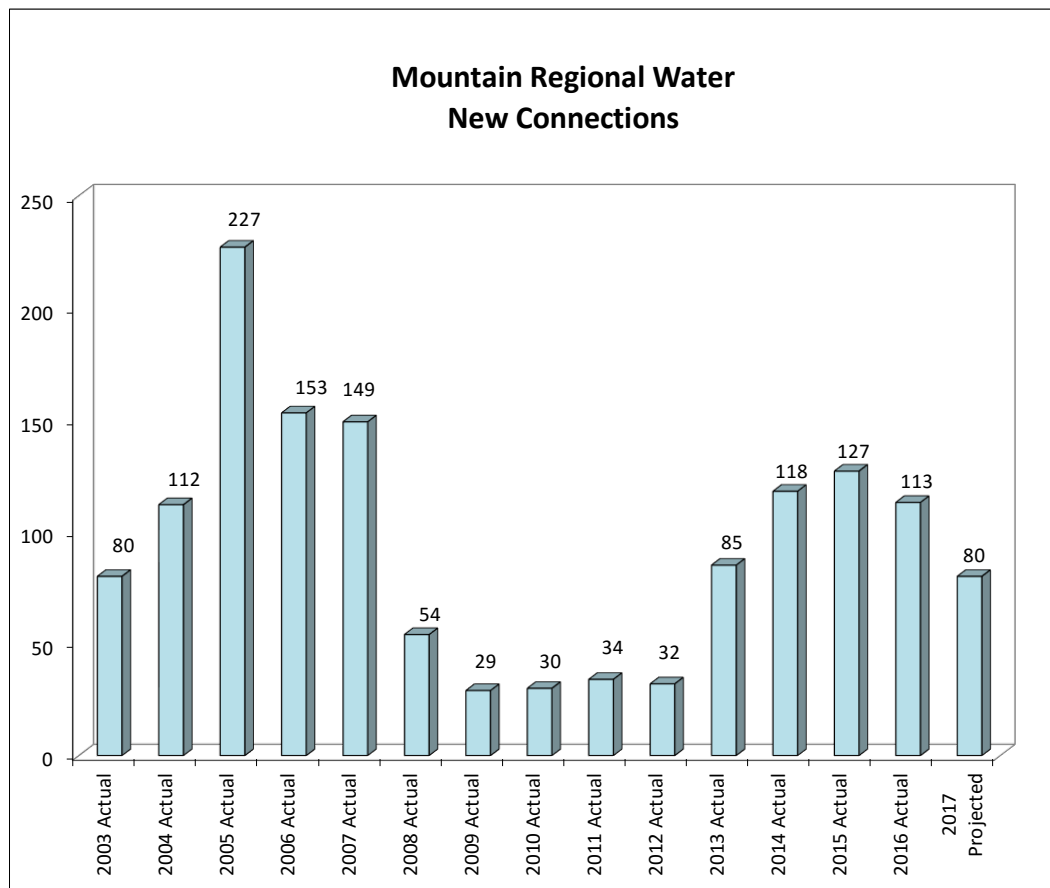
In addition, the District has established Human Resource policies, in compliance with state and federal law, to ensure proper procedures are followed and documented in its dealings with employees.

The District has also established detailed administrative policies and internal controls for all financial functions to ensure the proper checks and balances are in place in order to help prevent fraud, and to ensure all accounting transactions are entered correctly.

## Economic and Demographic Trends

### Building Activity

As shown below, the local building economy has been “boom” or “bust” the past 15 years.



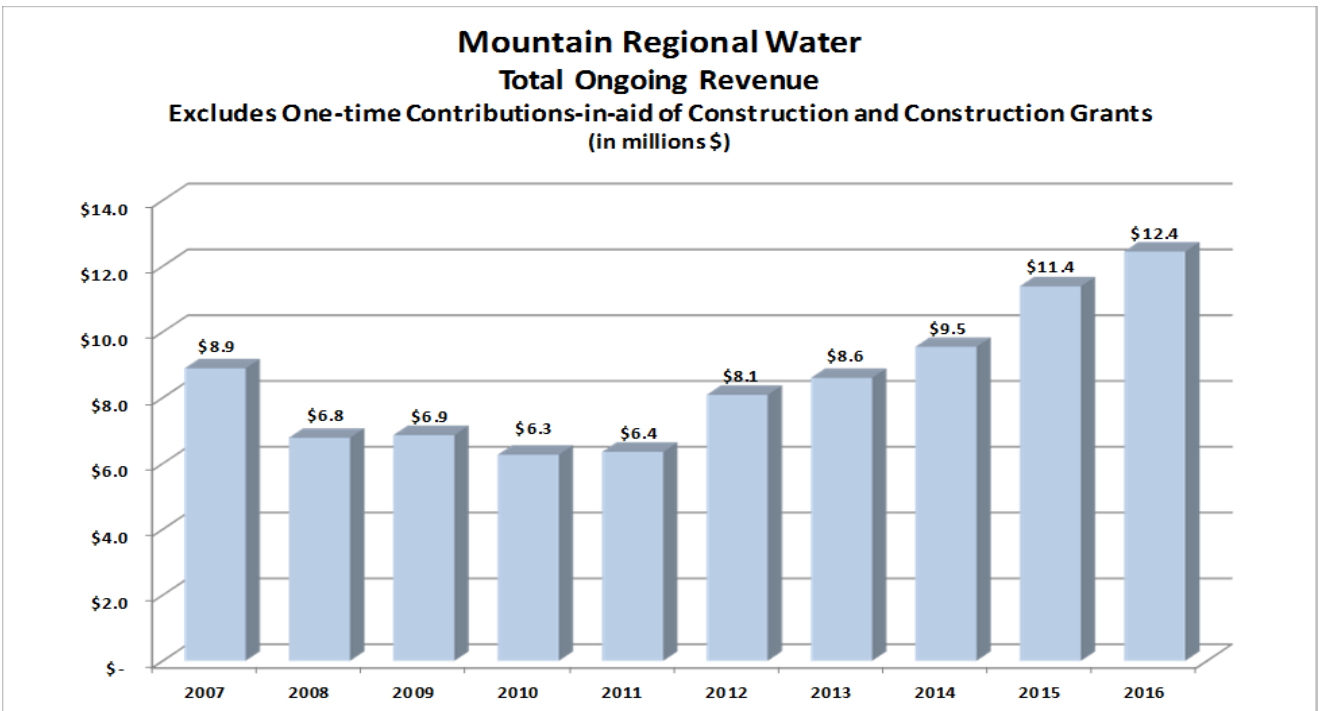
This, in turn, leads to significant swings in one-time impact and connection fees collections, and the related ongoing year-over-year increase in retail water sales. Typically, faster customer growth translates into lower rate and fee increases long-term since District's costs are largely fixed and it currently has sufficient excess capacity to meet its projected growth needs over the next ten to fifteen years.

As shown above, new connections using water rebounded significantly in 2014 with 118 new connections, and has remained strong with an additional 127 new connections in 2015 and 113 new connections in 2016. This has led to a significant increase in development related revenue. In fact, impact fee collections were \$1.20 million in 2016, while for 2015 collections were a record \$1.25 million. Meanwhile, annual impact fee collections averaged just \$223,106 during the “bust” years of the local building economy from 2008 to 2012.

As such, the District's 2017 revenue budget is based upon 80 new connections – which is the ten year moving average.

Revenue Trends

District revenue is very sensitive to building activity and weather patterns as shown below.

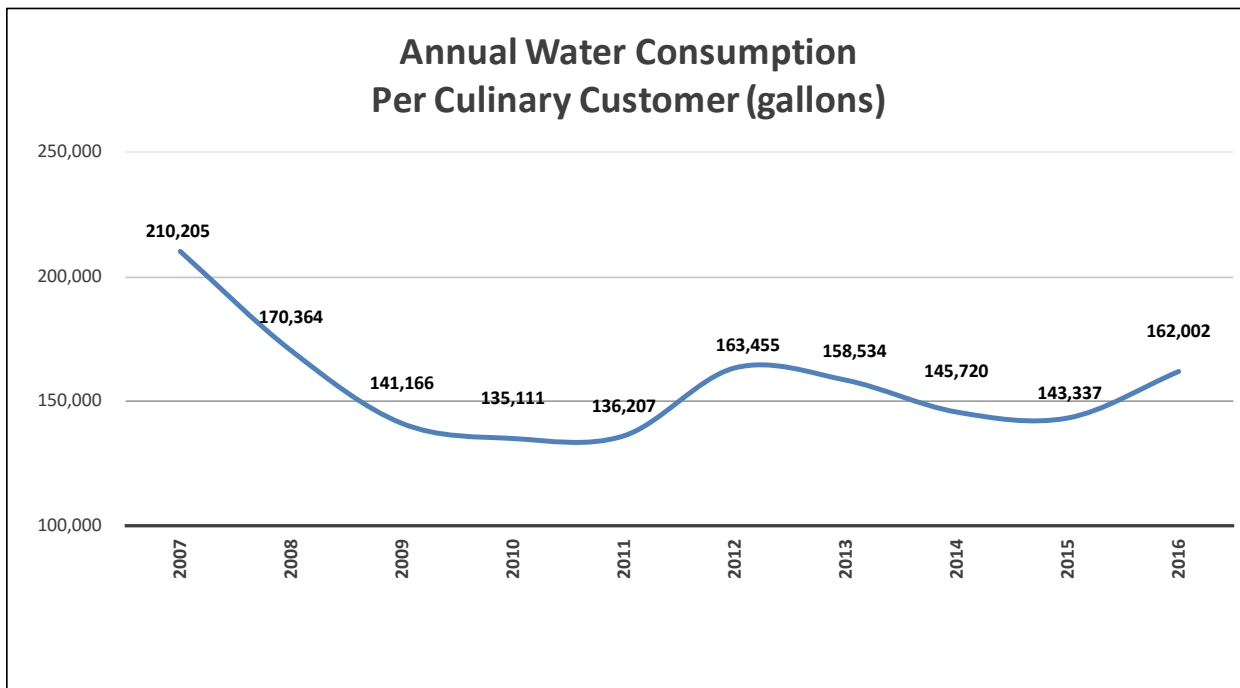


District revenue (excluding one-time contributions-in-aid of construction and construction grants) was between \$6.3 million and \$6.9 million between 2009 and 2011 due to the economic downturn and cool wet weather that dampened collections. This, in turn, led to budget cuts during those years, along with rate and fee increases adopted in 2011 and 2014.

Collections have rebounded steadily since 2011, as District revenue (excluding one-time contributions-in-aid of construction and construction grants) increased from the \$6.4 million in 2011 to \$12.4 million in 2016 – a 95.6% increase.

The water rate and fee increases adopted in August 2011 and again in August 2014, combined with higher new connections, resulted in a 51.1% increase in overall retail water sales between 2011 and 2016, from \$5.01 million to \$7.57 million. This growth in water sales is sustainable over the long-term so long as the local building economy remains in a “boom”; although retail water sales will likely vary dramatically year over year due to weather patterns.

The chart below shows the average annual consumption per retail customer over the past ten years.

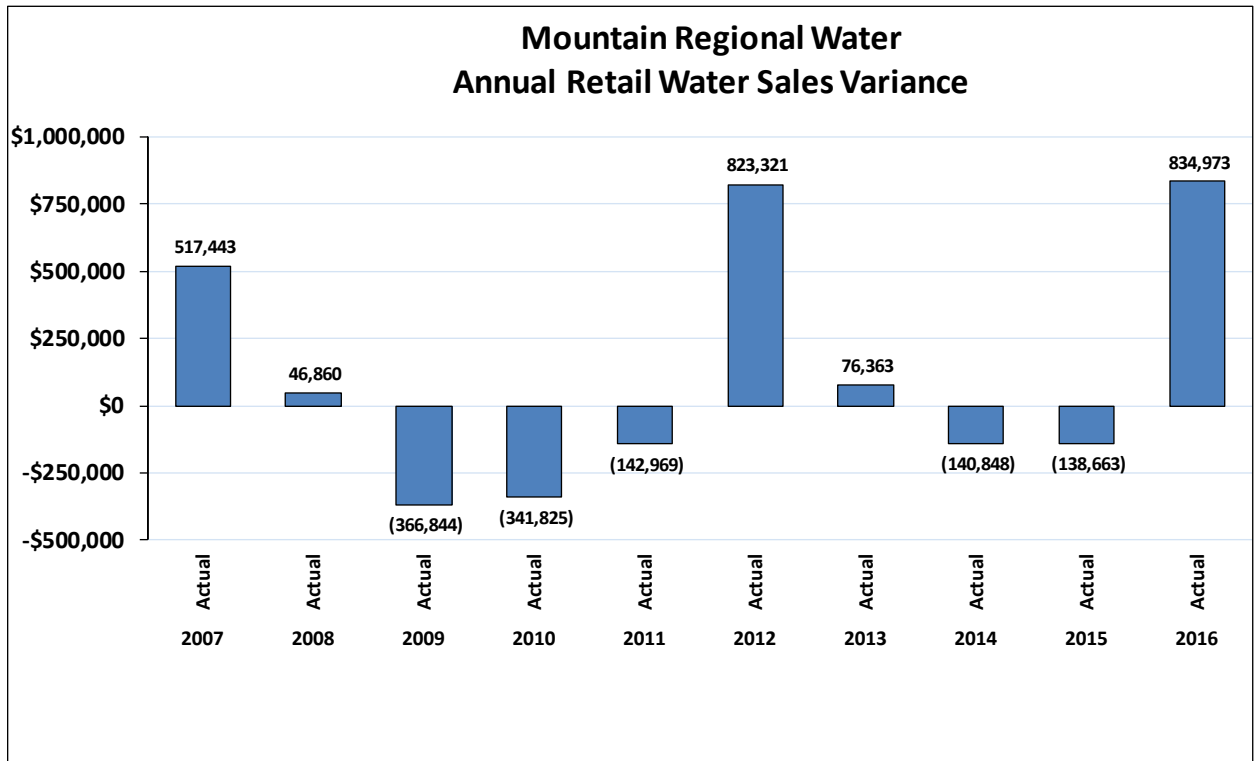


Unusually hot dry weather in 2012, and again in 2016, resulted in 163,455 gallons usage per retail culinary customer in 2012, and 162,002 gallons in 2016, respectively. The years shown above with lower usage experienced normal or cool wet weather.

Because the District has adopted conservation rates that result in higher charges per 1,000 gallons as monthly usage increases, the variance in retail water sales is even greater than the variance in consumption caused by weather patterns.

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The chart below shows the annual retail water sales budget variance over the past ten years.



The unusually hot dry weather experienced in 2012, and again in 2016, resulted in retail water sales that were \$823,321 and \$834,973 above budget projections, respectively. Meanwhile, the cooler wetter weather during 2014 and 2015 resulted in retail water sales that were \$140,848 and \$136,663 below budget projections, respectively.

