

**MOUNTAIN REGIONAL WATER
SPECIAL SERVICE DISTRICT**
A COMPONENT UNIT OF SUMMIT COUNTY, UTAH

FINANCIAL STATEMENTS, SUPPLEMENTARY
INFORMATION AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

DECEMBER 31, 2017 AND 2016

Osborne, Robbins & Buhler, PLLC

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SPECIAL SERVICE DISTRICT**
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MOUNTAIN REGIONAL WATER
SPECIAL SERVICE DISTRICT

Letter of Transmittal

April 4, 2018

To the Administrative Control Board

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby submit the financial statements of the Mountain Regional Water Special Service District (the District) for the year ended December 31, 2017.

The financial statements consist of management's representations concerning the finances of the District. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in these financial statements. To provide a reasonable basis for making these representations, management of the District has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the District's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the District's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The District's financial statements have been audited by Osborne Robbins and Buhler, PLLC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the year ended December 31, 2017, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the District's financial statements, for the year ended December 31, 2017, are fairly

presented in conformity with GAAP. The independent auditor's report is presented on pages 1 through 3 of this document.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditor.

District History

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

The District provides both irrigation and culinary water service to customers within its boundaries, which represents about 50% of its total water production. The remaining 50% of water produced is sold to wholesale customers outside the District boundaries, including other major retail water providers in the Snyderville Basin. To provide this water service, the District is continually upgrading and expanding its infrastructure to meeting growing customer demand.

The District maintains a centralized, regional water system currently serving 3,745 customers using water. In addition to those customers, the District provides water for two golf courses and, as mentioned above, wholesale water sales to other water companies. Accordingly, water provided in 2017 equated to over 9,000 Equivalent Residential Connections (ERCs).

In addition, 1,727 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 principal place of business is the District's Main Office at 6421 North Business Park Loop Road, Suite A near Silver Creek Junction. The Summit County Council (Council) acts as the governing board for the District; and has delegated certain authority to an Administrative Control Board (Board) made up of five to seven members appointed by the Council.

The Board meetings are generally held the second Thursday of each month at 6:00 p.m. The schedule and agendas for these meetings can be found on the District's website at www.mtregional.org/board-meetings.

Mission Statement

The District is committed to provide a safe and reliable water supply to its customers in the most cost-effective way possible.

District Planning

The District utilizes zero-based budgeting to fund programs based upon current needs and priorities; and has demonstrated the ability to make expenditure cuts when necessary due to revenue shortfalls.

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 discussed later, this helps stabilize rates and charges despite fluctuations in building related revenue and the impact of weather on water sales. The District is currently conducting a rate study that will likely lead to small rate increases each year for the next four to five years.

The District last updated its Capital Facilities Plan and impact fees in 2014 in accordance with the Utah Impact Fees Act. The District is currently in the process of updating this plan which will lead to changes in impact fees.

The District has established a rate stabilization cash reserve 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. These reserves were established under the District's bond general indenture.

Policies and Procedures

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 Personnel policies, in compliance with state and federal law, to ensure proper procedures are followed and documented in its dealings with employees. Further the District has adopted Rules & Regulations, Construction Standards, an Emergency Plan, and a Safety Manual.

These documents are available at the District's Main Office.

District policies are developed by management in coordination with the Board. The Board then makes recommendations to the Council for adoption.

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 to help prevent fraud, and to ensure all accounting transactions are entered correctly.

Budgetary Control

The District has established internal controls for budgeting which requires the General Manager, District managers and the Board to review monthly budget to actual reports. Each department has a separate budget that requires the involvement of the appropriate manager and finance department to monitor on a regular basis. Budget to actual amounts are reviewed more frequently the last two months of the fiscal year.

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.

An annual budget is 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.

Fees and Charges

It is the policy of the Board to establish fair and equitable rates fees and charges pursuant to state law. This includes water rates, operating fees, connection fees, development fees and impact fees. Assessments are adopted by Council, through a resolution prepared by Bond Council.

The amount of these rates, fees and charges are driven by the 1.25 times debt coverage requirement for the District's revenue bonds pursuant its bond general indenture. This requires the District to set its rates, fees and charges at a level that will generate enough revenue to provide 1.25 times the scheduled annual debt payments once all other annual operations, maintenance and repairs costs are paid.

The main retail water rates are shown below, although other rates exist for small groups of customers.

Residential - Per ERC

Monthly Base Rate	\$ 60.00	<i>Per ERC</i>
Usage (in gallons)		
Zero to 5,000	1.75	<i>Per 1,000 Gallons</i>
5,001 to 20,000	4.50	<i>Per 1,000 Gallons</i>
20,001 to 30,000	5.00	<i>Per 1,000 Gallons</i>
30,001 to 40,000	8.00	<i>Per 1,000 Gallons</i>
40,001 to 60,000	12.00	<i>Per 1,000 Gallons</i>
60,001 to 80,000	15.00	<i>Per 1,000 Gallons</i>
80,001 to 100,000	18.00	<i>Per 1,000 Gallons</i>
Above 100,000	21.00	<i>Per 1,000 Gallons</i>

Non-residential - Per ERC

Monthly Base Rate	77.00	<i>Per Connection</i>
Usage (in gallons)		
Zero to 5,000	2.75	<i>Per 1,000 Gallons</i>
5,001 to 30,000	4.50	<i>Per 1,000 Gallons</i>
30,001 to 40,000	8.00	<i>Per 1,000 Gallons</i>
40,001 to 60,000	12.00	<i>Per 1,000 Gallons</i>
60,001 to 80,000	12.00	<i>Per 1,000 Gallons</i>
80,001 to 100,000	12.00	<i>Per 1,000 Gallons</i>
Above 100,000	12.00	<i>Per 1,000 Gallons</i>

Culinary Irrigation - Per ERC

Monthly Base Rate	60.00	<i>Per Connection</i>
Usage (in gallons)		
Zero to 5,000	2.75	<i>Per 1,000 Gallons</i>
5,001 to 30,000	4.50	<i>Per 1,000 Gallons</i>
30,001 to 40,000	8.00	<i>Per 1,000 Gallons</i>
40,001 to 60,000	12.00	<i>Per 1,000 Gallons</i>
60,001 to 80,000	15.00	<i>Per 1,000 Gallons</i>
80,001 to 100,000	18.00	<i>Per 1,000 Gallons</i>
Above 100,000	21.00	<i>Per 1,000 Gallons</i>

These rates include significant increases for the charge per 1,000 gallons as monthly consumption increases. The Board adopted this rate structure to promote water conservation due to the District's arid climate and the need to import expensive water into the District.

In addition to the above rates, some customers also pay an elevation pumping surcharge.

Pumping Surcharge

Colony	3.17	Per 1,000 Gallons
Discovery	0.78	Per 1,000 Gallons
Glenwild	0.63	Per 1,000 Gallons
Preserve	3.07	Per 1,000 Gallons
Redhawk	3.07	Per 1,000 Gallons
Stagecoach	3.07	Per 1,000 Gallons
Summit Park	0.78	Per 1,000 Gallons
Sun Peak	1.18	Per 1,000 Gallons
Timberline	0.78	Per 1,000 Gallons
Weilenmann	0.78	Per 1,000 Gallons

The District requires an impact fee to be paid prior to the issuance of a building permit by Summit County. The impact fee recovers the proportionate capital cost of the water rights and infrastructure that will be used to provide water service for that customer. The impact fee is based upon the livable square footage of a home, plus for homes larger than 8,000 square feet an additional impact fee is added for outdoor water consumption. The impact fee schedule for residential customers is shown below; and is based upon a 0.60 acre-foot Equivalent Residential Connection (ERC) fee of \$10,513.