As discussed previously, the acceleration in building activity from an average of 31 new annual connections between 2009 and 2012, to an average of 111 connections between 2013 and 2016 led to a \$1.22 million increase in impact and operating (mostly meter connection) fees over that same period. This represents a 309.3% increase.

However, it is unlikely that this level of growth will continue long-term, as the building economy is very cyclical. As such, the District's 2017 budget projects just \$11.01 million in total revenue (excluding grants and contributions in-aid-of construction) despite collecting \$12.44 million during 2016.

Debt Coverage Ratio

Bond covenants require the District to set rates, fees, and ongoing expenditures such that once all other operational costs are paid each year, the amount left to pay debt service is 1.25 times scheduled parity debt payments. As shown on the next page, the 2016 debt coverage ratio from current year operations improved from a very healthy 1.79 in 2015 to an even stronger 1.88 for 2016.

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**Mountain Regional Water Special Service District's Debt Service Coverage Ratio**

|   | <b>2016</b>        | <b>2015</b>        | <b>2014</b>        |
|---|--------------------|--------------------|--------------------|
| Water sales   | \$ 8,881,039       | \$ 7,571,009       | \$ 6,812,829       |
| Operating fees  | 407,984            | 421,448            | 350,920            |
| Impact fees   | 1,204,382          | 1,254,502          | 625,850            |
| SID assessments   | 1,742,175          | 1,730,632          | 1,575,816          |
| Interest available for debt service                                       | 111,291            | 80,464             | 29,670             |
| Treatment Plant Stabilization Fund  | 87,968             | 87,184             | -                  |
| Other non-restricted cash revenue   | 114,908            | 331,201            | 148,208            |
| Total cash available for debt service from current year operations        | <u>12,549,747</u>  | <u>11,476,440</u>  | <u>9,543,293</u>   |
| Current year cash operating expenses                                      | (5,405,974)        | (5,139,554)        | (4,740,832)        |
| Actuarial pension adjustment  | (87,094)           | (125,447)          | n/a                |
|   | <u>(5,493,068)</u> | <u>(5,265,001)</u> | <u>(4,740,832)</u> |
| Net cash available for debt service payments from current year operations | <u>7,056,679</u>   | <u>6,211,439</u>   | <u>4,802,461</u>   |
| Current year parity debt service payments                                 | <u>3,747,398</u>   | <u>3,463,535</u>   | <u>3,203,382</u>   |
| Debt service coverage from current year operations                        | <u>1.88</u>        | <u>1.79</u>        | <u>1.50</u>        |
|   |                    |                    |                    |
| Net cash available for debt service payments from current year operations | 7,056,679          | 6,211,439          | 4,802,461          |
| Rate Stabilization Fund balance   | 1,219,370          | 1,226,512          | 1,227,634          |
| Total cash available for debt service payments                            | <u>8,276,049</u>   | <u>7,437,951</u>   | <u>6,030,095</u>   |
| Debt service coverage with Rate Stabilization fund                        | <u>2.21</u>        | <u>2.15</u>        | <u>1.88</u>        |

The District does not expect this ratio to remain at these levels long-term, as development related revenue is currently at all-time highs and it is unlikely the current high level of collections will continue indefinitely. Further, debt payments are increasing. As such, the coverage ratio is projected to decline to around 1.35 to 1.40 over the next few years.

As a note, when the \$1.22 million rate stabilization fund balance is included, the 2016 coverage ratio improves to 2.21 – compared to 2.15 for 2015.

Cash Flow

Following the Great Recession when the District's total cash balance dropped to what a rating agency described as "barely adequate", the District's cash position is now very strong. In fact, after accounting for the \$1.31 million decline in bond proceeds restricted for construction projects, District cash actually increased \$1.55 million in 2016.

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**Mountain Regional Water Special Service District's Cash Summary  
(Book Value)**

|  | 2016                 | 2015                 | 2014                 | \$<br>Change<br>2016 to 2015 | %<br>Change<br>2016 to 2015 |
|--|----------------------|----------------------|----------------------|------------------------------|-----------------------------|
| Unrestricted cash and reserves held by district                |                      |                      |                      |                              |                             |
| Operating cash & reserves                                      | \$ 3,318,364         | \$ 3,166,757         | \$ 2,512,242         | \$ 151,607                   | 4.8 %                       |
| Rate stabilization fund  |                      |                      |                      |                              |                             |
| Subfund for debt service                                       | 1,075,082            | 1,064,910            | 1,058,615            | 10,172                       | 1.0                         |
| Subfund for prepaid assessments                                | 56,393               | 51,688               | 37,576               | 4,705                        | 9.1                         |
| Subfund for treatment plant                                    | 87,895               | 109,914              | 131,443              | (22,019)                     | (20.0)                      |
| Regionalization reserve  | 751,649              | 382,126              | 6,351                | 369,523                      | 96.7                        |
| Total unrestricted cash and reserves held by the District      | <u>5,289,383</u>     | <u>4,775,395</u>     | <u>3,746,227</u>     | <u>513,988</u>               | <u>10.8</u>                 |
| Cash restricted for debt payments                              |                      |                      |                      |                              |                             |
| Held by trustee  | 738,437              | 510,669              | 194,273              | 227,768                      | 44.6                        |
| Held by district   | 390,568              | 580,825              | 319,367              | (190,257)                    | (32.8)                      |
| Total cash restricted for debt payments                        | <u>1,129,005</u>     | <u>1,091,494</u>     | <u>513,640</u>       | <u>37,511</u>                | <u>3.4</u>                  |
| Other restricted cash  |                      |                      |                      |                              |                             |
| Impact fees  | 1,858,613            | 1,243,343            | 859,655              | 615,270                      | 49.5                        |
| Capital facilities construction, repair & replacement reserves | 965,125              | 589,672              | 550,327              | 375,453                      | 63.7                        |
| IRS rebate   | 6,323                | 6,266                | 6,228                | 57                           | 0.9                         |
| Customer deposits  | 305,855              | 299,459              | 320,596              | 6,396                        | 2.1                         |
| Bond construction funds  | 2,520,626            | 3,829,119            | 8,662,724            | (1,308,493)                  | (34.2)                      |
| Total other restricted cash                                    | <u>5,656,542</u>     | <u>5,967,859</u>     | <u>10,399,530</u>    | <u>(311,317)</u>             | <u>(5.2)</u>                |
| Total cash   | <u>\$ 12,074,930</u> | <u>\$ 11,834,748</u> | <u>\$ 14,659,397</u> | <u>\$ 240,182</u>            | <u>2.0 %</u>                |

A large part of this increase was in unrestricted cash and reserves, which increased \$513,988 (10.8%) in 2016 to \$5.29 million due to strong water sales. Unrestricted cash and reserves increased \$1.03 million (27.5%) in 2015.

Meanwhile, operating cash and reserves increased to \$3.32 million during 2016 – which is 211 days reserves. This compares to \$3.17 million or 213 days reserves at year-end 2015. Even though operating cash and reserves increased \$151,607 in 2016, the days reserves declined by two days because budgeted cash operating expenses were also higher in 2016.

District policy requires a minimum 120 days reserves year-round. Operating cash and reserves is generally lowest April through June. The 211 days reserves at year-end 2016 should be more than sufficient to maintain 120 days during all of 2017.

Cash restricted for debt payments has been maintained at mandatory levels or higher since the District's inception and finished at \$1.13 million for 2016. This represents a nominal \$37,511 (3.4%) increase over 2015.

Other restricted cash decreased \$311,317 (5.2%) in 2016 due to a \$1.31 million decline in Series 2014 bond proceeds used to pay for construction projects. On the other hand, impact fee reserves increased \$615,270 (49.5%). As mentioned previously, this increase was driven by higher than normal building activity in 2016.

Capital facility reserves increased \$375,453 (63.7%) in 2016 as contractually required deposits increased and the amount of funds used to pay for repairs and replacement was not significant.

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**District Financial Analysis**

Net Position

An entity's net position (i.e. total assets plus deferred outflows, less total liabilities and deferred inflows) may serve over time as a useful indicator of a government's financial condition, as shown below.

**Mountain Regional Water Special Service District's Change in Net Position**

|   | 2016                 | 2015                 | 2014                 | \$<br>Change<br>2016 to 2015 | %<br>Change<br>2016 to 2015 |
|---|----------------------|----------------------|----------------------|------------------------------|-----------------------------|
| Operating revenue                       | \$ 9,357,079         | \$ 8,067,495         | \$ 7,216,662         | \$ 1,289,584                 | 16.0 %                      |
| Operating expenses                      | (6,880,452)          | (6,605,527)          | (6,170,387)          | (274,925)                    | 4.2                         |
| Operating income                        | <u>2,476,627</u>     | <u>1,461,968</u>     | <u>1,046,275</u>     | <u>1,014,659</u>             | <u>69.4</u>                 |
| <br>                                    |                      |                      |                      |                              |                             |
| Non-operating revenue                   | 3,118,016            | 3,333,972            | 2,338,710            | (215,956)                    | (6.5)                       |
| Non-operating expense                   | (1,530,423)          | (1,683,498)          | (1,680,523)          | 153,075                      | (9.1)                       |
| Income before operating transfers       | <u>4,064,220</u>     | <u>3,112,442</u>     | <u>1,704,462</u>     | <u>951,778</u>               | <u>30.6</u>                 |
| <br>                                    |                      |                      |                      |                              |                             |
| Transfers and contributions to district | <u>35,064</u>        | <u>683,791</u>       | <u>618,390</u>       | <u>(648,727)</u>             | <u>(94.9)</u>               |
| <br>                                    |                      |                      |                      |                              |                             |
| Change in net position                  | 4,099,284            | 3,796,233            | 2,322,852            | 303,051                      | 8.0                         |
| <br>                                    |                      |                      |                      |                              |                             |
| Net position - beginning                | <u>45,113,135</u>    | <u>41,316,902</u>    | <u>39,600,802</u>    | <u>3,796,233</u>             | <u>9.2</u>                  |
| <br>                                    |                      |                      |                      |                              |                             |
| Net position - ending                   | <u>\$ 49,212,419</u> | <u>\$ 45,113,135</u> | <u>\$ 41,923,654</u> | <u>\$ 4,099,284</u>          | <u>9.1 %</u>                |

The ending net position from 2014 does not match beginning 2015 net position due to a one-time reduction of \$606,752 in unrestricted net position effective January 1, 2015. This reduction was due to the pension accounting changes directed by GASB.

Net position increased \$4.10 million in 2016 to \$49.21 million – a 9.1% increase. This resulted from strong development related collections, increased water sales due to hot dry weather, and an increase wholesale water sales.

The 2015 change in net position was a \$3.80 million increase. The increase to \$45.11 million total net position in 2015 resulted from strong development related revenue and \$683,791 in net one-time contributions in aid of construction.

The District's net position is segregated into three categories on the next page in order to provide additional insight into its financial condition.



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**Mountain Regional Water Special Service District's Net Position**

|                                  | 2016                 | 2015                 | 2014                 | \$<br>Change<br>2016 to 2015 | %<br>Change<br>2016 to 2015 |
|----------------------------------|----------------------|----------------------|----------------------|------------------------------|-----------------------------|
| Unrestricted current assets      | \$ 6,321,619         | \$ 5,513,288         | \$ 4,371,261         | \$ 808,331                   | 14.7 %                      |
| Capital assets                   | 83,743,261           | 83,123,163           | 78,353,774           | 620,098                      | 0.7                         |
| Net pension assets               | 87                   | 1,350                | -                    | (1,263)                      | (93.6)                      |
| Other assets                     | 7,909,431            | 8,332,750            | 11,950,575           | (423,319)                    | (5.1)                       |
| Total assets                     | <u>97,974,398</u>    | <u>96,970,551</u>    | <u>94,675,610</u>    | <u>1,003,847</u>             | 1.0                         |
| Deferred outflow of resources    | 2,127,012            | 1,856,934            | 1,623,612            | 270,078                      | 14.5                        |
| Unrestricted current liabilities | 786,969              | 1,317,654            | 605,330              | (530,685)                    | (40.3)                      |
| Long-term liabilities            | 45,633,758           | 48,053,574           | 50,418,825           | (2,419,816)                  | (5.0)                       |
| Net pension liability            | 968,804              | 709,392              | -                    | 259,412                      | 36.6                        |
| Other liabilities                | 2,731,306            | 2,834,252            | 2,604,887            | (102,946)                    | (3.6)                       |
| Total liabilities                | <u>50,120,837</u>    | <u>52,914,872</u>    | <u>53,629,042</u>    | <u>(2,794,035)</u>           | (5.3)                       |
| Deferred inflow of resources     | 768,154              | 799,478              | 746,526              | (31,324)                     | (3.9)                       |
| Net position                     |                      |                      |                      |                              |                             |
| Net investment in capital assets | 40,452,803           | 38,785,794           | 36,310,285           | 1,667,009                    | 4.3                         |
| Restricted                       | 3,619,178            | 2,613,012            | 1,847,438            | 1,006,166                    | 38.5                        |
| Unrestricted                     | 5,140,438            | 3,714,329            | 3,765,931            | 1,426,109                    | 38.4                        |
| Total net position               | <u>\$ 49,212,419</u> | <u>\$ 45,113,135</u> | <u>\$ 41,923,654</u> | <u>\$ 4,099,284</u>          | 9.1 %                       |

In 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Net Investment in Capital Assets

Net investment in capital assets measures the book value of an entity's fixed assets such as land, water system infrastructure, equipment, and water rights - less accumulated depreciation and the remaining debt outstanding used to acquire or construct those assets.

As shown above, net investment in capital assets increased \$1.67 million (4.3%) to \$40.45 million in 2016 as bond payments and the procurement of new capital assets were somewhat offset by depreciation. Meanwhile, net investment in capital assets increased \$2.48 million (6.8%) in 2015 for the same reasons.

In 2016, capital assets accounted for \$83.74 million or 85.5% of total assets; compared to \$83.12 million or 85.7% of total assets in 2015. This \$620,098 increase during 2016 is due to the completion of capital projects.

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Long-term liabilities (mostly bonds) accounted for \$45.63 million or 91.0% of total liabilities in 2016; compared to \$48.05 million or 90.8% for 2015. This dollar decline of \$2.42 million in long-term liabilities during 2016 is largely due to bond principal payments. On the other hand, long-term liabilities as a percent of total liabilities actually increased just slightly by 0.2% in 2016 as total overall liabilities also declined.

Finally, net investment in capital assets accounted for \$40.45 million or 82.2% of total net position in 2016 compared to \$38.79 million or 86.0% in 2015. The 2016 dollar increase of \$1.67 million in the amount of net investments still resulted in a decline in the percentage of total assets represented by net investment due to large increases in 2016 restricted and unrestricted assets that occurred due to high development related revenue collections.