However, residents in the Promontory service area pay a lower \$2,466 impact per home, regardless of size, since most of the infrastructure serving Promontory was paid for with special assessment bonds.

**MOUNTAIN REGIONAL WATER SPECIAL SERVICE DISTRICT
ADOPTED GENERAL SERVICE AREA IMPACT FEES ⁽¹⁾**

Square Feet of Livable Space	(2) Base Impact Fee	Additional Impact Fee per Square Foot of Livable Space	Additional Impact Fee per 0.10 Acres of Irrigated Landscaped Area Beyond the Base Allowance of 0.20 Acre Feet
- to 3,000	(3) \$ 10,513		
3,000 to 4,000	10,513	plus \$ 3.15 per additional square foot above 3,000	
4,000 to 5,000	13,662	plus 3.15 per additional square foot above 4,000	
5,000 to 6,000	16,812	plus 3.15 per additional square foot above 5,000	
6,000 to 7,000	19,962	plus 3.15 per additional square foot above 6,000	
7,000 to 8,000	23,113	plus 3.15 per additional square foot above 7,000	
8,000 to 10,000	(4) 26,263	plus 3.15 per additional square foot above 8,000	plus \$4,031 per 0.10 acre foot of landscaping above 0.20 acre feet
10,000 to 12,000	32,564	plus 3.15 per additional square foot above 10,000	plus 4,031 per 0.10 acre foot of landscaping above 0.20 acre feet
12,000 to 14,000	38,864	plus 3.15 per additional square foot above 12,000	plus 4,031 per 0.10 acre foot of landscaping above 0.20 acre feet
14,000 to 16,000	45,165	plus 3.15 per additional square foot above 14,000	plus 4,031 per 0.10 acre foot of landscaping above 0.20 acre feet
16,000 to 18,000	51,466	plus 3.15 per additional square foot above 16,000	plus 4,031 per 0.10 acre foot of landscaping above 0.20 acre feet
18,000 to 20,000	57,766	plus 3.15 per additional square foot above 18,000	plus 4,031 per 0.10 acre foot of landscaping above 0.20 acre feet
Above 20,000	64,067	plus 3.15 per additional square foot above 20,000	plus 4,031 per 0.10 acre foot of landscaping above 0.20 acre feet

(1) - Some lot owners prepaid the impact fee for a certain quantity of water. These lot owners receive a credit against their impact fee for the quantity of water prepaid.

(2) - Livable square feet includes all floors including basements, but excludes garages, porches and decks.

(3) - The base impact fee for all homes with livable space up to 3,000 square feet is the same at \$10,513.

(4) - Only homes with 8,000 or more square feet of livable space are assessed an additional impact fee for outdoor watering. The first 0.20 acre feet (8,712 square feet) of irrigated landscaped area is not assessed the additional fee. Any irrigated landscaped area larger than 0.20 acres is assessed \$4,031 per 0.10 additional acre feet (4,356 square feet) beyond the 0.20 acres.

The impact fees for non-residential customers (with the exception of the Promontory service area) is \$10,513 per ERC, based upon standards established by the State of Utah Division of Drinking Water. Non-residential customers in Promontory pay \$2,466 per ERC.

Economic and Demographic Information

The District is located in an affluent area that includes many large second homes. In fact, the area has the highest per capita income in the state. 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.

The District is currently experiencing strong customer growth due to a building “boom”. It currently serves 3,498 residential connections and 156 commercial connections, with an estimated population of 7,500. Based upon the Utah Governor’s Office growth projections for Summit County, it is estimated that the District’s population will be 8,941 in 2020 and 13,970 by 2030. The population could be higher than this if additional areas annex into the District as development continues.

This “boom” development cycle in the Snyderville Basin has led to significant increases 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 in the near term.

However, the strong building economy and dry summers will most likely not continue indefinitely. Accordingly, as discussed above, the District established a rate stabilization cash reserves to help mitigate the fluctuations in District annual revenue collections, caused by these cycles.

Major Initiatives

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. The importation project is needed since the Snyderville Basin has maxed out the local water supply. It is expected a new large importation project may be

constructed by Weber Basin in the next five to ten years. The District currently has sufficient water for buildout within its current boundaries; but will need to participate in this expensive project if more areas annex into the District.

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.

Under this agreement, the District is now selling its surplus water to Weber Basin, who is then selling it to other retail water entities in the Snyderville 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 five to ten years.

As such, the District created a regionalization cash reserve 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.

Awards

- Resource Efficiency Award, presented by the Rural Water Association of Utah
- Energy Efficiency Award, presented by the National Rural Water Association
- Trust Accountability Program (TAP) Award, third consecutive, presented by Utah Local Governments Trust for excellence in safety and risk management

Respectfully submitted,



Andy Armstrong, General Manager
District Clerk



Lisa Hoffman, Chief Financial Officer
Treasurer

REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying financial statements of Mountain Regional Water Special Service District (the District), a component unit of Summit County, Utah, as of and for the year ended December 31, 2017 and the related notes to the financial statements, which comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mountain Regional Water Special Service District as of December 31, 2017 and the changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 16, and the Required Supplementary Information – Pensions on pages 52 through 54 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the District's basic financial statements. The transmittal letter on pages iv through viii and other supplemental financial information on pages 56 through 62, are presented for purposes of additional analysis and are not a required part of the financial statements.

The transmittal letter and other supplemental financial information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Report on 2016 Financial Statements

The 2016 financial statements were audited by other accountants and they expressed an unmodified opinion on them in their report dated June 14, 2017, but we have not performed any auditing procedures since that date.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Osborne, Robbins & Buhler PLLC

April 4, 2018

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017 and 2016

This section of the Mountain Regional Water Special Service District of Summit County (the District) report serves as an introduction to its basic financial statements for the year ended December 31, 2017 and 2016; and presents management's discussion and analysis of its financial position. Please read this in conjunction with the District's basic financial statements, which follow this section. These statements include all District activities.

Financial Highlights

- The District realized a \$5.73 million change in net position for 2017 This exceeded budget by \$2.80 million;
- District revenue exceeded budget by \$2.11 million (16.0%) as development related collections remained strong and hot dry weather led to higher retail water sales;
- 2017 expenses finished \$680,066 (7.7%) under budget due to lower power, repair and maintenance costs;
- Unbudgeted capital contributions accounted for \$1.28 million or 22.4% of the \$5.73 million change in net position for 2017. Capital contributions are a non-cash transfer of water system assets to the District, and do not provide additional cash flow.
- Excluding the use of bond proceeds restricted for construction projects, District cash increased \$2.22 million during 2017.
- Year-end 2017 operating cash and reserves amounted to 288 days reserves, based upon annual budgeted cash operating expenditures.

Overview of the Financial Statements

The basic financial statements are comprised of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows and the Notes to the Financial statements. This report also contains additional required supplementary information on pensions and other supplementary items, in addition to the basic financial statements themselves.

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 cost of providing goods and services be financed or recovered primarily through user charges. The District is financed primarily through water sales, service fees, property assessments, and impact fees. It does not impose any taxes.

The *Statement of Net Position* presents information on all the District's assets and deferred outflows of resources, and its liabilities and deferred inflows of resources - with the difference between the two reported as net position. Typically, over time the increases and decreases in

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017 and 2016

net position may serve as a useful indicator whether the financial position of the District is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing the how District's net position changed during the years presented. All changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of the related cash flows. Thus, the revenues and expenses are reported in this statement for some items that will only result in cash flows for future periods.