#### Restricted Net Position

Restricted net position includes restricted cash accounts less liabilities that will be paid from future restricted revenue collections.

In 2016, restricted net position increased \$1.01 million (38.5%) to \$3.62 million as bond proceeds were spent on construction projects. Bond proceeds, which declined \$1.31 million in 2016, are considered a restricted liability (reduction in bonds payable), while the related assets constructed from these proceeds are considered net investment in capital assets.

In 2015, restricted net position increased \$765,574 (41.4%) to \$2.61 million largely due to an increase in impact fee and assessment collections in excess of what was applied to related debt payments. These excess collections were deposited into restricted funds pursuant to bonding arrangements.

#### Unrestricted Net Position

Unrestricted net position includes assets not restricted for specific uses and can be used for any legitimate purpose. It also includes liabilities that can only be paid with unrestricted assets.

Unrestricted net position increased \$1.43 million (38.4%) to \$5.14 million in 2016. Unrestricted cash increased \$513,988 and accounts receivable increased \$318,673 due to high water sales, particularly in the late fall of 2016. On the other hand, the pension liability increased \$259,412 in 2016.

In 2015, unrestricted net position decreased \$51,602 (1.4%). However, if the one-time GASB pension reduction of \$606,752 is taken into account, unrestricted net position would have increased \$555,150 (17.6%) as unrestricted cash increased \$1.03 million over the same period due to strong revenue collections. On the other hand, accounts payable increased \$592,763 due to the timing of year end invoices.

Dividing the District's unrestricted current assets by its unrestricted current liabilities demonstrates its ability to meet its following year's obligations. This ratio increased to 8.03 in 2016 from 4.18 for 2015. This improvement resulted from higher unrestricted cash that resulted from high water sales, plus accounts payable declined \$381,509 in 2016 as fewer invoices were outstanding at the end of 2016 compared to 2015.

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Summary of Revenue

Total revenue increased \$1.07 million (9.4%) in 2016 to \$12.48 million, after increasing \$1.85 million (19.3%) in 2015, as shown below.

**Mountain Regional Water Special Service District's Revenue Summary**

|                                       | 2016          | 2015          | 2014         | \$<br>Change<br>2016 to 2015 | %<br>Change<br>2016 to 2015 |
|---------------------------------------|---------------|---------------|--------------|------------------------------|-----------------------------|
| <b>Operating</b>                      |               |               |              |                              |                             |
| Retail water sales                    | \$ 7,566,511  | \$ 6,668,586  | \$ 6,320,223 | \$ 897,925                   | 13.5 %                      |
| Wholesale water sales & wheeling fees | 1,314,528     | 902,423       | 492,606      | 412,105                      | 45.7                        |
| Operating fees                        | 407,984       | 421,448       | 350,920      | (13,464)                     | (3.2)                       |
| Other                                 | 68,056        | 75,038        | 52,913       | (6,982)                      | (9.3)                       |
| Total operating                       | 9,357,079     | 8,067,495     | 7,216,662    | 1,289,584                    | 16.0                        |
| <b>Non-operating</b>                  |               |               |              |                              |                             |
| Grants                                | 31,101        | 16,704        | 11,667       | 14,397                       | 86.2                        |
| Interest income                       | 112,941       | 80,958        | 30,082       | 31,983                       | 39.5                        |
| Impact fees                           | 1,204,382     | 1,254,502     | 625,850      | (50,120)                     | (4.0)                       |
| SID assessments                       | 1,742,175     | 1,730,632     | 1,575,816    | 11,543                       | 0.7                         |
| Gain on sale of assets                | -             | 144,008       | 9,138        | (144,008)                    | (100.0)                     |
| Other non-operating revenue           | 27,417        | 107,168       | 86,157       | (79,751)                     | (74.4)                      |
| Total non-operating                   | 3,118,016     | 3,333,972     | 2,338,710    | (215,956)                    | (6.5)                       |
| <b>Total revenue</b>                  | \$ 12,475,095 | \$ 11,401,467 | \$ 9,555,372 | \$ 1,073,628                 | 9.4 %                       |

The \$412,105 (45.7%) increase in 2016 wholesale water sales & wheeling fees resulted from new contracts to sell the District's surplus water to Weber Basin through the regionalization agreement. Weber Basin then resold this water to Summit Water. The wholesale water sales & wheeling fees increased \$409,817 (83.2%) in 2015 for the same reason – bringing the two year increase to \$821,922 (166.9%). Since the wholesale water contracts are on a take-or-pay basis, as discussed previously, both Park City and Weber Basin must pay the full contract price whether or not they use all the contracted water.

Wholesale water sales could continue to increase over the next five to ten years, although at a much slower pace.

Impact fee revenue declined a modest \$50,120 (4.0%) in 2016 – which is still close to the 2015 record high collections. The 2015 collections of \$1.25 million represented a \$628,652 (100.4%) increase over 2014. This large increase occurred due to strong building activity including a new hotel. The District does not expect impact fee collections to remain at this high level moving forward, as the local building economy is currently in a "boom" market, as discussed previously. As such, the District budgeted \$600,000 for impact fees for 2017 based upon the ten year moving average of 80 new units annually.

The \$897,925 (13.5%) increase in 2016 retail water sales resulted mostly from hot dry weather, but also benefitted from customer growth. As discussed previously, the average culinary water consumption per retail customer was 162,002 gallons during 2016; compared to 143,337 in 2015.

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The 5.5% increase in 2015 retail water sales resulted from rate increases, as total District consumption remained flat in 2015 despite customer growth. In fact, average culinary consumption per retail customer dropped from 145,720 in 2014 to 143,337 in 2015.

It is anticipated that the strong current growth in new connections will result in higher water sales long-term. It typically takes 12 to 24 months from the time a customer applies for a new connection until that connection starts using water. However, despite anticipated growth in new customers, water sales will continue to fluctuate with weather patterns.

Interest income increased \$31,983 (39.5%) in 2016 due to a 50 basis point increase in the rate of interest earned on cash and from higher invested cash balances. Interest income increased \$50,876 (169.1%) during 2015 due to higher cash balances, particularly bond proceeds, and a small 25 basis point increase in the short-term interest rates paid by the Utah Public Treasurers Investment Fund.

Other non-operating revenue declined \$79,751 (74.4%) in 2016 – to \$27,417. This decline is the result of one-time asset sales in 2015.

#### Summary of Expenses

As shown on the next page, District expenses increased \$121,850 (1.5%) to \$8.41 million in 2016. This included a \$248,078 (12.4%) increase in operations, maintenance and repair costs due to higher retail water consumption and increased wholesale water sales. Meanwhile, interest expense declined \$161,323 (9.9%) due to 2016 bond principal payments. Principal payments increased in 2016 – meaning interest expense will decline even more moving forward.

All departments with manpower costs experienced a reduction in operating expenses for both 2016 and 2015 as a result of GASB pension reporting changes. The actuarial pension expense reported for 2016 was \$231,046 or \$87,094 less than the \$318,140 in actual cash contributions. Meanwhile, the actuarial pension expense of \$177,043 reported for 2015 was \$125,971 less than the actual 2015 contributions to the pension plan. As discussed earlier, GASB now requires the actuarial determined pension expense to be reported on its financial statements rather than the actual contributions.

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**Mountain Regional Water Special Service District's Expense Summary**

|  | 2016                | 2015                | 2014                | \$<br>Change<br>2015 to 2014 | %<br>Change<br>2015 to 2014 |
|--|---------------------|---------------------|---------------------|------------------------------|-----------------------------|
| <b>Operating</b>                                 |                     |                     |                     |                              |                             |
| Operations, maintenance and repairs              | \$ 2,250,116        | \$ 2,002,038        | \$ 1,993,860        | \$ 248,078                   | 12.4 %                      |
| Water production                                 | 1,746,327           | 1,802,721           | 1,533,912           | (56,394)                     | (3.1)                       |
| Engineering and energy and technology management | 660,752             | 593,834             | 440,263             | 66,918                       | 11.3                        |
| Management and finance                           | 735,474             | 716,401             | 727,298             | 19,073                       | 2.7                         |
| Legal services                                   | 13,305              | 24,560              | 45,499              | (11,255)                     | (45.8)                      |
| Depreciation                                     | 1,474,478           | 1,465,973           | 1,429,555           | 8,505                        | 0.6                         |
| Total operating                                  | <u>6,880,452</u>    | <u>6,605,527</u>    | <u>6,170,387</u>    | <u>274,925</u>               | <u>4.2</u>                  |
| <b>Non-Operating</b>                             |                     |                     |                     |                              |                             |
| Interest expense                                 | 1,462,711           | 1,624,034           | 1,441,191           | (161,323)                    | (9.9)                       |
| Bond insurance cost amortization                 | 15,734              | 15,734              | 14,965              | -                            | -                           |
| Bond issuance Costs                              | -                   | -                   | 180,067             | -                            | -                           |
| Trustee and bank fees                            | 51,978              | 43,730              | 44,300              | 8,248                        | 18.9                        |
| Total non-operating                              | <u>1,530,423</u>    | <u>1,683,498</u>    | <u>1,680,523</u>    | <u>(153,075)</u>             | <u>(9.1)</u>                |
| Total expenses                                   | <u>\$ 8,410,875</u> | <u>\$ 8,289,025</u> | <u>\$ 7,850,910</u> | <u>\$ 121,850</u>            | <u>1.5 %</u>                |

The annual actuarial pension expense is impacted by the performance of the pension's investments and other factors which could lead to significant swings in year-to-year pension expense reported (and thus the annual change in net position) in all governmental financial statements moving forward.

Total expenses increased \$438,115 (5.6%) in 2015. This resulted from the costs associated with selling 400 acre feet of surplus water to Weber Basin for the first time in 2015; and from the hiring an engineer as part of the management transition program.

### Capital Assets

The District operates as an enterprise fund which includes the capitalization and depreciation of all assets. Asset categories include land and water rights; infrastructure not buildings (water system infrastructure); construction in progress; and buildings, equipment and furnishings.

Capital assets (net of depreciation) increased \$620,098 (0.7%) to \$83.74 million in 2016, as the completion of a pump station and storage facility in the Promontory development was offset by depreciation expense and the related reduction in construction in progress.

**Mountain Regional Water Special Service District's Capital Assets  
(net of depreciation)**

|                                      |                      |                      |                      | \$                     | %                      |
|--------------------------------------|----------------------|----------------------|----------------------|------------------------|------------------------|
|                                      | 2016                 | 2015                 | 2014                 | Change<br>2016 to 2015 | Change<br>2016 to 2015 |
| Land and water rights                | \$ 20,360,836        | \$ 20,360,836        | \$ 20,361,463        | \$ -                   | -                      |
| Construction in progress             | 1,900,452            | 5,018,746            | 42,567               | (3,118,294)            | (62.1)                 |
| Infrastructure not buildings         | 54,826,627           | 51,006,758           | 51,177,942           | 3,819,869              | 7.5                    |
| Buildings, equipment and furnishings | 6,655,346            | 6,736,823            | 6,771,802            | (81,477)               | (1.2)                  |
| Total capital assets (net)           | <u>\$ 83,743,261</u> | <u>\$ 83,123,163</u> | <u>\$ 78,353,774</u> | <u>\$ 620,098</u>      | <u>0.7 %</u>           |

Capital assets (net of depreciation) increased \$4.77 million (6.1%) in 2015 to \$83.12 million, as several projects under construction led to an increase in construction in progress. This included a booster station and tank in Promontory. Some of these projects were completed in 2016, leading to the increase in water system (infrastructure not buildings) assets.

Because the above amounts are net of depreciation and the District periodically receives contributions-in-aid of construction, the amount of cash expended for capital projects shown in other areas of these financial statements may be different.

**Outstanding Debt**

The District maintains a schedule to pay off all its debt by 2034.

Total debt outstanding decreased \$2.40 million (4.9%) in 2016 due to principal and capital lease payments, along with the amortization of premiums and grants. No new debt was issued in 2016.

**Mountain Regional Water Special Service District's Net Debt Outstanding**

|                             |                      |                      |                      | \$                     | %                      |
|-----------------------------|----------------------|----------------------|----------------------|------------------------|------------------------|
|                             | 2016                 | 2015                 | 2014                 | Change<br>2016 to 2015 | Change<br>2016 to 2015 |
| Revenue and refunding bonds | \$ 41,880,000        | \$ 43,990,000        | \$ 45,766,000        | \$ (2,110,000)         | (4.8) %                |
| Government notes and bonds  | 1,497,459            | 1,589,733            | 1,677,948            | (92,274)               | (5.8)                  |
| Unamortized grant           | 198,334              | 210,000              | 221,667              | (11,666)               | (5.6)                  |
| Unamortized premiums        | 2,733,690            | 2,909,324            | 3,084,960            | (175,634)              | (6.0)                  |
| Capital leases              | 285,954              | 298,150              | 310,000              | (12,196)               | (4.1)                  |
| Total debt outstanding      | <u>\$ 46,595,437</u> | <u>\$ 48,997,207</u> | <u>\$ 51,060,575</u> | <u>\$ (2,401,770)</u>  | <u>(4.9) %</u>         |

Total debt decreased \$2.06 million (4.0%) in 2015 due to principal and capital lease payments, along with the amortization of premiums and grants. No new debt was issued in 2015.

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The history of the District's underlying bond ratings is shown below.

**Mountain Regional Water Special Service District  
Bond Rating History**

|                           | 2012 | 2013 | 2014 | 2015 | 2016 |
|---------------------------|------|------|------|------|------|
| Series 2009B Revenue Bond |      |      |      |      |      |
| Standard & Poor's         | A+   | A+   | A+   | A+   | A+   |
| Fitch                     | AA-  | A+   | A+   | A+   | A+   |
| Series 2012 Revenue Bond  |      |      |      |      |      |
| Standard & Poor's         | A+   | A+   | A+   | A+   | A+   |
| Fitch                     | AA-  | A+   | A+   | A+   | A+   |
| Series 2014 Revenue Bond  |      |      |      |      |      |
| Standard & Poor's         | n/a  | n/a  | A+   | A+   | A+   |
| Fitch                     | n/a  | n/a  | A+   | A+   | A+   |

Capital Leases

The District currently has one capital lease that was obtained in 2014 to acquire property next to the District's Lost Canyon Booster Station. This property is necessary for any future expansion of the booster station, and the home on the property is used as an office and residence for an on-call operator.

A \$12,196 principal payment was made in 2016 that reduced the capital lease outstanding to \$285,954, as shown below.