The *Statement of Cash Flows* presents information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments and changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did the cash come from, what was the cash used for, and what was the change in cash balances during the reporting period.

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 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, although the potential significant swings in the District's annual revenue collections due to weather conditions and the building economy also need to be accounted for when interpreting the table below. This is discussed in more detail later in the revenue section of this report.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017 and 2016

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

	2017	2016	2015	2017 to 2016		2016 to 2015	
				Change \$	%	Change \$	%
Operating revenue	\$ 9,642,001	\$ 9,175,041	\$ 7,858,745	\$ 466,960	5.1 %	\$ 1,316,296	16.7 %
Operating expenses	(7,279,312)	(6,917,430)	(6,641,257)	(361,882)	5.2	(276,173)	4.2
Operating income	<u>2,362,689</u>	<u>2,257,611</u>	<u>1,217,488</u>	<u>105,078</u>	<u>4.7</u>	<u>1,040,123</u>	<u>85.4</u>
Non-operating revenue	3,580,373	3,300,054	3,542,723	280,319	8.5	(242,669)	(6.8)
Non-operating expense	(1,498,700)	(1,493,445)	(1,647,768)	(5,255)	0.4	154,323	(9.4)
Income before contributions	<u>4,444,362</u>	<u>4,064,220</u>	<u>3,112,443</u>	<u>380,142</u>	<u>9.4</u>	<u>951,777</u>	<u>30.6</u>
Capital Contributions	<u>1,284,366</u>	<u>35,064</u>	<u>683,791</u>	<u>1,249,302</u>	<u>3,562.9</u>	<u>(648,727)</u>	<u>(94.9)</u>
Change in net position	5,728,728	4,099,284	3,796,234	1,629,444	39.7	303,050	8.0
Net position - beginning	<u>49,212,419</u>	<u>45,113,135</u>	<u>41,316,901</u>	<u>4,099,284</u>	<u>9.1</u>	<u>3,796,234</u>	<u>9.2</u>
Net position - ending	<u>\$ 54,941,147</u>	<u>\$ 49,212,419</u>	<u>\$ 45,113,135</u>	<u>\$ 5,728,728</u>	<u>11.6 %</u>	<u>\$ 4,099,284</u>	<u>9.1 %</u>

The 2017 change in net position of \$5.73 million (11.6%) to \$54.94 million, as shown in the table above, resulted from strong retail water sales due to hot weather, strong development revenues, significant capital contributions, and lower power and repair expenses.

Net position increased \$4.10 million (9.1%) in 2016 to \$49.21 million. This resulted from strong development revenues, high retail water sales due to hot weather plus increased wholesale water sales.

The District's net position is segregated into three categories, as shown below, to provide additional insight into its financial condition.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017 and 2016

Mountain Regional Water Special Service District's Net Position

				2017 to 2016		2016 to 2015	
	2017	2016	2015	Change	%	Change	%
Unrestricted current assets	\$ 9,629,124	\$ 7,389,110	\$ 6,734,997	\$ 2,240,014	30.3 %	\$ 654,113	9.7 %
Capital assets	87,918,727	83,743,261	83,123,163	4,175,466	5.0	620,098	0.7
Net pension assets	-	87	1,350	(87)	(100.0)	(1,263)	(93.6)
Other assets	4,779,446	6,841,940	7,111,041	(2,062,494)	(30.1)	(269,101)	(3.8)
Total assets	102,327,297	97,974,398	96,970,551	4,352,899	4.4	1,003,847	1.0
Deferred outflows of resources	1,512,568	1,459,413	1,149,871	53,155	3.6	309,542	26.9
Total deferred outflows	1,512,568	1,459,413	1,149,871	53,155	3.6	309,542	26.9
Unrestricted current liabilities	189,661	184,786	843,031	4,875	2.6	(658,245)	(78.1)
Long-term liabilities	44,208,631	45,828,132	48,214,892	(1,619,501)	(3.5)	(2,386,760)	(5.0)
Net pension liability	1,119,191	968,804	709,392	150,387	15.5	259,412	36.6
Other liabilities	3,050,863	2,940,781	2,937,557	110,082	3.7	3,224	0.1
Total liabilities	48,568,346	49,922,503	52,704,872	(1,354,157)	(2.7)	(2,782,369)	(5.3)
Deferred inflows of resources	330,372	298,889	302,415	31,483	10.5	(3,526)	(1.2)
Total deferred inflows	330,372	298,889	302,415	31,483	10.5	(3,526)	(1.2)
Net position							
Net investment in capital assets	44,049,862	40,651,137	38,995,794	3,398,725	8.4	1,655,343	4.2
Retricted for:				-	-	-	-
Capital projects	1,214,318	1,249,620	241,875	(35,302)	(2.8)	1,007,745	416.6
Debt service	1,320,938	1,092,592	1,046,123	228,346	20.9	46,469	4.4
Unrestricted	8,356,029	6,219,070	4,829,343	2,136,959	34.4	1,389,727	28.8
Total net position	\$ 54,941,147	\$ 49,212,419	\$ 45,113,135	\$ 5,728,728	11.6 %	\$ 4,099,284	9.1 %

Net Investment in Capital Assets

Net investment in capital assets (net investment) measures the book value of an entity's capital 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.

Net investment in capital assets accounted for \$44.05 million (80.2%) of total net position in 2017 compared to \$40.65 million (82.6%) in 2016. The \$3.40 million (8.4%) increase in net investment during 2017 benefitted from the completion of capital projects, principal payments on debt, and capital contributions. Meanwhile net investment increased \$1.66 million (4.2%) in 2016 due to the completion of capital projects and principal payments on debt.

Capital assets accounted for \$87.92 million (85.9%) of total assets in 2017; compared to \$83.74 million (85.5%) of total assets in 2016. Long-term liabilities (mostly bonds) accounted for \$44.21 million (91.0%) of total liabilities in 2017; compared to \$45.83 million (91.8%) for 2016.

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Restricted Net Position

Restricted net position includes restricted cash and cash equivalent accounts less liabilities that will be paid from restricted cash and cash equivalent account balances. It includes two components: restricted for capital projects and restricted for debt service.

In 2017, net position restricted for capital projects decreased a nominal \$35,302 (2.8%). In 2016, net position restricted for capital projects increased \$1.01 million due to a \$992,196 increase in cash restricted for capital projects; resulting primarily from an increase in impact fee reserves.

In 2017, net position restricted for debt service increased \$228,346 (20.9%) to \$1.32 million. This resulted from a \$200,898 (33.6%) increase in cash restricted for Promontory assessment related debt payments due to improved lot sales. In 2016, net position restricted for debt service increased a nominal \$46,469 (4.4%).

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.

In 2017, unrestricted net position increased \$2.14 million (34.4%) to \$8.36 million because of the strong summer retail water sales due to hot weather and lower than anticipated repair and power expenses. This led to a \$1.76 million increase in unrestricted cash and cash equivalents.