**Mountain Regional Water Special Service District's Capital Leases**

|                                   | 2016              | 2015              | 2014              | \$<br>Change<br>2016 to 2015 | %<br>Change<br>2015 to 2016 |
|-----------------------------------|-------------------|-------------------|-------------------|------------------------------|-----------------------------|
| Property lease purchase agreement | 285,954           | 298,150           | 310,000           | (12,196)                     | (4.1)                       |
| Total capital leases outstanding  | <u>\$ 285,954</u> | <u>\$ 298,150</u> | <u>\$ 310,000</u> | <u>\$ (12,196)</u>           | <u>(4.1) %</u>              |

During 2015, an \$11,850 principal payment was made that reduced the capital lease outstanding to \$298,150.

Budgetary Information

The District realized a \$4.10 million change in net position (net income) for 2016. After making adjustments for non-cash year-end journal entries, the District's change in net position exceeded budget by \$2.02 million, as shown on the following page.

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**Mountain Regional Water Special Service District's Budget Comparison**

|   | 2016<br>Actual      | Add Back<br>Retirement<br>Accrual | Change<br>In<br>Inventory | Add Back<br>Capitalized<br>Interest | Deduct<br>Contributions<br>In-Aid | 2016<br>Adjusted<br>Actual | 2016<br>Adopted<br>Budget | Favorable<br>(Unfavorable) |
|---|---------------------|-----------------------------------|---------------------------|-------------------------------------|-----------------------------------|----------------------------|---------------------------|----------------------------|
| <b>Operating revenues:</b>                      |                     |                                   |                           |                                     |                                   |                            |                           |                            |
| Water sales                                     | \$ 8,881,039        | \$ -                              | \$ -                      | \$ -                                | \$ -                              | \$ 8,881,039               | \$ 7,918,400              | \$ 962,639                 |
| Operating fees                                  | 407,984             | -                                 | -                         | -                                   | -                                 | 407,984                    | 303,300                   | 104,684                    |
| Other   | 68,056              | -                                 | -                         | -                                   | -                                 | 68,056                     | 45,000                    | 23,056                     |
| <b>Total operating revenue</b>                  | <b>9,357,079</b>    | <b>-</b>                          | <b>-</b>                  | <b>-</b>                            | <b>-</b>                          | <b>9,357,079</b>           | <b>8,266,700</b>          | <b>1,090,379</b>           |
| <b>Operating expenses:</b>                      |                     |                                   |                           |                                     |                                   |                            |                           |                            |
| <b>Operations</b>                               |                     |                                   |                           |                                     |                                   |                            |                           |                            |
| Energy & resource management                    | 565,863             | 14,959                            | -                         | -                                   | -                                 | 580,822                    | 557,000                   |                            |
| Lost Canyon water transmission                  | 1,262,749           | 7,907                             | -                         | -                                   | -                                 | 1,270,656                  | 1,415,500                 |                            |
| Treatment plant                                 | 483,578             | 7,436                             | -                         | -                                   | -                                 | 491,014                    | 481,400                   |                            |
| Distribution                                    | 2,218,991           | 32,033                            | (22,020)                  | -                                   | -                                 | 2,229,004                  | 2,297,800                 |                            |
| Safety  | 31,125              | -                                 | -                         | -                                   | -                                 | 31,125                     | 53,800                    |                            |
| <b>Subtotal Line Item</b>                       | <b>4,562,306</b>    | <b>62,335</b>                     | <b>(22,020)</b>           | <b>-</b>                            | <b>-</b>                          | <b>4,602,621</b>           | <b>4,805,500</b>          | <b>202,879</b>             |
| <b>General Manager</b>                          |                     |                                   |                           |                                     |                                   |                            |                           |                            |
| Engineering and development                     | 94,889              | 6,294                             | -                         | -                                   | -                                 | 101,183                    | 104,800                   |                            |
| Human resources                                 | 90,223              | 1,194                             | -                         | -                                   | -                                 | 91,417                     | 106,200                   |                            |
| Legal   | 13,305              | -                                 | -                         | -                                   | -                                 | 13,305                     | 50,000                    |                            |
| <b>Subtotal Line Item</b>                       | <b>198,417</b>      | <b>7,488</b>                      | <b>-</b>                  | <b>-</b>                            | <b>-</b>                          | <b>205,905</b>             | <b>261,000</b>            | <b>55,095</b>              |
| <b>Public services</b>                          |                     |                                   |                           |                                     |                                   |                            |                           |                            |
| Public services                                 | 390,920             | 10,518                            | -                         | -                                   | -                                 | 401,438                    | 414,800                   |                            |
| <b>Subtotal Line Item</b>                       | <b>390,920</b>      | <b>10,518</b>                     | <b>-</b>                  | <b>-</b>                            | <b>-</b>                          | <b>401,438</b>             | <b>414,800</b>            | <b>13,362</b>              |
| <b>Financial management</b>                     |                     |                                   |                           |                                     |                                   |                            |                           |                            |
| Financial management                            | 254,331             | 6,753                             | -                         | -                                   | -                                 | 261,084                    | 282,100                   |                            |
| <b>Subtotal Line Item</b>                       | <b>254,331</b>      | <b>6,753</b>                      | <b>-</b>                  | <b>-</b>                            | <b>-</b>                          | <b>261,084</b>             | <b>282,100</b>            | <b>21,016</b>              |
| <b>Non-cash Expenses</b>                        |                     |                                   |                           |                                     |                                   |                            |                           |                            |
| Depreciation                                    | 1,474,478           | -                                 | -                         | -                                   | -                                 | 1,474,478                  | 1,622,300                 |                            |
| <b>Subtotal Line Item</b>                       | <b>1,474,478</b>    | <b>-</b>                          | <b>-</b>                  | <b>-</b>                            | <b>-</b>                          | <b>1,474,478</b>           | <b>1,622,300</b>          | <b>147,822</b>             |
| <b>Total operating expenses</b>                 | <b>6,880,452</b>    | <b>87,094</b>                     | <b>(22,020)</b>           | <b>-</b>                            | <b>-</b>                          | <b>6,945,526</b>           | <b>7,385,700</b>          | <b>440,174</b>             |
| <b>Operating income</b>                         | <b>2,476,627</b>    | <b>(87,094)</b>                   | <b>22,020</b>             | <b>-</b>                            | <b>-</b>                          | <b>2,411,553</b>           | <b>881,000</b>            | <b>1,530,553</b>           |
| <b>Non-operating revenue</b>                    |                     |                                   |                           |                                     |                                   |                            |                           |                            |
| Grants  | 31,101              | -                                 | -                         | -                                   | -                                 | 31,101                     | 11,700                    | 19,401                     |
| Interest income                                 | 112,941             | -                                 | -                         | -                                   | -                                 | 112,941                    | 51,900                    | 61,041                     |
| Impact fees                                     | 1,204,382           | -                                 | -                         | -                                   | -                                 | 1,204,382                  | 600,000                   | 604,382                    |
| SID assessments                                 | 1,742,175           | -                                 | -                         | -                                   | -                                 | 1,742,175                  | 1,953,600                 | (211,425)                  |
| Other non-operating revenue                     | 27,417              | -                                 | -                         | -                                   | -                                 | 27,417                     | 20,000                    | 7,417                      |
| <b>Total Non-operating revenue</b>              | <b>3,118,016</b>    | <b>-</b>                          | <b>-</b>                  | <b>-</b>                            | <b>-</b>                          | <b>3,118,016</b>           | <b>2,637,200</b>          | <b>480,816</b>             |
| <b>Non-operating expenses</b>                   |                     |                                   |                           |                                     |                                   |                            |                           |                            |
| Interest expense                                | 1,462,711           | -                                 | -                         | 125,730                             | -                                 | 1,588,441                  | 1,597,900                 | 9,459                      |
| Bond insurance cost amortization                | 15,734              | -                                 | -                         | -                                   | -                                 | 15,734                     | 15,800                    | 66                         |
| Trustee and bank fees                           | 51,978              | -                                 | -                         | -                                   | -                                 | 51,978                     | 54,500                    | 2,522                      |
| <b>Total non-operating expenses</b>             | <b>1,530,423</b>    | <b>-</b>                          | <b>-</b>                  | <b>125,730</b>                      | <b>-</b>                          | <b>1,656,153</b>           | <b>1,668,200</b>          | <b>12,047</b>              |
| <b>Total non-operating income</b>               | <b>1,587,593</b>    | <b>-</b>                          | <b>-</b>                  | <b>(125,730)</b>                    | <b>-</b>                          | <b>1,461,863</b>           | <b>969,000</b>            | <b>492,863</b>             |
| <b>Income (loss) before operating transfers</b> | <b>4,064,220</b>    | <b>(87,094)</b>                   | <b>22,020</b>             | <b>(125,730)</b>                    | <b>-</b>                          | <b>3,873,416</b>           | <b>1,850,000</b>          | <b>2,023,416</b>           |
| Contributions-in-aid of construction            | 35,064              | -                                 | -                         | -                                   | (35,064)                          | -                          | -                         | -                          |
| <b>Change in net position</b>                   | <b>\$ 4,099,284</b> | <b>\$ (87,094)</b>                | <b>\$ 22,020</b>          | <b>\$ (125,730)</b>                 | <b>\$ (35,064)</b>                | <b>\$ 3,873,416</b>        | <b>\$ 1,850,000</b>       | <b>\$ 2,023,416</b>        |



Mountain Regional Water Special Service District  
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The non-cash year-end budget entries include the retirement accrual required by GASB. This entry is not included for budget comparison purposes, as \$87,094 was added back to 2016 operating expenses to account for the difference between the \$231,046 in actuarial pension expense reported on these financial statements, and the \$318,140 in actual contributions. Projected cash contributions are used to develop budget estimates.

In addition the \$22,020 decrease in inventory during 2016 increased operating expenses. As such, this amount was deducted from operating expenses for budget comparison purposes only.

The \$35,064 in net contributions in aid of construction was deducted from the 2016 change in net position for budget comparison purposes, as these were non-budgeted, non-cash transfers of capital assets to the District.

Finally \$125,730 of the interest expense budget was transferred to the capital budget for comparison purposes to account for the amount of interest expense that was capitalized to projects under construction during 2016.

The \$2.02 million positive budget variance for 2016 was driven by both strong revenue collections that were \$1.57 million (14.4%) over projections, and expenses that were \$452,222 (5.0%) under budget.

Operating revenue exceeded budget projections by \$1.09 million (13.2%) due strong retail water sales that resulted from hot dry weather. In fact, overall water sales finished \$962,639 (12.2%) over budget.

Non-operating revenue exceeded projections by \$480,816 (18.2%) due to strong building activity. In particular, impact fees exceeded budget by \$604,382, although SID assessment collections were \$211,425 under budget.

Operating expenses finished 2016 at \$440,174 (6.0%) under budget. Of this positive expense budget variance, depreciation expense accounted for \$147,822 (33.6%) due to delays in construction projects. Excluding depreciation, operating expenses finished 2016 at \$292,352 (5.3%) under budget.

Non-operating expense finished a nominal \$12,047 (0.7%) under budget for 2016.

### Impact Fees

As shown on the following page, the District has collected \$10.56 million in impact fees and related interest earnings since impact fees were first adopted by the District in 2003.

Of this, \$7.37 million has been applied to debt service payments, while another \$1.32 million has been used to pay for projects in the capital facilities plan.

It is anticipated that \$1.0 million of the remaining \$1.86 million will be used to supplement the Series 2014 bond proceeds applied to the new Silver Creek Tank & Pumpstation, as well as to fund other smaller projects.

Meanwhile another \$858,613 will likely be applied to debt service payments over the next two years.

In 2016, the District collected \$1.20 million in impact fees following record cash collections of \$1.22 million 2015. For 2015, impact fee revenue was \$1.25 million on an accrual basis.

It is not anticipated that this level of collections can be maintained long-term as the District is currently experiencing a strong building economy.

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**Mountain Regional Water Impact Fees Collections & Expenditures**  
(Cash Basis)

|   | 2003 to 2011        | 2012               | 2013             | 2014             | 2015              | 2016              | Total               |
|---|---------------------|--------------------|------------------|------------------|-------------------|-------------------|---------------------|
| <b>Cash Collections</b>                     |                     |                    |                  |                  |                   |                   |                     |
| Impact Fees                                 | \$ 6,415,610        | \$ 196,067         | \$ 519,352       | \$ 594,360       | \$ 1,217,084      | \$ 1,204,382      | \$ 10,146,855       |
| Interest Earnings                           | 383,449             | 4,471              | 3,372            | 3,217            | 5,504             | 10,888            | 410,901             |
| Total cash collections                      | <u>6,799,059</u>    | <u>200,538</u>     | <u>522,724</u>   | <u>597,577</u>   | <u>1,222,588</u>  | <u>1,215,270</u>  | <u>10,557,756</u>   |
| Cumulative cash collections                 | 6,799,059           | 6,999,597          | 7,522,321        | 8,119,898        | 9,342,486         | 10,557,756        |                     |
| <b>Cash Expenditures</b>                    |                     |                    |                  |                  |                   |                   |                     |
| Debt Service <sup>(1)</sup>                 | 4,746,929           | 230,000            | 430,000          | 529,100          | 838,900           | 600,000           | 7,374,929           |
| Basin Pipeline                              | 1,322,226           | -                  | -                | 1,988            | -                 | -                 | 1,324,214           |
| Total cash expenditures                     | <u>6,069,155</u>    | <u>230,000</u>     | <u>430,000</u>   | <u>531,088</u>   | <u>838,900</u>    | <u>600,000</u>    | <u>8,699,143</u>    |
| Cumulative cash expenditures                | 6,069,155           | 6,299,155          | 6,729,155        | 7,260,243        | 8,099,143         | 8,699,143         |                     |
| <b>Net Cash Flow to Date</b>                | <u>\$ 729,904</u>   | <u>\$ (29,462)</u> | <u>\$ 92,724</u> | <u>\$ 66,489</u> | <u>\$ 383,688</u> | <u>\$ 615,270</u> | <u>\$ 1,858,613</u> |
| Cumulative Cash Flow                        | 729,904             | 700,442            | 793,166          | 859,655          | 1,243,343         | 1,858,613         |                     |
| <b>Projected Future Uses</b>                |                     |                    |                  |                  |                   |                   |                     |
|   | 2017                | 2018               | 2019             | 2020             | 2021              | 2022              | Total               |
| Debt Service <sup>(1)</sup>                 | \$ 600,000          | \$ 258,613         | \$ -             | \$ -             | \$ -              | \$ -              | \$ 858,613          |
| Capital Projects                            | 658,500             | 341,500            | -                | -                | -                 | -                 | 1,000,000           |
| Total Future Cash Expenditures              | <u>\$ 1,258,500</u> | <u>\$ 600,113</u>  | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ 1,858,613</u> |
| <b>Total Projected Cumulative Cash Flow</b> |                     |                    |                  |                  |                   |                   | <u>\$ -</u>         |

(1) The following projects are shown at the pro-rata cost, including financing, for the project capacity that will serve new development. These projects were funded with a portion of the proceeds from revenue bonds and state loans.

|  | Total Project Cost         | Cost Allocated to Impact Fees | % New Growth |
|--|----------------------------|-------------------------------|--------------|
| <b>Funded Projects Completed</b>                     |                            |                               |              |
| Water Rights & Shares                                | \$ 36,755,672              | \$ 14,027,210                 | 38.2%        |
| Source Development                                   | 19,602,489                 | 12,319,954                    | 62.8%        |
| Storage  | 4,513,891                  | 3,534,413                     | 78.3%        |
| Lost Canyon Importation and Basin Transmission Lines | 26,851,401                 | 15,904,125                    | 59.2%        |
| <b>Total Projects</b>                                | <u>\$ 87,723,453</u>       | <u>\$ 45,785,702</u>          | <u>52.2%</u> |
|  | Max Years Financed         |                               | 30           |
|  | <b>Annual Debt Service</b> | <u>\$ 1,526,190</u>           |              |

Since a significant portion of the District's infrastructure was funded with long-term debt, most impact fees collections are applied to debt service.