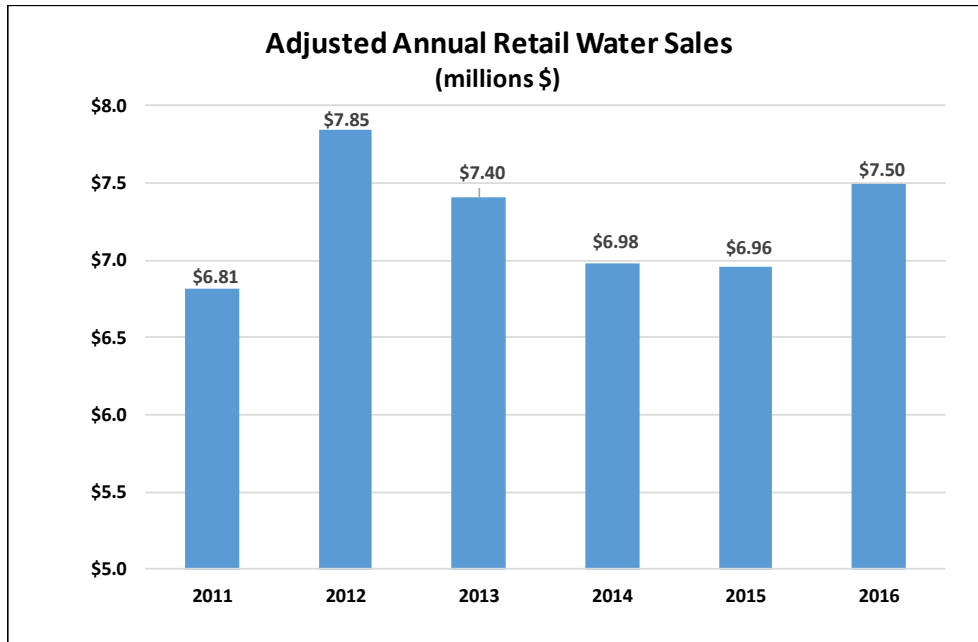
Unrestricted net position increased \$1.39 million (28.8%) to \$6.22 million in 2016 due strong water sales from hot weather and customer growth, along with lower operations costs.

Summary of Revenue

Later in this section, the District's three-year revenue history is discussed. However, the trends demonstrated in the related three-year table shown later in this section are not necessarily a good indication of revenue trends, as revenue collections can be very cyclical year-over year.

For example, the fluctuation in adjusted retail water sales over the past six years is shown in the chart below.

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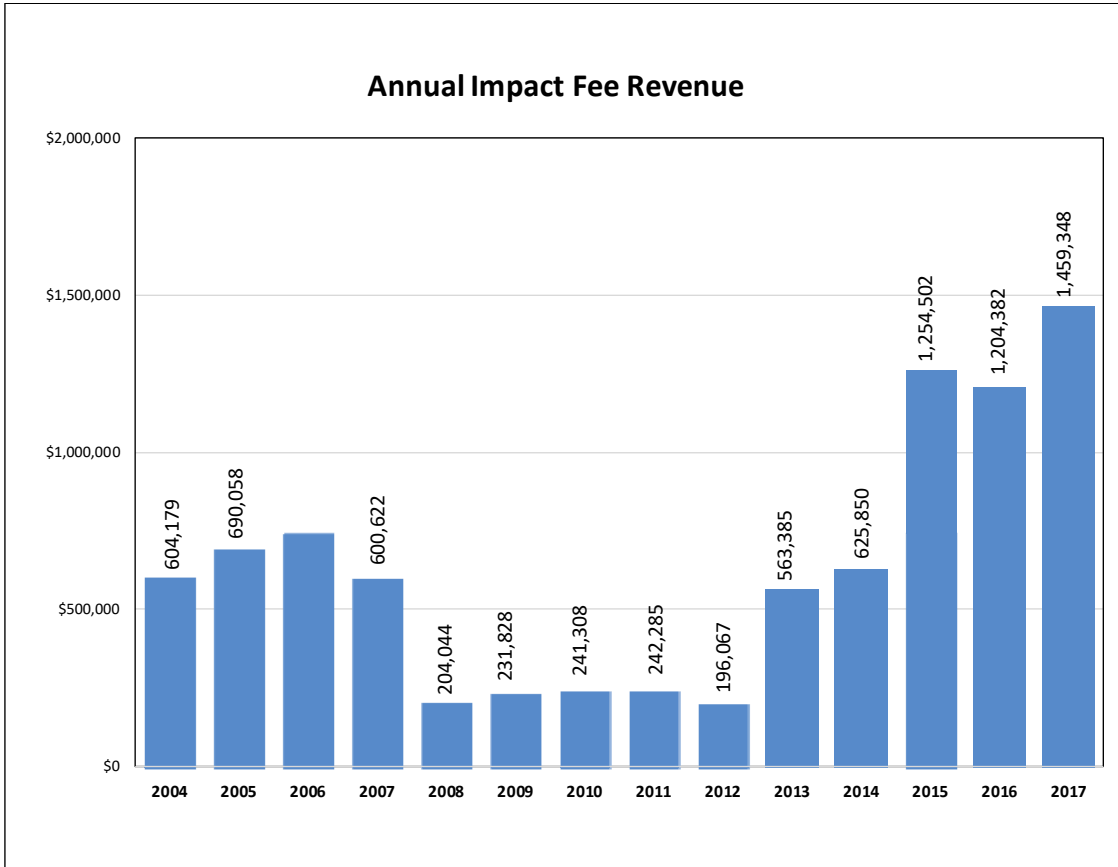


These water sales for all years have been adjusted to 2016 rates and number of customers to provide for a valid comparison of the impact of weather on retail water sales. As such, customer growth has been factored out of the amounts shown in the chart above.

It shows that adjusted retail water sales varied from \$6.81 million to \$7.85 million during this six-year period. This represents a \$1.04 million (15.3%) variance in retail water sales strictly due to weather patterns.

In addition to the variance in retail water sales due to weather, there is an even more dramatic variance in impact fee revenues due to the building cycle as shown below. Since 2003, impact fee revenues have ranged from a high of \$1.46 million in 2017 to a low of \$196,067 in 2012.

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In addition to establishing the stabilization reserves, the District uses the ten-year moving average of water consumption per customer to develop retail water sales forecasts; and includes a \$200,000 contingency in the retail water sales budget. This also helps mitigate the potential negative impacts of weather patterns on annual water sales.

Total revenue increased \$747,278 (6.0%) in 2017 to \$13.22 million, after increasing \$1.07 million (9.4%) in 2016, as shown below.

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Mountain Regional Water Special Service District's Revenue Summary

	2017	2016	2015	2017 to 2016 Change		2016 to 2015 Change	
				\$	%	\$	%
Operating							
Retail water sales	\$ 7,652,899	\$ 7,384,473	\$ 6,459,836	\$ 268,426	3.6 %	\$ 924,637	14.3 %
Wholesale water sales & wheeling fees	1,473,057	1,314,528	902,423	158,529	12.1	412,105	45.7
Operating fees	442,186	407,984	421,448	34,202	8.4	(13,464)	(3.2)
Other	73,859	68,056	75,038	5,803	8.5	(6,982)	(9.3)
Total operating	9,642,001	9,175,041	7,858,745	466,960	5.1	1,316,296	16.7
Non-operating							
Impact fees	1,459,348	1,204,382	1,254,502	254,966	21.2	(50,120)	(4.0)
Interest income	176,988	112,941	80,958	64,047	56.7	31,983	39.5
Special district assessments	1,674,531	1,742,175	1,730,632	(67,644)	(3.9)	11,543	0.7
Intergovernmental grant revenue	11,667	31,101	16,704	(19,434)	(62.5)	14,397	86.2
Other nonoperating revenue	246,707	209,455	315,919	37,252	17.8	(106,464)	(33.7)
Gain on disposal of capital assets	11,132	-	144,008	11,132	-	(144,008)	(100.0)
Total nonoperating	3,580,373	3,300,054	3,542,723	280,319	8.5	(242,669)	(6.8)
Total revenue	\$ 13,222,374	\$ 12,475,095	\$ 11,401,468	\$ 747,279	6.0 %	\$ 1,073,627	9.4 %

Retail water sales increased \$268,426 (3.6%) in 2017 because of hot dry weather and strong customer growth. The \$924,637 (14.3%) increase in 2016 retail water sales happened for the same reasons.

Wholesale water is typically sold on a take-or-pay basis, which means wholesale customers pay for the full quantity of water contracted each year whether or not they use it. This helps to mitigate the variation on retail water sales due to weather. The \$158,529 (12.1%) increase in 2017 wholesale water sales and wheeling fees is due to an additional 100 acre-feet of water sold to Weber Basin through a regionalization agreement with several water companies located in the Snyderville Basin.

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.

Impact fee revenues increased \$254,966 (21.2%) in 2017 due strong building activity. Impact fee revenues declined a modest \$50,120 (4.0%) in 2016 – but was still close to the 2015 then record high revenues of \$1.25 million.

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Summary of Expenses

District expenses increased \$367,137 (4.4%) in 2017 as shown below. Almost half of this is the result of an \$181,197 increase in the annual actuarial pension expense for 2017.

This pension increase was caused by a change in the assumptions applied by the Utah State Retirement Systems. This 2017 increase in the pension accrual affected all departments except legal services – which has no employees.

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 the District’s financial statements.

Mountain Regional Water Special Service District's Expense Summary

	2017	2016	2015	2017 to 2016 Change		2016 to 2015 Change	
				\$	%	\$	%
Operating							
Operations, maintenance and repairs	\$ 2,057,065	\$ 2,250,116	\$ 2,002,038	\$ (193,051)	(8.6) %	\$ 248,078	12.4 %
Water production	2,003,330	1,746,327	1,802,721	257,003	14.7	(56,394)	(3.1)
Engineering and energy and technology management	714,647	660,752	593,834	53,895	8.2	66,918	11.3
Management and finance	895,226	772,452	752,131	122,774	15.9	20,321	2.7
Legal services	29,680	13,305	24,560	16,375	123.1	(11,255)	(45.8)
Depreciation	1,579,364	1,474,478	1,465,973	104,886	7.1	8,505	0.6
Total operating	<u>7,279,312</u>	<u>6,917,430</u>	<u>6,641,257</u>	<u>361,882</u>	<u>5.2</u>	<u>276,173</u>	<u>4.2</u>
Non-Operating							
Interest expense	1,470,966	1,462,711	1,624,034	8,255	0.6	(161,323)	(9.9)
Other nonoperating expenses	27,734	30,734	23,734	(3,000)	(9.8)	7,000	29.5
Total nonoperating	<u>1,498,700</u>	<u>1,493,445</u>	<u>1,647,768</u>	<u>5,255</u>	<u>0.4</u>	<u>(154,323)</u>	<u>(9.4)</u>
Total expenses	<u>\$ 8,778,012</u>	<u>\$ 8,410,875</u>	<u>\$ 8,289,025</u>	<u>\$ 367,137</u>	<u>4.4 %</u>	<u>\$ 121,850</u>	<u>1.5 %</u>

Excluding the increase in the actuarial pension expense, other District expenses increased only 2.2% in 2017. These other changes in expenses are discussed below.

The \$257,003 (14.7%) increase water production and the \$53,895 (8.2%) increase in engineering, energy and technology management in 2017 is largely the result of transferring personnel from operations, maintenance and repairs. This explains the \$193,051 (8.6%) decline in operations, maintenance and repairs for 2017.

The 2017 increase of \$122,774 (15.9%) in management and finance occurred due to the addition of a water operator that reports to public services and focuses on customer service issues. Control board training costs also increased along with other smaller items.

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Depreciation expense increased \$104,886 (7.1%) in 2017 due to the completion of projects funded with the proceeds of the Series 2014 revenue bonds.

Meanwhile, 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%) as 2015 bond principal payments reduced the 2016 debt outstanding on which interest is charged.

Capital Assets as of December 31

At the end of 2017, the District had invested \$109.07 million in a range of capital assets including land and water rights; infrastructure not buildings (water system infrastructure); construction in progress; and buildings, equipment and furnishings. As shown below, after accumulate depreciation, the District's net capital assets total \$87.92 million.

	Mountain Regional Water Special Service District's Capital Assets			2017 to 2016		2016 to 2015	
	(net of depreciation)			Change		Change	
	2017	2016	2015	\$	%	\$	%
Land and water rights	\$ 20,529,449	\$ 20,360,836	\$ 20,360,836	\$ 168,613	0.8 %	\$ -	-
Construction in progress	3,139,175	1,900,452	5,018,746	1,238,723	65.2	(3,118,294)	(62.1)
Infrastructure not buildings	57,382,865	54,826,627	51,006,758	2,556,238	4.7	3,819,869	7.5
Buildings, equipment and furnishings	6,867,238	6,655,346	6,736,823	211,892	3.2	(81,477)	(1.2)
Total capital assets (net)	<u>\$ 87,918,727</u>	<u>\$ 83,743,261</u>	<u>\$ 83,123,163</u>	<u>\$ 4,175,466</u>	<u>5.0 %</u>	<u>\$ 620,098</u>	<u>0.7 %</u>

Capital assets (net of depreciation) increased \$4.18 million (5.0%) to \$87.92 million in 2017, as the Bison Bluff Well was completed, and significant progress was made on both the Silver Creek Tank & Pump Station and the meter upgrade program. In addition, capital contributions of \$1.28 million in water system assets were received.

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.

Additional information on the District's capital assets can be found in Note 5 on page 34 of this report.

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

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Long-term Obligations Outstanding as of December 31

The District maintains a schedule to pay off all its debt by 2037.

As shown below, total long-term obligations outstanding declined \$1.47 million (3.1%) to \$45.33 million in 2017, as the \$2.23 million in principal payments was offset by \$620,445 in new financing. This new financing includes a \$373,385 capital lease to acquire diesel generators for use at the District largest production facility in case the electricity goes out. Another \$247,060 notes payable from Weber Basin paid for an upgrade to the District's power substation.

Mountain Regional Water Special Service District's Long-term Obligations

	2017	2016	2015	2017 to 2016		2016 to 2015	
				Change	Change	Change	Change
	\$	\$	\$	\$	%	\$	%
Capital leases	\$ 613,496	\$ 273,401	\$ 285,953	\$ 340,095	124.4	\$ (12,552)	(4.4)
Payable to developer	1,135,377	1,266,392	1,270,837	(131,015)	(10.3)	(4,445)	(0.3)
Net pension liability	1,119,191	968,804	709,392	150,387	15.5	259,412	36.6
Compensated absences	408,452	392,708	371,318	15,744	4.0	21,390	5.8
Notes and bonds payable	42,051,306	43,895,631	46,286,784	(1,844,325)	(4.2)	(2,391,153)	(5.2)
Total long-term obligations	<u>\$ 45,327,822</u>	<u>\$ 46,796,936</u>	<u>\$ 48,924,284</u>	<u>\$ (1,469,114)</u>	<u>(3.1) %</u>	<u>\$ (2,127,348)</u>	<u>(4.3) %</u>

Total long-term obligations outstanding declined \$2.13 million (4.3%) to \$46.80 in 2016 due to principal and capital lease payments. No new debt was issued in 2016.

The District's underlying bond rating from Fitch and Standard & Poor's remained at A+ during 2017.