**Requests for Information**

This financial report is designed to provide a general overview of Mountain Regional Water Special Service District's finances for all those interested. Questions concerning this or other financial information should be addressed to the Chief Financial Officer, Mountain Regional Water Special Service District, 6421 N. Business Park Loop Road – Suite A, P.O. Box 982320, Park City, Utah 84098.

Mountain Regional Water Special Service District  
A Component Unit of Summit County, Utah  
Statements of Net Position  
December 31, 2016 and 2015

|                                      | 2016           | 2015          |
|--------------------------------------|----------------|---------------|
| Assets                               |                |               |
| Current Assets                       |                |               |
| Cash and cash equivalents            | \$ 5,289,383   | \$ 4,775,395  |
| Restricted cash and cash equivalents | 5,656,542      | 5,967,859     |
| Accounts receivable                  | 906,385        | 587,712       |
| Due from other governmental entities | -              | 2,310         |
| Other receivables                    | 10,000         | 188,338       |
| Prepaid expenses                     | 1,113,884      | 1,085,059     |
| Inventories                          | 125,851        | 147,871       |
| Total current assets                 | 13,102,045     | 12,754,544    |
| Cash Restricted for Debt Repayment   | 1,129,005      | 1,091,494     |
| Net Pension Asset                    | 87             | 1,350         |
| Capital Assets                       |                |               |
| Depreciable assets, net              | 61,481,973     | 57,743,581    |
| Land and water rights                | 20,360,836     | 20,360,836    |
| Construction-in-progress             | 1,900,452      | 5,018,746     |
| Total assets                         | 97,974,398     | 96,970,551    |
| Deferred Outflow of Resources        |                |               |
| Loss on bond refunding               | 1,451,952      | 1,537,782     |
| Pension outflows                     | 675,060        | 319,152       |
| Total deferred outflow of resources  | 2,127,012      | 1,856,934     |
|                                      | \$ 100,101,410 | \$ 98,827,485 |

Mountain Regional Water Special Service District  
A Component Unit of Summit County, Utah  
Statements of Net Position  
December 31, 2016 and 2015

|   | 2016           | 2015          |
|---|----------------|---------------|
| Liabilities   |                |               |
| Current Liabilities                                   |                |               |
| Accounts payable                                      | \$ 347,725     | \$ 729,234    |
| Accrued liabilities                                   | 836,405        | 804,640       |
| Due to other government entities                      | 6,350          | 186,591       |
| Current portion, capital lease                        | 12,553         | 12,197        |
| Current portion, accrued liabilities - developer      | 99,724         | 216,971       |
| Current portion of long-term debt                     | 2,215,518      | 2,202,273     |
| Total current liabilities                             | 3,518,275      | 4,151,906     |
| Long-term Liabilities                                 |                |               |
| Capital lease, less current portion                   | 273,401        | 285,953       |
| Accrued liabilities - developer, less current portion | 1,266,392      | 1,270,837     |
| Net pension liability                                 | 968,804        | 709,392       |
| Long-term debt, less current portion                  | 44,093,965     | 46,496,784    |
| Total liabilities                                     | 50,120,837     | 52,914,872    |
| Deferred Inflow of Resources                          |                |               |
| Gain on bond refunding                                | 667,599        | 707,063       |
| Pension inflows                                       | 100,555        | 92,415        |
| Total deferred inflow of resources                    | 768,154        | 799,478       |
| Net Position  |                |               |
| Net investment in capital assets                      | 40,452,803     | 38,785,794    |
| Restricted  | 3,619,178      | 2,613,012     |
| Unrestricted  | 5,140,438      | 3,714,329     |
| Total net position                                    | 49,212,419     | 45,113,135    |
|   | \$ 100,101,410 | \$ 98,827,485 |

Mountain Regional Water Special Service District  
A Component Unit of Summit County, Utah  
Statements of Revenues, Expenses and Changes in Net Position  
Years Ended December 31, 2016 and 2015

|  | 2016          | 2015          |
|--|---------------|---------------|
| Operating Revenues                               |               |               |
| Retail water sales                               | \$ 7,566,511  | \$ 6,668,586  |
| Wholesale water sales & wheeling fees            | 1,314,528     | 902,423       |
| Operation fees                                   | 407,984       | 421,448       |
| Other  | 68,056        | 75,038        |
| Total operating revenues                         | 9,357,079     | 8,067,495     |
| Operating Expenses                               |               |               |
| Operations, maintenance and repairs              | 2,250,116     | 2,002,038     |
| Water production                                 | 1,746,327     | 1,802,721     |
| Engineering and energy and technology management | 660,752       | 593,834       |
| Management and finance                           | 735,474       | 716,401       |
| Legal services                                   | 13,305        | 24,560        |
| Depreciation                                     | 1,474,478     | 1,465,973     |
| Total operating expenses                         | 6,880,452     | 6,605,527     |
| Operating Income                                 | 2,476,627     | 1,461,968     |
| Non-Operating Revenues (Expenses)                |               |               |
| Grants   | 31,101        | 16,704        |
| Interest income                                  | 112,941       | 80,958        |
| Impact fees                                      | 1,204,382     | 1,254,502     |
| Special Improvement District assessments         | 1,742,175     | 1,730,632     |
| Gain on sale of capital assets                   | -             | 144,008       |
| Other non-operating revenue                      | 27,417        | 107,168       |
| Interest expense                                 | (1,462,711)   | (1,624,034)   |
| Trustee and bank fees                            | (51,978)      | (43,730)      |
| Bond insurance cost amortization                 | (15,734)      | (15,734)      |
| Total non-operating revenues (expenses), net     | 1,587,593     | 1,650,474     |
| Income Before Transfers                          | 4,064,220     | 3,112,442     |
| Contributions-in-aid of Construction             | 35,064        | 766,136       |
| Contributions to Other Governments               | -             | (82,345)      |
| Change in net position                           | 4,099,284     | 3,796,233     |
| Net Position, Beginning of Year                  | 45,113,135    | 41,316,902    |
| Net Position, End of Year                        | \$ 49,212,419 | \$ 45,113,135 |

Mountain Regional Water Special Service District  
A Component Unit of Summit County, Utah  
Statements of Cash Flows  
Years Ended December 31, 2016 and 2015

|  | 2016         | 2015         |
|--|--------------|--------------|
| Operating Activities                                       |              |              |
| Cash received from customers                               | \$ 9,219,054 | \$ 7,811,464 |
| Cash paid to suppliers                                     | (3,308,826)  | (2,001,234)  |
| Cash paid to employees                                     | (2,941,987)  | (2,681,069)  |
|  | 2,968,241    | 3,129,161    |
| Net Cash from Operating Activities                         |              |              |
| Capital and Related Financing Activities                   |              |              |
| Grants received  | 19,434       | 4,986        |
| Interest and bank fees paid                                | (1,648,209)  | (1,883,345)  |
| Purchase of property and equipment                         | (1,850,037)  | (5,490,035)  |
| Proceeds from sale of capital assets                       | -            | 164,817      |
| Long-term debt payments                                    | (2,202,274)  | (1,864,215)  |
| Payments for capital lease                                 | (12,196)     | (11,850)     |
| Proceeds on accrued liability - developer                  | 44,148       | 598,663      |
| Payments on accrued liability - developer                  | (165,840)    | (646,091)    |
| Special Improvement District assessment                    | 1,742,175    | 1,730,632    |
| Impact fees  | 1,204,382    | 1,254,502    |
| Other revenue received                                     | 27,417       | 107,168      |
|  | (2,841,000)  | (6,034,768)  |
| Net Cash used for Capital and Related Financing Activities |              |              |
| Investing Activities                                       |              |              |
| Investment income  | 112,941      | 80,958       |
| Release of restricted cash                                 | 273,806      | 3,853,817    |
|  | 386,747      | 3,934,775    |
| Net Cash from Investing Activities                         |              |              |
| Net Change in Cash and Cash Equivalents                    | 513,988      | 1,029,168    |
| Cash and Cash Equivalents, Beginning of Year               | 4,775,395    | 3,746,227    |
| Cash and Cash Equivalents, End of Year                     | \$ 5,289,383 | \$ 4,775,395 |

Mountain Regional Water Special Service District  
A Component Unit of Summit County, Utah  
Statements of Cash Flows  
Years ended December 31, 2016 and 2015

|  | 2016         | 2015         |
|--|--------------|--------------|
| Reconciliation of Operating Income to Net Cash from Operating Activities         |              |              |
| Operating income   | \$ 2,476,627 | \$ 1,461,968 |
| Adjustments to reconcile operating income to net cash from operating activities: |              |              |
| Depreciation   | 1,474,478    | 1,465,973    |
| Net pension liability  | (87,093)     | (125,447)    |
| Changes in operating assets and liabilities:                                     |              |              |
| Accounts receivable  | (318,673)    | (93,383)     |
| Due from other government entities   | 2,310        | 25,690       |
| Other receivables  | 178,338      | (188,338)    |
| Prepaid expenses   | (44,559)     | (63,388)     |
| Inventories  | 22,020       | (45,166)     |
| Accounts payable   | (590,984)    | 592,763      |
| Accrued liabilities  | 36,018       | 16,929       |
| Due to other government entities   | (180,241)    | 81,560       |
|  | 491,614      | 1,667,193    |
| Total adjustments  |              |              |
| Net Cash from Operating Activities   | \$ 2,968,241 | \$ 3,129,161 |
| Supplemental Disclosure of Non-Cash Investing and Financing Activities           |              |              |
| Capital asset contributions-in-aid of construction                               | \$ 35,064    | \$ 766,136   |
| Capital assets acquired through accounts payable                                 | 209,475      | -            |



**Note 1 - Summary of Significant Accounting Policies**

This summary of significant accounting policies of Mountain Regional Water Special Service District is presented to assist in understanding the District's financial statements. The financial statements, notes, and required supplemental information are representations of the District's management, who are responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The following summary of significant accounting policies is presented to assist the reader in evaluating the District's financial statements.

**Operations**

The District was formed in 1982 pursuant to a resolution adopted by the Summit County Commission (now Council) providing for the creation of the Atkinson Special Service District of Summit County, Utah. On February 2, 2000, the name was changed to Mountain Regional Water Special Service District, and its role was expanded to provide improved water utility services to existing areas and to areas of new growth and development within Snyderville Basin and Promontory Development of Summit County.

**Reporting Entity**

The District is a component unit of Summit County, Utah and, as such, has been included in the basic financial statements of Summit County, Utah. The District is governed by the Summit County Council.

**Budgetary Policy**

Budgetary procedures for the District have been established by Utah State Code Annotated in Title 17B, Chapter 1 Provisions Applicable to All Local Districts. The District uses the same accounting method for preparing the budget as is used for financial reporting.

Annual proprietary fund operating, capital and debt service budgets are prepared in accordance with state law. On or before the first regularly scheduled meeting of the Summit County Council in November, the Council must adopt a tentative budget for the following fiscal year for public review. At least thirty days after the tentative budget is adopted, but no later than December 31, the Council must hold a public hearing on the tentative budget. A final budget must be adopted by the Council no later than December 31.

Budgets may be changed by resolution of the Council at any time during the fiscal year at a regular meeting or special meeting called for that purpose.

### **Fund Accounting**

The accounts of the District are organized into a single enterprise fund.

Enterprise Fund – The Enterprise Fund is used to account for operations financed and operated in a manner similar to private business enterprises – (a) where the intent of the governing body is that the costs (expense, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for public policy, management control, accountability, or other purposes.

### **Measurement Focus**

The accounting and reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds (which include enterprise funds) are accounted for on an economic resources measurement focus and the accrual basis of accounting. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on the statement of net position. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net position.

### **Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

In instances in which both restricted and unrestricted sources of revenues are earned for a similar purpose, the restricted revenues are applied toward expenses first.

### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

### **Cash and Cash Equivalents**

The District considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures, or other long-term purposes of the District are excluded from this definition.

Mountain Regional Water Special Service District  
A Component Unit of Summit County, Utah

Notes to Financial Statements  
December 31, 2016 and 2015

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**Accounts Receivable**

Accounts receivable due from customers are customer obligations due under normal trade terms requiring payment within 25 days from the invoice date. Each July or August, the Summit County Council places a lien on past due accounts that are equivalent and on parity with the property tax liens. During the remainder of the year, the District places a contractor’s lien on the properties with past due accounts. The District also turns off the water for past due accounts.

Accounts receivable are stated at the amount billed to the customer. The District charges interest on overdue customer account balances at a rate of 18% annually. Payments of accounts receivable are allocated to the specific invoices identified on the customer’s remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The District estimates an allowance for doubtful accounts based upon an evaluation of the current status of receivables, historical experience, and other factors as necessary. Since the District has the ability to utilize the two lien processes and to shut off water, it rarely has to write off bad debt, and currently makes no allowance for bad debt.

**Inventories**

Inventories are stated at the lower of cost or market determined by the first-in first-out method.

**Capital Assets**

Capital additions, improvements and major renewals are classified as property, plant and equipment and are recorded at cost. The District capitalizes all fixed asset purchases with costs in excess of \$5,000. Major maintenance projects in excess of \$5,000 are examined to determine whether they should be capitalized or expensed. Depreciation is recorded by use of the straight-line method. The book value of each asset is reduced by equal amounts over its estimated useful life as follows:

|   | <u>Estimated Useful<br/>Life (Years)</u> |
|---|--|
| Buildings   | 60                                       |
| Improvements other than buildings   | 25 - 60                                  |
| Furniture and fixtures, machinery and equipment,<br>vehicles, and engineering library | 5 - 7                                    |

Maintenance, repairs and minor renewals are charged to operations as incurred. When an asset is disposed, accumulated depreciation is deducted from the original cost, and any gain or loss arising from the disposal is credited or charged to operations. Interest costs incurred during construction are capitalized net of earnings when they are material. During 2016 the District capitalized \$125,730 of interest costs which is net of interest income of \$30,839.