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

Economic Factors and Next Year's Operations

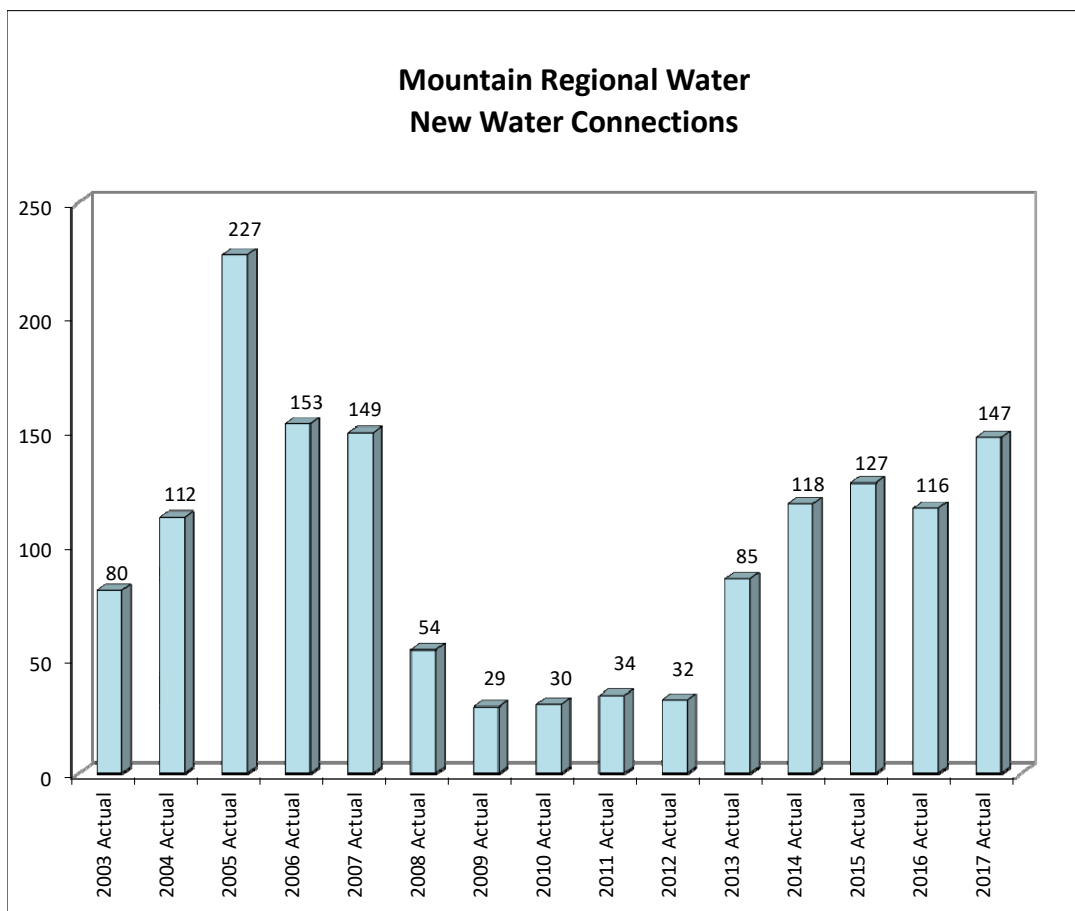
The average annual number of nonfarm payroll jobs in Summit County increased by 4.6% during 2016. Summit County had an unemployment rate of 2.3% in 2016, compared to 3.2% in 2015 and 3.4% in 2014 (Source: Utah Department of Workforce Services).

Annual real estate statistics serve as an important barometer of the economic climate in Summit County. Their numbers reflect sales of all types of property including commercial, residential and vacant land. After peaking at more than \$2.0 billion in annual sales during 2004 and 2005, the total value of real estate sold in Summit County during 2016 was \$2.2 billion, compared to just over \$1.85 billion in 2015, an increase of \$350 million (18.9%) over the prior year.

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2017 is the fifth consecutive year of rebounding economic growth. Building in Park City over the past ten years has fluctuated from a low of \$29.8 million in 2011 to a high of \$239.7 million in 2007 (Source: Park City Board of Realtors).

These facts correlate with the customer growth experienced by the District the past 14 years, including the current strong growth in new connections, as shown below.



As shown above, the annual growth in new connections varies year to year with the building cycle. Since 2003, there have been two “boom” cycles and one “bust” cycle. The District is currently in a “boom” market that will likely not last indefinitely.

The current growth should 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 the current growth in new customers, water sales will continue to fluctuate with weather patterns.

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Since the current building “boom” will very likely not last, the District anticipates a significant decline in impact fee revenues once the local building cycle eventually trends down. As such, the District plans to budget \$600,000 annually moving forward despite collections averaging \$1.31 million the past three years, based upon the ten-year moving average. The \$600,000 in budgeted impact fee revenues is based upon the 10-year average.

The District attempts to finish each year with a \$750,000 to \$1.0 million balance in capital facility repair & replacement cash reserves. The year-end 2017 balance was \$865,226.

District policy requires a minimum 120 days reserves throughout the entire year. The 288-day balance at year-end 2017 should be sufficient to maintain the 120-day policy minimum throughout 2018.

The District plans to do a rate study in 2018 to address increasing debt service costs. It also plans to begin work to update its six-year capital facilities plan.

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 report 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.

BASIC FINANCIAL STATEMENTS

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
STATEMENTS OF NET POSITION
December 31,

	Business-type Activities	
	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,992,374	\$ 5,232,990
Receivables		
Accounts receivable	820,468	906,385
Other	504,228	10,000
Inventory of supplies	117,240	125,851
Prepaid expenses	1,194,814	1,113,884
Current portion, restricted cash and cash equivalents	<u>3,024,564</u>	<u>2,928,228</u>
Total current assets	<u>12,653,688</u>	<u>10,317,338</u>
NONCURRENT ASSETS		
Restricted cash and cash equivalents	1,754,882	3,913,712
Net pension asset	-	87
Nondepreciable capital assets	23,668,624	22,261,288
Depreciable capital assets, net	<u>64,250,103</u>	<u>61,481,973</u>
Total noncurrent assets	<u>89,673,609</u>	<u>87,657,060</u>
	<u>\$ 102,327,297</u>	<u>\$ 97,974,398</u>
DEFERRED OUTFLOWS OF RESOURCES		
Loss on bond refunding	\$ 737,987	\$ 784,353
Pensions	<u>774,581</u>	<u>675,060</u>
	<u>\$ 1,512,568</u>	<u>\$ 1,459,413</u>

Mountain Regional Water Special Service District
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STATEMENTS OF NET POSITION - CONTINUED
December 31,

	Business-type Activities	
	2017	2016
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 117,689	\$ 138,250
Accrued liabilities	71,972	46,536
Liabilities payable from restricted assets		
Accounts payable	511,853	209,475
Due to developer	66,222	48,480
Customer deposits	370,138	304,355
Arbitrage rebate	6,409	6,350
Accrued interest	91,956	92,806
Current portion, payable to developer	62,235	51,244
Current portion, notes and bonds payable	1,915,751	2,215,518
Current portion, capital leases	26,299	12,553
Total current liabilities	3,240,524	3,125,567
LONG-TERM OBLIGATIONS, less current maturities		
Capital leases	613,496	273,401
Payable to developer	1,135,377	1,266,392
Net pension liability	1,119,191	968,804
Compensated absences	408,452	392,708
Notes and bonds payable	42,051,306	43,895,631
Total liabilities	\$ 48,568,346	\$ 49,922,503
DEFERRED INFLOWS OF RESOURCES		
Grant revenues received in advance	\$ 186,667	\$ 198,334
Pensions	143,705	100,555
	\$ 330,372	\$ 298,889
NET POSITION		
Net investment in capital assets	44,049,862	40,651,137
Restricted for:		
Capital projects	1,214,318	1,249,620
Debt service	1,320,938	1,092,592
Unrestricted	8,356,029	6,219,070
Total net position	\$ 54,941,147	\$ 49,212,419

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended December 31,

	Business-type Activities	
	2017	2016
Operating revenues*		
Retail water sales	\$ 7,652,899	\$ 7,384,473
Wholesale water sales and wheeling fees	1,473,057	1,314,528
Operating fees	442,186	407,984
Other operating revenues	73,859	68,056
Total operating revenues	<u>9,642,001</u>	<u>9,175,041</u>
Operating expenses		
Operations, maintenance and repairs	2,057,065	2,250,116
Water production	2,003,330	1,746,327
Engineering and energy and technology management	714,647	660,752
Management and finance	895,226	772,452
Legal services	29,680	13,305
Depreciation	1,579,364	1,474,478
Total operating expenses	<u>7,279,312</u>	<u>6,917,430</u>
Operating income	<u>2,362,689</u>	<u>2,257,611</u>
Nonoperating revenues (expenses)		
Impact fees*	1,459,348	1,204,382
Interest income*	176,988	112,941
Special assessments*	1,674,531	1,742,175
Intergovernmental grant revenue	11,667	31,101
Other nonoperating revenue*	246,707	209,455
Gain on disposal of capital assets*	11,132	-
Interest expense	(1,470,966)	(1,462,711)
Other nonoperating expenses	(27,734)	(30,734)
Total nonoperating revenues (expenses)	<u>2,081,673</u>	<u>1,806,609</u>
Income before contributions	4,444,362	4,064,220
Capital contributions - assets	<u>1,284,366</u>	<u>35,064</u>
Increase in net position	5,728,728	4,099,284
Net position at beginning of year	<u>49,212,419</u>	<u>45,113,135</u>
Net position at end of year	<u>\$ 54,941,147</u>	<u>\$ 49,212,419</u>

*Pledged as security for revenue bonds

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
STATEMENTS OF CASH FLOWS
Year Ended December 31,

	Business-type Activities	
	2017	2016
Cash flows from operating activities		
Receipts from customers	\$ 9,654,059	\$ 8,788,312
Payments to suppliers of goods and services	(3,506,789)	(4,086,594)
Payments to employees for services	(1,848,378)	(1,980,968)
Other receipts (payments)	(336,785)	302,164
Net cash provided by operating activities	<u>3,962,107</u>	<u>3,022,914</u>
Cash flows from investing activities		
Interest income collected	176,988	112,941
Net cash provided by investing activities	<u>176,988</u>	<u>112,941</u>
Cash flows from capital and related financing activities		
Impact fees collected	1,459,348	1,204,382
Grant revenues collected	-	19,435
Special assessments and other nonoperating revenues collected	1,893,504	1,920,896
Purchase and construction of capital assets	(4,470,464)	(2,059,512)
Proceeds from sale of capital assets	11,132	-
Payments made on payable to developer	(120,024)	(170,172)
Proceeds from capital leases	373,385	-
Principle payments made on capital leases	(19,543)	(12,196)
Proceeds from issuance of long-term obligations	247,060	-
Reduction of long-term obligations	(2,215,519)	(2,202,273)
Interest payments made on long-term obligations	(1,601,084)	(1,596,233)
Net cash used in capital and related financing activities	<u>(4,442,205)</u>	<u>(2,895,673)</u>
Net increase (decrease) in cash and cash equivalents	(303,110)	240,182
Cash and cash equivalents at beginning of year	<u>12,074,930</u>	<u>11,834,748</u>
Cash and cash equivalents at end of year	<u>\$ 11,771,820</u>	<u>\$ 12,074,930</u>
Cash and cash equivalents consists of :		
Unrestricted cash and cash equivalents	\$ 6,992,374	\$ 5,232,990
Current portion, restricted cash and cash equivalents	3,024,564	2,928,228
Noncurrent restricted cash and cash equivalents	<u>1,754,882</u>	<u>3,913,712</u>
Total cash and cash equivalents	<u>\$ 11,771,820</u>	<u>\$ 12,074,930</u>

Continued

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
STATEMENTS OF CASH FLOWS - CONTINUED
Year Ended December 31,

	Business-type Activities	
	2017	2016
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 2,362,689	\$ 2,257,611
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,579,364	1,474,478
Changes in assets and liabilities		
Accounts receivable	85,917	(318,673)
Other receivables	(494,228)	180,648
Inventory of supplies	8,611	22,020
Prepaid expenses	(80,930)	(28,825)
Changes in net pension asset, liability and deferred inflows and outflows related to pensions	94,103	(87,093)
Accounts payable	(20,561)	4,014
Accrued liabilities	25,436	(170,593)
Accounts payable from restricted assets	302,378	(385,523)
Long-term portion compensated absences	15,744	21,390
Increase in amount due to developer	17,742	48,480
Increase arbitrage rebate payable	59	84
Collection of deposits	65,783	4,896
	<u>\$ 3,962,107</u>	<u>\$ 3,022,914</u>
Net cash provided by operating activities		
Non-cash transactions affecting financial position:		
Contributions of capital assets from developers	<u>\$ 1,284,366</u>	<u>\$ 35,064</u>

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 1 - Summary of Significant Accounting Policies

Mountain Regional Water Special Service District (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.

This summary of significant accounting policies of the District is presented to assist in understanding the District's financial statements. The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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.

In accordance with state law, a budget is prepared on an annual basis. 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.

Note 1 - Summary of Significant Accounting Policies - Continued

Basic Financial Statements and Basis of Accounting

The District is a government entity accounted for as an enterprise fund and categorized as a business-type activity. Operations are financed in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The records of the District are maintained on the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. Nonoperating revenues and expenses are those related to capital and related financing, noncapital financing, or investing activities.

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

For purposes of the statement of cash flows, the District considers all cash and highly liquid financial instruments purchased with original maturities of three months or less to be cash and cash equivalents.

Note 1 - Summary of Significant Accounting Policies - Continued

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 including interest and late charges. 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.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 1 - Summary of Significant Accounting Policies - Continued

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 Life (Years)</u>
Buildings	60
Improvements other than buildings	25 – 60
Furniture and fixtures, machinery and equipment, 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 2017 the District capitalized \$61,070 of interest costs which is net of interest income of \$23,089.

Intangible assets

Following the guidance of GASB Statement No. 51, effective December 1, 2010, the District began recording donated intangible assets meeting the criteria outlined in GASB Statement No. 51 at fair value.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, 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.

Note 1 - Summary of Significant Accounting Policies - Continued

Deferred Outflow and Inflows of Resources

In addition to assets, financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (an expense) until then.

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

For current 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.

The District also reports deferred outflows of resources related to the net pension liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date. Deferred inflows related to the pension are primarily the result of differences between projected and actual earnings on plan investments.

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.

The District's deposits are insured up to \$250,000 per account by the Federal Deposit Insurance Corporation. Deposits in the bank in excess of the insured amount are exposed to custodial credit risk. Deposits are not collateralized nor are they required to be by state statute. As of December 31, 2017, \$602,584 of the District's \$852,584 bank balance was uninsured and uncollateralized. As of December 31, 2016, \$348,641 of the District's \$598,641 bank balance was uninsured and uncollateralized.

Investments

The Act defines the types of securities authorized as appropriate investments and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of investment securities.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 2 - Deposits and Investments – Continued

The Act authorizes investments in both negotiable and nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as “first tier” by two nationally recognized statistical rating organizations, one of which must be Moody’s Investors Services or Standard & Poor’s; bankers’ acceptances; obligations of the United States Treasury including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by U.S. government sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and Student Loan Marketing Association (Sallie Mae); bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rate “A” or higher, or the equivalent of “A” or higher, by two nationally recognized statistical rating organizations; and shares or certificates in a money market mutual fund as defined in the Act.