### **Net Pension Liability**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expenses, information about the fiduciary net position of the Utah Retirement Systems Pension Plan (URS) and additions to/deductions from URS's fiduciary net position have been determined on the same basis as they are reported by URS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### **Deferred Outflow and Inflows of Resources**

For current refundings and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow (or inflow) of resources. Those amounts are amortized over the life of the old debt or the life of the new debt, whichever is shorter.

Deferred outflows of resources related to pensions on the statements of net position represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. They will be recognized as a reduction of the net pension liability in the upcoming fiscal year.

Deferred inflow of resources related to pensions on the statements of net position represents an acquisition of net position that applies to future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

### **Restricted Net Position**

The District has several situations where net position must be classified as restricted. The largest component is funds set aside for debt service. This includes debt reserves held by a trustee as required by bond covenants; as well as the required monthly deposits into trustee accounts to make annual principal and interest payments. Bond covenants require monthly deposits into trustee accounts roughly equal to 1/12th of annual debt payments.

Utah State Law also requires certain funds to be held in restricted accounts. This includes impact fee collections and state bond proceeds. In addition, the state requires the District to maintain capital facility repair and replacement funds as part of the bond covenants for state loans.

The federal government requires funds to be held in restricted trustee accounts for estimated future bond arbitrage tax payments to the IRS.

The District also has contractual restrictions including repair reserves and liabilities owed to developers. The District has contracts with two developers that require the District to reimburse them for prepaid impact fees and special assessments. However, the District is only required to reimburse these developers after it collects the related impact fees and special assessments from lot owners when they apply for a building permit.

## **Subsequent Events**

The District has evaluated subsequent events through June 14, 2017, the date which the financial statements were available to be issued.

## **Note 2 - Deposits and Investments**

Deposits and investments for the District are governed by Utah State Code Annotated in Title 51, Chapter 7 – State Money Management Act (Act) and by the rules of the Money Management Council (Council). Following are discussions of risks related to its cash management activities.

### **Custodial Credit Risk**

Deposits – Custodial credit risk for deposits 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 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 Council.

As of December 31, 2016, \$348,641 of the District’s \$598,641 bank balance was uninsured and uncollateralized. As of December 31, 2015, \$354,469 of the District’s \$604,469 bank balance was uninsured and uncollateralized.

### **Credit Risk**

Cash and Investments – 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 is to comply with the Act.

The District is authorized to invest in the Utah Public Treasurer’s Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer 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 basis. The income, gains, and losses, net of administrative fees, of the PTIF are allocated based upon the participant’s average daily balances.

As of December 31, 2016 and 2015, the District had \$7,490,076 and \$6,466,813, respectively, invested directly with the PTIF. Additionally, the District has debt service reserves, bond sinking funds, and bond proceeds invested with the PTIF through the District’s bond Trustee. On April 20, 2016, the District removed Wells Fargo Bank as the Trustee on its bonds and appointed Zions Bank. At December 31, 2016, \$4,010,992 was invested with the PTIF through Zions Bank, and at December 31, 2015 \$4,798,325 was invested with the PTIF through Wells Fargo Bank.

The amounts invested with the PTIF are reported at fair value. The entire balance had a maturity of less than one year. The PTIF pool has not been rated.

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**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates 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 Act. The Act requires that the remaining term to maturity of the investment may not exceed the period of availability of the funds to be invested.

**Note 3 - Capital Assets**

A summary of activity in the capital assets for the year ended December 31, 2016 is as follows:

|  | Beginning<br>Balance | Additions          | Deletions   | Transfers          | Ending<br>Balance    |
|--|----------------------|--------------------|-------------|--------------------|----------------------|
| Capital assets not<br>being depreciated        |                      |                    |             |                    |                      |
| Land and water rights                          | \$ 20,360,836        | \$ -               | \$ -        | \$ -               | \$ 20,360,836        |
| Construction-in-progress                       | 5,018,746            | 1,981,451          | -           | (5,099,745)        | 1,900,452            |
|  | <u>25,379,582</u>    | <u>1,981,451</u>   | <u>-</u>    | <u>(5,099,745)</u> | <u>22,261,288</u>    |
| Depreciable assets                             |                      |                    |             |                    |                      |
| Buildings                                      | 7,753,233            | -                  | -           | 6,314              | 7,759,547            |
| Improvements other<br>than buildings           | 65,928,681           | 35,065             | -           | 4,953,521          | 70,917,267           |
| Furniture and fixtures                         | 166,776              | -                  | -           | -                  | 166,776              |
| Machinery and equipment                        | 1,104,752            | -                  | -           | 139,910            | 1,244,662            |
| Vehicles                                       | 805,108              | 78,060             | -           | -                  | 883,168              |
| Engineering library                            | 105,000              | -                  | -           | -                  | 105,000              |
|  | <u>75,863,550</u>    | <u>113,125</u>     | <u>-</u>    | <u>5,099,745</u>   | <u>81,076,420</u>    |
| Less accumulated depreciation:                 |                      |                    |             |                    |                      |
| Buildings                                      | (1,817,204)          | (135,583)          | -           | -                  | (1,952,787)          |
| Improvements other<br>than buildings           | (14,921,926)         | (1,168,714)        | -           | -                  | (16,090,640)         |
| Furniture and fixtures                         | (152,239)            | (4,842)            | -           | -                  | (157,081)            |
| Machinery and equipment                        | (590,137)            | (102,598)          | -           | -                  | (692,735)            |
| Vehicles                                       | (533,463)            | (62,741)           | -           | -                  | (596,204)            |
| Engineering library                            | (105,000)            | -                  | -           | -                  | (105,000)            |
| Total accumulated depreciation                 | <u>(18,119,969)</u>  | <u>(1,474,478)</u> | <u>-</u>    | <u>-</u>           | <u>(19,594,447)</u>  |
| Total capital assets<br>being depreciated, net | <u>57,743,581</u>    | <u>(1,361,353)</u> | <u>-</u>    | <u>5,099,745</u>   | <u>61,481,973</u>    |
|  | <u>\$ 83,123,163</u> | <u>\$ 620,098</u>  | <u>\$ -</u> | <u>\$ -</u>        | <u>\$ 83,743,261</u> |

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A summary of activity in the capital assets for the year ended December 31, 2015 was as follows:

|  | <u>Beginning<br/>Balance</u> | <u>Additions</u>    | <u>Deletions</u>   | <u>Transfers</u> | <u>Ending<br/>Balance</u> |
|--|------------------------------|---------------------|--------------------|------------------|---------------------------|
| Capital assets not<br>being depreciated        |                              |                     |                    |                  |                           |
| Land and water rights                          | \$ 20,361,463                | \$ -                | \$ (627)           | \$ -             | \$ 20,360,836             |
| Construction-in-progress                       | 42,567                       | 5,388,160           | -                  | (411,981)        | 5,018,746                 |
|  | <u>20,404,030</u>            | <u>5,388,160</u>    | <u>(627)</u>       | <u>(411,981)</u> | <u>25,379,582</u>         |
| Depreciable assets                             |                              |                     |                    |                  |                           |
| Buildings                                      | 7,612,615                    | -                   | -                  | 140,618          | 7,753,233                 |
| Improvements other<br>than buildings           | 64,952,949                   | 766,137             | (14,120)           | 223,715          | 65,928,681                |
| Furniture and fixtures                         | 181,851                      | -                   | (15,075)           | -                | 166,776                   |
| Machinery and equipment                        | 1,108,598                    | 7,488               | (58,982)           | 47,648           | 1,104,752                 |
| Vehicles                                       | 787,625                      | 94,386              | (76,903)           | -                | 805,108                   |
| Engineering library                            | 105,000                      | -                   | -                  | -                | 105,000                   |
|  | <u>74,748,638</u>            | <u>868,011</u>      | <u>(165,080)</u>   | <u>411,981</u>   | <u>75,863,550</u>         |
| Less accumulated depreciation:                 |                              |                     |                    |                  |                           |
| Buildings                                      | (1,685,136)                  | (132,068)           | -                  | -                | (1,817,204)               |
| Improvements other<br>than buildings           | (13,775,011)                 | (1,146,915)         | -                  | -                | (14,921,926)              |
| Furniture and fixtures                         | (162,472)                    | (4,842)             | 15,075             | -                | (152,239)                 |
| Machinery and equipment                        | (545,717)                    | (103,402)           | 58,982             | -                | (590,137)                 |
| Vehicles                                       | (525,558)                    | (78,746)            | 70,841             | -                | (533,463)                 |
| Engineering library                            | (105,000)                    | -                   | -                  | -                | (105,000)                 |
| Total accumulated depreciation                 | <u>(16,798,894)</u>          | <u>(1,465,973)</u>  | <u>144,898</u>     | <u>-</u>         | <u>(18,119,969)</u>       |
| Total capital assets<br>being depreciated, net | <u>57,949,744</u>            | <u>(597,962)</u>    | <u>(20,182)</u>    | <u>411,981</u>   | <u>57,743,581</u>         |
|  | <u>\$ 78,353,774</u>         | <u>\$ 4,790,198</u> | <u>\$ (20,809)</u> | <u>\$ -</u>      | <u>\$ 83,123,163</u>      |

Depreciation expense for 2016 and 2015 was \$1,474,478 and \$1,465,973, respectively.

Total contributions-in-aid of construction for 2016 were \$35,064. In 2015, net contributions-in-aid of construction were \$683,791, made up of a contribution from a developer of \$766,136, less a contribution by the District to Weber Basin of \$82,345.

#### Note 4 - Current Accrued Liabilities

Current accrued liabilities consist of accrued wages and benefits, customer deposits, and interest on outstanding debt. As of December 31, 2016 and 2015, accrued liabilities were \$836,405 and \$804,640, respectively. Accrued payroll accounted for \$439,244 of accrued liabilities as of December 31, 2016 and \$408,122 as of December 31, 2015. Customer deposits accounted for \$304,355 of accrued liabilities as of December 31, 2016 and \$299,459 as of December 31, 2015.

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**Note 5 - Long-term Debt**

A summary of long-term debt activity for the years ended December 31, 2016 and 2015 is as follows:

|                                      | Balance<br>January 1,<br>2016 | Additions   | Reductions            | Balance<br>December 31,<br>2016 | Due Within<br>One Year |
|--------------------------------------|-------------------------------|-------------|-----------------------|---------------------------------|------------------------|
| Notes payable                        | \$ 1,589,733                  | \$ -        | \$ (92,274)           | \$ 1,497,459                    | \$ 96,518              |
| Bonds payable                        | 43,990,000                    | -           | (2,110,000)           | 41,880,000                      | 2,119,000              |
| Unamortized grants                   | 210,000                       | -           | (11,666)              | 198,334                         | -                      |
| Unamortized premium                  | 2,909,324                     | -           | (175,634)             | 2,733,690                       | -                      |
| Capital lease<br>obligation - Note 6 | 298,150                       | -           | (12,196)              | 285,954                         | 12,553                 |
|                                      | <u>\$ 48,997,207</u>          | <u>\$ -</u> | <u>\$ (2,401,770)</u> | <u>\$ 46,595,437</u>            | <u>\$ 2,228,071</u>    |
|                                      | Balance<br>January 1,<br>2015 | Additions   | Reductions            | Balance<br>December 31,<br>2015 | Due Within<br>One Year |
| Notes payable                        | \$ 1,677,948                  | \$ -        | \$ (88,215)           | \$ 1,589,733                    | \$ 92,273              |
| Bonds payable                        | 45,766,000                    | -           | (1,776,000)           | 43,990,000                      | 2,110,000              |
| Unamortized grants                   | 221,667                       | -           | (11,667)              | 210,000                         | -                      |
| Unamortized premium                  | 3,084,960                     | -           | (175,636)             | 2,909,324                       | -                      |
| Capital lease<br>obligation - Note 6 | 310,000                       | -           | (11,850)              | 298,150                         | 12,197                 |
|                                      | <u>\$ 51,060,575</u>          | <u>\$ -</u> | <u>\$ (2,063,368)</u> | <u>\$ 48,997,207</u>            | <u>\$ 2,214,470</u>    |

All the District's bonds and Weber Basin note are secured by the revenues of the District. As part of a 2009 refunding, the District's revenue bonds are also now secured by special assessments on property within special improvement districts. Principal and interest payments are due annually and semi-annually.

Total debt decreased \$2.4 million in 2016 and \$2.06 million in 2015, due to scheduled principal payments, as no new debt was issued.

The District has spent \$4.25 million in Series 2014 proceeds to construct a new tank, pipeline and pump station in the Promontory development. The Promontory developer will reimburse the District for use of these proceeds through a second assessment on existing undeveloped lots and newly platted lots.

The remaining Series 2014 bond proceeds of \$4.23 million are being used to construct a new well, tank, two pump stations and upgrade several pumps and booster stations. As of December 31, 2016 \$2.02 million had been spent on these projects.



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**Debt Coverage**

The District continues to comply with its 1.25 debt coverage requirement for its bonding. The debt coverage ratios for 2016 and 2015 were 1.88 and 1.79, respectively.

The District's bond covenant allows it to include the balance in a rate stabilization fund in its coverage calculations. When these funds are included, the 2016 and 2015 coverage ratios increase to 2.21 and 2.15, respectively.

**Debt Schedule**

The District has issued the following notes and bonds payable as of December 31, 2016 and 2015:

| Series                                      | Original Issue | Interest Rate | Maturity Date | Principal Outstanding |                   |
|---|----------------|---------------|---------------|-----------------------|-------------------|
|   |                |               |               | 2016                  | 2015              |
| <b>Notes payable</b>                        |                |               |               |                       |                   |
| Weber Basin Water Conservancy District Note | \$ 2,033,436   | 4.6%          | 2029          | \$ 1,497,459          | \$ 1,589,733      |
| <b>Bonds payable</b>                        |                |               |               |                       |                   |
| Water revenue                               |                |               |               |                       |                   |
| 2008  | 3,026,000      | 2.0%          | 2029          | 2,100,000             | 2,240,000         |
| 2009B                                       | 9,045,000      | 2.0% - 3.5%   | 2018          | 2,985,000             | 4,610,000         |
| 2011A                                       | 679,000        | 1.52%         | 2031          | 581,000               | 615,000           |
| 2011B                                       | 1,278,000      | None          | 2032          | 1,049,000             | 1,115,000         |
| 2012  | 27,270,000     | 2.0% - 5.0%   | 2033          | 27,270,000            | 27,270,000        |
| 2014  | 8,140,000      | 2.0% - 5.0%   | 2034          | 7,895,000             | 8,140,000         |
|   |                |               |               | <u>41,880,000</u>     | <u>43,990,000</u> |

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| Series                                    | Original Issue | Interest Rate | Maturity Date | Principal Outstanding |                      |
|---|----------------|---------------|---------------|-----------------------|----------------------|
|   |                |               |               | 2016                  | 2015                 |
| <b>Unamortized grants</b>                 |                |               |               |                       |                      |
| 2012                                      | 350,000        | N/A           | 2033          | \$ 198,334            | \$ 210,000           |
|   |                |               |               | <u>198,334</u>        | <u>210,000</u>       |
| <b>Unamortized premiums</b>               |                |               |               |                       |                      |
| 2009B                                     | 202,474        | N/A           | 2018          | 43,387                | 65,081               |
| 2012                                      | 2,383,832      | N/A           | 2033          | 1,875,651             | 1,986,527            |
| 2014                                      | 904,371        | N/A           | 2034          | 814,652               | 857,716              |
|   |                |               |               | <u>2,733,690</u>      | <u>2,909,324</u>     |
| <b>Capital lease obligations - Note 6</b> |                |               |               |                       |                      |
| 2014 Zions Lease Purchase                 | 310,000        | 2.22% - 2.90% | 2034          | 285,954               | 298,150              |
|   |                |               |               | 46,595,437            | 48,997,207           |
| Less current portion                      |                |               |               | <u>(2,228,071)</u>    | <u>(2,214,470)</u>   |
|   |                |               |               | <u>\$ 44,367,366</u>  | <u>\$ 46,782,737</u> |

As of December 31, 2016, the aggregate maturities of notes and bonds payable and capital lease obligations (see Note 6), including interest, are as follows:

| Years Ending December 31, | Capital Lease Obligations |                  | Notes Payable       |                   | Bonds Payable        |                      | Total Debt Service Requirement |
|---------------------------|---------------------------|------------------|---------------------|-------------------|----------------------|----------------------|--------------------------------|
|                           | Principal                 | Interest         | Principal           | Interest          | Principal            | Interest             |                                |
| 2017                      | \$ 12,553                 | \$ 7,023         | \$ 96,518           | \$ 73,128         | \$ 2,119,000         | \$ 1,576,368         | \$ 3,884,590                   |
| 2018                      | 12,919                    | 6,657            | 100,958             | 68,883            | 1,807,000            | 1,507,352            | 3,503,769                      |
| 2019                      | 13,296                    | 6,279            | 105,602             | 64,443            | 1,861,000            | 1,456,049            | 3,506,669                      |
| 2020                      | 13,685                    | 5,891            | 110,459             | 59,799            | 2,128,000            | 1,393,223            | 3,711,057                      |
| 2021                      | 14,085                    | 5,491            | 115,541             | 54,942            | 2,198,000            | 1,323,935            | 3,711,994                      |
| 2022-26                   | 76,679                    | 21,202           | 662,489             | 193,652           | 12,198,000           | 5,383,673            | 18,535,695                     |
| 2027-31                   | 86,230                    | 11,650           | 305,892             | 41,907            | 13,899,000           | 2,930,240            | 17,274,919                     |
| 2032-34                   | 56,507                    | 2,221            | -                   | -                 | 5,670,000            | 450,750              | 6,179,478                      |
|                           | <u>\$ 285,954</u>         | <u>\$ 66,414</u> | <u>\$ 1,497,459</u> | <u>\$ 556,754</u> | <u>\$ 41,880,000</u> | <u>\$ 16,021,590</u> | <u>\$ 60,308,171</u>           |

**Note 6 - Leases**

The District has three operating leases. The first is for an office which is \$30,684 annually, the second is for a backhoe for \$6,168 per year, and the third is for a mini excavator for \$7,500 per year. The total annual outlay is \$44,352. The office and backhoe have operating leases that expire at various dates through December 2017 and the mini excavator will expire in 2018. The District has also acquired land under a long-term capital lease. The lease expires on August 1, 2034.

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Future minimum lease payments are as follows:

| Years Ending December 31,               | <u>Capital<br/>Lease</u> | <u>Operating<br/>Leases</u> |
|---|--------------------------|-----------------------------|
| 2017                                    | \$ 19,576                | \$ 44,352                   |
| 2018                                    | 19,576                   | 7,500                       |
| 2019                                    | 19,576                   | -                           |
| 2020                                    | 19,576                   | -                           |
| 2021                                    | 19,576                   | -                           |
| 2022-26                                 | 97,880                   | -                           |
| 2027-31                                 | 97,880                   | -                           |
| 2032-34                                 | 58,728                   | -                           |
|   | 352,368                  | \$ 51,852                   |
| Total minimum lease payments            | 352,368                  | \$ 51,852                   |
| Less portion representing interest      | (66,414)                 |                             |
|   | 285,954                  |                             |
| Present value of minimum lease payments | \$ 285,954               |                             |

Total lease expense for the years ended December 31, 2016 and 2015 totaled \$44,352.

Leased property under the capital lease for land is \$310,000 at December 31, 2016 and 2015.

**Note 7 - Long-term Accrued Liabilities – Developer**

The District entered into an agreement with a developer during 2000 regarding the prepayment of municipal use impact fees. Under the terms of this agreement, the developer agreed to prepay the District \$6,300 per Equivalent Residential Connection (ERC) for 240 ERC's. These prepaid impact fees were recorded by the District as an accrued liability to the developer. During 2004, the developer prepaid an additional \$1,201,612 for the irrigation impact fee or an additional \$9,129 per lot, on the lots still owned by the developer. The developer also prepaid the total impact fee for two other lots at \$16,650 each. These prepaid impact fees were recorded by the District as an accrued liability to the developer.

The District is to repay this liability to the developer through the collection of impact fees from individuals who purchase the building lots from the developer. The outstanding accrued liability to this developer for prepaid impact fees as of December 31, 2016 and 2015 was \$1,317,636 and \$1,344,308, respectively.

Other developers had prepaid amounts as of December 31, 2016 and 2015 of \$48,480 and \$143,500, respectively.

**Note 8 - Employee Retirement Systems and Pension Plans**

**Plan Description**

Eligible plan participants are provided with pensions through the Utah Retirement Systems. The Utah Retirement Systems are comprised of the following Pension Trust Funds:

- Public Employees Noncontributory Retirement System (Noncontributory System) is a multiple employer, cost sharing, public employee retirement system.
- Tier 2 Public Employees Contributory Retirement System (Tier 2 Public Employees System) is a multiple employer, cost sharing, public employee retirement system.

The Tier 2 Public Employees System became effective July 1, 2011. All eligible employees beginning on or after July 1, 2011, who have no previous service credit with any of the Utah Retirement Systems, are members of the Tier 2 Retirement System.

The Utah Retirement Systems (Systems) are established and governed by the respective sections of Title 49 of the Utah code Annotated 1953, as amended. The Systems' defined benefit plans are amended statutorily by the State Legislature. The Utah State Retirement Office Act in Title 49 provides for the administration of the Systems under the directions of the Board, whose members are appointed by the Governor. The Systems are fiduciary funds defined as pension (and other employee benefit) trust funds. URS is a component unit of the State of Utah. Title 49 of the Utah Code grants the authority to establish and amend the benefit terms. URS issues a publicly available financial report that can be obtained by writing Utah Retirement Systems, 560 E. 200 S, Salt Lake City, Utah 84102 or visiting the website: [www.urs.org](http://www.urs.org).

**Benefits Provided**

URS provides retirement, disability, and death benefits. Retirement benefits are as follows:

**Summary of Benefits by System**

| System                         | Final Average Salary | Years of service required and/or age eligible for benefit                                       | Benefit percent per year services | COLA**     |
|--------------------------------|----------------------|---|-----------------------------------|------------|
| Noncontributory System         | Highest 3 years      | 30 years any age<br>25 years any age*<br>20 years age 60*<br>10 years age 62*<br>4 years age 65 | 2.0% per year all years           | Up to 4%   |
| Tier 2 Public Employees System | Highest 5 years      | 35 years any age<br>20 years age 60*<br>10 years age 62*<br>4 years age 65                      | 1.5% per year all years           | Up to 2.5% |

\* with actuarial reductions

\*\* All post-retirement cost-of-living adjustments are non-compounding and are based on the original benefit except for Judges, which is a compounding benefit. The cost-of-living adjustments are also limited to the actual Consumer Price Index (CPI) increase for the year, although unused CPI increases not met may be carried forward to subsequent years.

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**Contributions**

As a condition of participation in the Systems, employers and/or employees are required to contribute certain percentages of salary and wages as authorized by statute and specified by the Utah State Retirement Board. Contributions are actuarially determined as an amount that, when combined with employee contributions (where applicable) is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability. Contribution rates as of December 31, 2016 and 2015 are as follows:

|  | Employee | Employer | Employer<br>401(k) |
|--|----------|----------|--------------------|
| Contributory System                      |          |          |                    |
| 111 - Local Governmental Division Tier 2 | N/A      | 14.91%   | 1.78%              |
| Noncontributory System                   |          |          |                    |
| 15 - Local Governmental Division Tier 1  | N/A      | 18.47%   | N/A                |
| Tier 2 DC Only                           |          |          |                    |
| 211 Local Government                     | N/A      | 6.69%    | 10.00%             |

Tier 2 rates include a statutory required contribution to finance the unfunded actuarial accrued liability of the Tier 1 plans.

For year ended December 31, 2016, the employer and employee contributions to the Systems were as follows:

| System                         | Employer<br>Contributions | Employee<br>Contributions |
|--------------------------------|---------------------------|---------------------------|
| Noncontributory System         | \$ 271,021                | N/A                       |
| Tier 2 Public Employees System | 38,422                    | -                         |
| Tier 2 DC Only System          | 8,697                     | N/A                       |
| Total Contributions            | \$ 318,140                | \$ -                      |

For year ended December 31, 2015, the employer and employee contributions to the Systems were as follows:

| System                         | Employer<br>Contributions | Employee<br>Contributions |
|--------------------------------|---------------------------|---------------------------|
| Noncontributory System         | \$ 260,772                | N/A                       |
| Tier 2 Public Employees System | 38,718                    | -                         |
| Tier 2 DC Only System          | 3,524                     | N/A                       |
| Total Contributions            | \$ 303,014                | \$ -                      |

Contributions reported are the URS Board approved required contributions by System. Contributions in the Tier 2 Systems are used to finance the unfunded liabilities in the Tier 1 Systems.

Mountain Regional Water Special Service District  
A Component Unit of Summit County, Utah  
Notes to Financial Statements  
December 31, 2016 and 2015

**Pension Assets, Liabilities, Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Relating to Pensions**

At December 31, 2016 and 2015, the District reported a net pension asset of \$87 and \$1,350, respectively, and a net pension liability of \$968,804 and \$709,392, respectively.

|                                | (Measurement Date): December 31, 2015 |                          |                        | Proportionate<br>Share<br>December 31, 2014 | Change<br>(Decrease) |
|--------------------------------|---------------------------------------|--------------------------|------------------------|---|----------------------|
|                                | Net Pension<br>Asset                  | Net Pension<br>Liability | Proportionate<br>Share |   |                      |
| Noncontributory System         | \$ -                                  | \$ 968,804               | 0.1712125%             | 0.1633703%                                  | 0.0078422%           |
| Tier 2 Public Employees System | 87                                    | -                        | 0.0397209%             | 0.0445357%                                  | (0.0048148)%         |
|                                | <u>\$ 87</u>                          | <u>\$ 968,804</u>        |                        |   |                      |

|                                | (Measurement Date): December 31, 2014 |                          |                        |
|--------------------------------|---------------------------------------|--------------------------|------------------------|
|                                | Net Pension<br>Asset                  | Net Pension<br>Liability | Proportionate<br>Share |
| Noncontributory System         | \$ -                                  | \$ 709,392               | 0.1633703%             |
| Tier 2 Public Employees System | 1,350                                 | -                        | 0.0445357%             |
|                                | <u>\$ 1,350</u>                       | <u>\$ 709,392</u>        |                        |

The net pension asset and liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2015 and rolled-forward using generally accepted actuarial procedures. The proportion of the net pension asset and liability is equal to the ratio of the employer's actual contributions to the Systems during the plan year over the total of all employer contributions to the System during the plan year.

For the years ended December 31, 2016 and 2015, the District recognized pension expense of \$231,046 and \$177,043, respectively.

At December 31, 2016 and 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | December 31, 2016                    |                                     |
|--|--------------------------------------|-------------------------------------|
|  | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
| Differences between expected and actual experience   | \$ -                                 | \$ 46,064                           |
| Change in assumptions  | -                                    | 54,491                              |
| Net difference between projected and actual earnings on pension plan investments                     | 329,412                              | -                                   |
| Changes in proportion and differences between contributions and proportionate share of contributions | 27,508                               | -                                   |
| Contributions subsequent to the measurement date   | 318,140                              | -                                   |
| Total  | <u>\$ 675,060</u>                    | <u>\$ 100,555</u>                   |

Mountain Regional Water Special Service District  
A Component Unit of Summit County, Utah  
Notes to Financial Statements  
December 31, 2016 and 2015

|  | December 31, 2015                    |                                     |
|--|--------------------------------------|-------------------------------------|
|  | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
| Differences between expected and actual experience   | \$ -                                 | \$ 22,868                           |
| Change in assumptions  | -                                    | 69,547                              |
| Net difference between projected and actual earnings on pension plan investments                     | 16,138                               | -                                   |
| Changes in proportion and differences between contributions and proportionate share of contributions | -                                    | -                                   |
| Contributions subsequent to the measurement date   | 303,014                              | -                                   |
| Total  | \$ 319,152                           | \$ 92,415                           |

\$318,140 reported as deferred outflows of resources related to pensions results from contributions made by the District prior to their fiscal year end, but subsequent to the measurement date of December 31, 2015. These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended December 31, | Net Deferred Outflows<br>(Inflows) of Resources |
|-------------------------|---|
| 2017                    | \$ 59,290                                       |
| 2018                    | 59,290  |
| 2019                    | 60,242  |
| 2020                    | 78,908  |
| 2021                    | (249)   |
| Thereafter              | (1,116)   |

**Actuarial Assumptions**

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                           |   |  |
|---------------------------|---|--|
| Inflation                 | 2.75 Percent  |  |
| Salary increases          | 3.50 – 10.50 percent, average, including inflation                        |  |
| Investment rate of return | 7.50 percent, net of pension plan investment expense, including inflation |  |

Mortality rates were developed from actual experience and mortality tables, based on gender, occupation and age, as appropriate, with adjustments for future improvement in mortality based on Scale AA, a model developed by the Society of Actuaries.

That actuarial assumptions used in the January 1, 2015, valuation were based on the results of an actuarial experience study for the five year period ending December 31, 2013.

Mountain Regional Water Special Service District  
A Component Unit of Summit County, Utah

Notes to Financial Statements  
December 31, 2016 and 2015

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class and is applied consistently to each defined benefit pension plan. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class                        | Expected Return Arithmetic Basis |                                    |   |
|------------------------------------|----------------------------------|------------------------------------|---|
|                                    | Target Asset<br>Allocation       | Real Return<br>Arithmetic<br>Basis | Long-Term<br>Expected<br>Portfolio Real<br>Rate of Return |
| Equity securities                  | 40%                              | 7.06%                              | 2.82%   |
| Debt securities                    | 20%                              | 0.80%                              | 0.16%   |
| Real assets                        | 13%                              | 5.10%                              | 0.66%   |
| Private equity                     | 9%                               | 11.30%                             | 1.02%   |
| Absolute return                    | 18%                              | 3.15%                              | 0.57%   |
| Cash and cash equivalents          | 0%                               | 0.00%                              | 0.00%   |
| Totals                             | 100%                             |                                    | 5.23%   |
|                                    |                                  |                                    | 2.75%   |
| Inflation                          |                                  |                                    | 7.98%   |
| Expected arithmetic nominal return |                                  |                                    | 7.98%   |

The 7.50% assumed investment rate of return is comprised of an inflation rate of 2.75%, a real return of 4.75% that is net of investment expense.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from all participating employers will be made at contractually required rates that are actuarially determined and certified by the URS Board. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

**Sensitivity of the Proportionate Share of the Net Pension Asset and Liability to Changes in the Discount Rate**

The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:



Mountain Regional Water Special Service District  
A Component Unit of Summit County, Utah

Notes to Financial Statements  
December 31, 2016 and 2015

| System                         | 1% Decrease<br>(6.50%) | Discount Rate<br>(7.50%) | 1% Increase<br>(8.50%) |
|--------------------------------|------------------------|--------------------------|------------------------|
| Noncontributory System         | \$ 2,046,986           | \$ 968,804               | \$ 68,738              |
| Tier 2 Public Employees System | 15,901                 | (87)                     | (12,204)               |
|                                | \$ 2,062,887           | \$ 968,717               | \$ 56,534              |

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued URS financial report.

**Defined Contribution Savings Plan**

The Defined Contribution Savings Plans are administered by the Utah Retirement Systems Board and are generally supplemental plans to the basic retirement benefits of the Retirement Systems, but may also be used as a primary retirement plan. These plans are voluntary tax-advantaged retirement savings programs authorized under sections 401(k), 457(b) and 408 of the Internal Revenue code. Detailed information regarding plan provisions is available in the separately issued URS financial report.

The District participates in the following Defined Contribution Savings Plans with Utah Retirement Systems:

\*401(k) Plan

Employee and employer contributions to the Utah Retirement Defined Contribution Savings Plans for the years ended December 31, were as follows:

| 401(k) Plan            | 2016      | 2015     |
|------------------------|-----------|----------|
| Employer Contributions | \$ 17,587 | \$ 9,933 |
| Employee Contributions | -         | -        |

**Note 9 - Related Party Transactions**

Summit County, a related party, made loans for working capital to the District from 2000 until 2003 and shared services of an employee from 2002 to 2007. As of December 31, 2016 and 2015, the amount payable to Summit County for these services was \$0 and \$98,303, respectively.

Summit County also purchases water from the District at board approved water rates. The District sold water totaling \$54,414 and \$70,478 during the years ended December 31, 2016 and 2015, respectively. The amount owed the District from Summit County at December 31, 2016 and 2015 totaled \$4,664 and \$9,215, respectively.

Snyderville Basin Recreation District (SBRD), a component unit of Summit County, also purchases water from the District at board approved water rates. The District sold water totaling \$20,163 and \$16,091 during the years ended December 31, 2016 and 2015, respectively. The amount owed the District from SBRD at December 31, 2016 and 2015 totaled \$1,295 and \$948, respectively.

**Note 10 - Contingencies**

The District records liabilities resulting from claims and legal actions when they become fixed or determinable in amount. The District is currently the defendant in one pending lawsuit. Legal counsel is of the opinion that potential claims against the District resulting from such litigation not covered by insurance do not pose a threat of significant liability to the District.

**Note 11 - Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The District is a member of the Utah Local Governments Trust (ULGT), a public entity risk pool currently operating as a common risk management and insurance program for Utah local governments. The District pays an annual premium to ULGT for its general insurance coverage. During 2016, the District did not increase any level of insurance coverage, but did add coverage for new infrastructure and equipment. Additionally, the District changed workers compensation insurance providers from Workers Compensation Fund (WCF) to ULGT. During 2015, the District increased its liability coverage limit from \$5.0 million to \$10.0 million and also added coverage for new infrastructure and equipment. Settlement amounts have not exceeded insurance coverage for the current year or prior years.



Required Supplementary Information  
December 31, 2016

**Mountain Regional Water Special  
Service District**  
A Component Unit of Summit County, Utah

Mountain Regional Water Special Service District  
A Component Unit of Summit County, Utah  
Schedule of the Proportionate Share of the Net Pension Liability  
Years Ended December 31, 2015 and 2014

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For the year ended December 31, 2015:

|   | Noncontributory<br>Retirement<br>System | Tier 2 Public<br>Employees<br>Retirement<br>System |
|---|---|--|
| Proportion of the net pension liability (asset)   | 0.1712125%                              | 0.0397209%   |
| Proportionate share of the net pension liability (asset)  | \$968,804                               | (\$87)   |
| Covered employee payroll  | \$1,412,164                             | \$256,656  |
| Proportionate share of the net pension liability (asset)<br>as a percentage of its covered employee payroll | 68.6%                                   | 0.0%   |
| Plan fiduciary net position as a percentage of the total<br>pension liability                               | 87.8%                                   | 100.2%   |

For the year ended December 31, 2014:

|   | Noncontributory<br>Retirement<br>System | Tier 2 Public<br>Employees<br>Retirement<br>System |
|---|---|--|
| Proportion of the net pension liability (asset)   | 0.1633703%                              | 0.0445357%   |
| Proportionate share of the net pension liability (asset)  | \$709,392                               | (\$1,350)  |
| Covered employee payroll  | \$1,359,927                             | \$218,559  |
| Proportionate share of the net pension liability (asset)<br>as a percentage of its covered employee payroll | 52.2%                                   | -0.6%  |
| Plan fiduciary net position as a percentage of the total<br>pension liability                               | 90.2%                                   | 103.5%   |

GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Mountain Regional Water Special Service District  
A Component Unit of Summit County, Utah  
Schedule of Contributions  
Years Ended December 31, 2016, 2015 and 2014

|  | As of fiscal<br>year ended<br>December 31, | Actuarial<br>Determined<br>Contributions | Contributions in<br>relation to the<br>contractually<br>required<br>contribution | Contribution<br>deficiency<br>(excess) | Covered<br>payroll | Contributions as<br>a percentage of<br>covered<br>employee<br>payroll |
|--|--|--|--|--|--------------------|---|
| Noncontributory System                     | 2014                                       | \$ 244,034                               | \$ 244,034   | \$ -                                   | \$ 1,361,027       | 17.93%  |
|  | 2015                                       | 260,772                                  | 260,772  | -                                      | 1,405,863          | 18.55%  |
|  | 2016                                       | 271,021                                  | 271,021  | -                                      | 1,484,334          | 18.26%  |
| Tier 2 Public Employees System*            | 2014                                       | \$ 29,018                                | \$ 29,018  | \$ -                                   | \$ 205,920         | 14.09%  |
|  | 2015                                       | 38,718                                   | 39,235   | -                                      | 262,913            | 14.92%  |
|  | 2016                                       | 38,422                                   | 38,422   | -                                      | 257,695            | 14.91%  |
| Tier 2 Public Employees DC Only<br>System* | 2014                                       | \$ 705                                   | \$ 705   | \$ -                                   | \$ 12,639          | 5.58%   |
|  | 2015                                       | 3,524                                    | 3,524  | -                                      | 52,533             | 6.71%   |
|  | 2016                                       | 8,697                                    | 8,697  | -                                      | 130,001            | 6.69%   |

\*Contributions in Tier 2 include an amortization rate to help fund the unfunded liabilities in the Tier 1 systems. Tier 2 systems were created effective July 1, 2011.

GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available. Contributions as a percentage of covered-payroll may be different than the board certified rate due to rounding and other administrative issues.

**Note 1 - Changes in Assumptions**

The following assumption changes were adopted from the most recent actuarial experience study. There was a decrease in the wage inflation assumption for all employee groups from 3.75% to 3.50%. Also there was a modification to the rate of salary increases for most groups. The payroll growth assumption was decreased from 3.50% to 3.25%. There was an improvement in the post retirement mortality assumption for female educators and minor adjustments to the preretirement mortality assumption.

There were additional changes to certain demographic assumptions that generally resulted in: (1) more members are anticipated to terminate employment prior to retirement, (2) slightly fewer members are expected to become disabled, and (3) members are expected to retire at a slightly later age.



**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 with *Government Auditing Standards***

The Administrative Control Board  
Mountain Regional Water Special Service District  
A Component Unit of Summit County  
Park City, 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 Mountain Regional Water Special Service District which comprise the statement of net position as of December 31, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 14, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Mountain Regional Water Special Service 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 Mountain Regional Water Special Service District’s internal control. Accordingly, we do not express an opinion on the effectiveness of Mountain Regional Water Special Service 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 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 over financial reporting 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 Mountain Regional Water Special Service District's financial statements are free from 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Ogden, Utah  
June 14, 2017





**Independent Auditor’s Report as Required by the *State Compliance Audit Guide* on  
Compliance with General State Compliance Requirements and Internal Control  
over Compliance**

The Administrative Control Board  
Mountain Regional Water Special Service District  
A Component Unit of Summit County  
Park City, Utah

**Report On Compliance with General State Compliance Requirements**

We have audited Mountain Regional Water Special Service District’s 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 Mountain Regional Water Special Service District for the year ended December 31, 2016.

General state compliance requirements were tested for the year ended December 31, 2016 in the following areas:

- Budgetary Compliance
- Fund Balance
- Utah Retirement Systems
- Open and Public Meeting Act
- Treasurer’s Bond
- Cash Management
- Special and Local Service District Board Members

**Management’s Responsibility**

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

**Auditor’s Responsibility**

Our responsibility is to express an opinion on Mountain Regional Water Special Service 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 Mountain Regional Water Special Service District occurred. An audit includes examining, on a test basis, evidence about Mountain Regional Water Special Service 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 Mountain Regional Water Special Service District's compliance.

### **Opinion on General State Compliance Requirements**

In our opinion, Mountain Regional Water Special Service District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on Mountain Regional Water Special Service District for the year ended December 31, 2016.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the *State Compliance Audit Guide* and which are described in the accompanying schedule of findings and recommendations as item 2016-1. Our opinion on compliance is not modified with respect to this matter

Mountain Regional Water Special Service District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and recommendations. Mountain Regional Water Special Service District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of Mountain Regional Water Special Service 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 Mountain Regional Water Special Service District's internal control over compliance with the compliance requirements that could have a direct and material effect on Mountain Regional Water Special Service 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 Mountain Regional Water Special Service 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 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 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 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. 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.

We noted a matter involving internal control over compliance which we are submitting for your consideration. This matter is described in the accompanying schedule of findings and recommendations as item 2016-1.

**Purpose of Report**

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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Ogden, Utah  
June 14, 2017

## Schedule of Findings and Recommendations

### 2016-1 Utah Retirement Systems

*Criteria:* The *State Compliance Audit Guide* requires an entity that is paying any portion of the employee required contribution to have the governing board authorize the payment of that portion through a formal action of the board.

*Condition:* The District's governing board did not authorize the employees' contributions that was paid by the District through a formal action of the board.

*Cause:* Management determined that having a board member approve and sign the monthly check register was sufficient.

*Effect:* The employees' contributions that were paid by the employer were not approved by the governing board through a formal action of the board.

*Recommendation:* We recommend that management have the governing board approve through a formal action the employee required contributions that are paid by the District.

*Management Response:* Management agrees with this finding and plans to implement additional control procedures to ensure that the governing board approves through a formal action the employee required contributions that are paid by the District.



**MOUNTAIN REGIONAL WATER**  
SPECIAL SERVICE DISTRICT

May 12, 2016

Eide Bailly LLP  
5929 Fashion Point Dr., Ste. 300  
Ogden, UT 84403-4684

This representation letter is provided in connection with your audits of the financial statements of Mountain Regional Water Special Service District, a component unit of Summit County, which comprise the statements of net position as of December 31, 2015 and 2014 and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of May 12, 2016, the following representations made to you during your audits.

**Financial Statements**

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated March 14, 2016, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- 3) We acknowledge our responsibility for 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.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
- 7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
- 8) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 9) Guarantees, whether written or oral, under which the District is contingently liable, if any, have been properly recorded or disclosed.

**Information Provided**

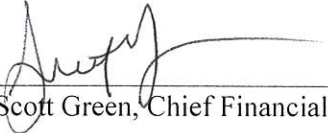
- 10) We have provided you with:
  - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
  - b) Additional information that you have requested from us for the purpose of the audit.
  - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d) Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 11) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 12) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 13) We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - a) Management,
  - b) Employees who have significant roles in internal control, or
  - c) Others where the fraud could have a material effect on the financial statements.
- 14) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
- 15) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 16) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 17) We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

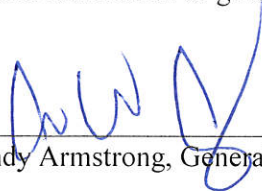
**Government—specific**

- 18) We have made available to you all financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
- 19) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 20) There have been no previous audits, attestation engagements, and other studies related to the audit objectives.

- 21) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 22) The District has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 23) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
- 24) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 25) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 26) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 27) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 28) The District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as made known to you and disclosed in the notes to the financial statements.
- 29) The District has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 30) We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
- 31) Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
- 32) We are not aware of a need for a provision for uncollectible receivables as all receivables at December 31, 2015 are deemed to be collectible.
- 33) Expenses have been appropriately classified in or allocated to functions and programs in the statement of revenues, expenses, and changes in net position, and allocations have been made on a reasonable basis.
- 34) Revenues are appropriately classified in the statement of revenues, expenses and changes in net position within program revenues, general revenues, or contributions.
- 35) Deposits and investment securities are properly classified as to risk and are properly disclosed.
- 36) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- 37) We have appropriately disclosed the District's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 38) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

- 39) Management of the District has complied with the Nepotism Act as found in section 52-3 of the Utah Code.
- 40) Management, the Board, and employees of the District have complied with standards of conduct as found in section 67-16 of the Utah Code, which prohibits the acceptance and solicitation of gifts, compensation or loans by a public officer or employee.

Signature:  \_\_\_\_\_  
Scott Green, Chief Financial Officer

Signature:  \_\_\_\_\_  
Andy Armstrong, General Manager