The District’s investments at December 31, 2017 are presented below:

<u>Investment Type</u>	Fair Value	Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
Utah Public Treasurer’s Investment Fund	\$9,585,559	\$9,585,559	\$ -	\$ -	\$ -

Interest Rate Risk - Investments

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.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 2 - Deposits and Investments – Continued

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District follows the Act as previously discussed as its policy for reducing exposure to investment credit risk. The District’s investments are unrated.

<u>Rated</u>	<u>Debt</u>	Fair Value	Quality Ratings			
			AAA	AA	A	Unrated
	Utah Public Treasurer’s Investment Fund	<u>\$9,585,559</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$9,585,559</u>

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of a failure of the counter party, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

All of the District’s investments at December 31, 2017 were with the Utah Public Treasurer’s Investment Fund and therefore are not categorized as to custodial credit risk. Additional information regarding the Utah Public Treasurer’s Investment Fund is available at Note 3.

Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of a loss attributed to the magnitude of a government’s investment in a single issuer.

The District’s policy for reducing this risk of loss is to comply with the Rules of the Council. Rule 17 of the Council limits investments in a single issuer of commercial paper and corporate obligations to between 5 and 10 percent depending upon the total dollar amount held in the portfolio. The Council limitations do not apply to securities issued by the U.S. government and its agencies.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 2 - Deposits and Investments – Continued

All of the District's investments at December 31, 2017 were with the Utah Public Treasurer's Investment Fund and therefore are not categorized as to concentration of credit risk. Additional information regarding the Utah Public Treasurer's Investment Fund is available at Note 3.

Note 3 – External Investment Pool

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Chapter 51-7, Utah Code Annotated, 1953, as amended. The Act establishes the Money Management Council which oversees the activities of the State Treasurer and the PTIF. The Act details the investments that are authorized which are high-grade securities and, therefore, there is very little credit risk except in the most unusual and unforeseen circumstances. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah and participants share proportionally in any realized gains or losses on investments.

The PTIF allocates income and issues statements on a monthly basis. The PTIF operates and reports to participants on an amortized cost basis. The participants' balance is their investment deposited in the PTIF plus their share of income, gains and losses, net of administration fees, which are allocated to each participant on the ratio of each participant's share to the total funds in the PTIF.

Twice a year, at June 30 and December 31, the investments are valued at fair value to enable participants to adjust their investments in this pool at fair value. The Bank of New York and the State of Utah separately determine each security's fair value in accordance with GASB 31 (i.e. for almost all pool investments the quoted market price) and then compare those values to come up with an agreed upon fair value of the securities.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 3 – External Investment Pool - Continued

As of December 31, 2017, the District had \$9,585,559 invested in the PTIF which had a fair value of \$9,625,517 for an unrealized gain of \$39,958. Due to the relative insignificance of this amount, the fair value of the investments in this external investment pool is deemed to be the amortized cost of the investment. The table below shows statistical information about the investment pool:

<u>Investment Type</u>	<u>Investment Percentage</u>
Corporate bonds and notes	78.00%
Money market agreements and commercial paper	18.56%
Certificates of deposit and other	<u>3.44%</u>
	<u><u>100.00%</u></u>

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 4 – Restricted Cash and Cash Equivalents

Cash and cash equivalents have been restricted for the following purposes and amounts:

	<u>2017</u>	<u>2016</u>
Revenue bonds		
Current debt service	\$ 926,609	\$ 731,008
Debt service reserves	486,285	454,390
Renewal and replacement and capital facilities construction	865,226	965,125
IRS arbitrage rebate	6,409	6,323
Construction account	-	2,520,626
Customer deposits	370,138	305,855
Impact fee reserve	<u>2,124,779</u>	<u>1,858,613</u>
Total	<u>\$ 4,779,446</u>	<u>\$ 6,841,940</u>
Included in the accompanying financial statements as follows:		
Current portion restricted cash and cash equivalents	\$ 3,024,564	\$ 2,928,228
Noncurrent restricted cash and cash equivalents	<u>1,754,882</u>	<u>3,913,712</u>
Total	<u>\$ 4,779,446</u>	<u>\$ 6,841,940</u>

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 5 - Capital Assets

A summary of activity in the capital assets for the year ended December 31, 2017 is as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets not being depreciated					
Land and water rights	\$ 20,360,836	\$ 168,613	\$ -	\$ -	\$ 20,529,449
Construction-in-progress	1,900,452	4,308,485	-	(3,069,762)	3,139,175
	<u>22,261,288</u>	<u>4,477,098</u>	<u>-</u>	<u>(3,069,762)</u>	<u>23,668,624</u>
Depreciable Assets					
Buildings	7,759,547	-	-	-	7,759,547
Improvements other than buildings	70,917,267	1,187,500	-	2,619,491	74,724,258
Furniture and fixtures	166,776	-	-	-	166,776
Machinery and equipment	1,244,662	-	-	450,271	1,694,933
Vehicles	883,168	90,232	(24,633)	-	948,767
Engineering library	105,000	-	-	-	105,000
	<u>81,076,420</u>	<u>1,277,732</u>	<u>(24,633)</u>	<u>3,069,762</u>	<u>85,399,281</u>
Less accumulated depreciation					
Buildings	(1,952,787)	(135,153)	-	-	(2,087,940)
Improvements other than buildings	(16,090,640)	(1,250,753)	-	-	(17,341,393)
Furniture and fixtures	(157,081)	(4,842)	-	-	(161,923)
Machinery and equipment	(692,735)	(116,430)	-	-	(809,165)
Vehicles	(596,204)	(72,186)	24,633	-	(643,757)
Engineering library	(105,000)	-	-	-	(105,000)
Total accumulated depreciation	<u>(19,594,447)</u>	<u>(1,579,364)</u>	<u>24,633</u>	<u>-</u>	<u>(21,149,178)</u>
Total capital assets being depreciated, net	<u>61,481,973</u>	<u>(301,632)</u>	<u>-</u>	<u>3,069,762</u>	<u>64,250,103</u>
	<u>\$ 83,743,261</u>	<u>\$ 4,175,466</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 87,918,727</u>

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 5 - Capital Assets - Continued

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

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets not 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 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 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 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>

Depreciation expense for 2017 and 2016 was \$1,579,364 and \$1,474,478, respectively.

Total contributions-in-aid of construction for 2017 and 2016 were \$1,284,366 and \$35,064, respectively.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 6 - Long-term Obligations

A summary of long-term obligation activity for the year ended December 31, 2017 and 2016 is as follows:

	<u>Balance January 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2017</u>	<u>Due Within One Year</u>
Notes payable	\$ 1,497,460	\$ 247,060	\$ (96,519)	\$ 1,648,001	\$ 108,751
Bonds payable	41,880,000	-	(2,119,000)	39,761,000	1,807,000
Unamortized premiums	2,733,690	-	(175,634)	2,558,056	-
Capital lease obligation - Note 8	285,953	373,385	(19,543)	639,795	26,299
Payable to developer	1,317,636	-	(120,024)	1,197,612	62,235
Net pension liability	968,804	150,387	-	1,119,191	-
Compensated absences	392,708	247,376	(231,632)	408,452	-
	<u>\$ 49,076,251</u>	<u>\$ 1,018,208</u>	<u>\$ (2,762,352)</u>	<u>\$ 47,332,107</u>	<u>\$ 2,004,285</u>

	<u>Balance January 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2016</u>	<u>Due Within One Year</u>
Notes payable	\$ 1,589,733	\$ -	\$ (92,273)	\$ 1,497,460	\$ 96,518
Bonds payable	43,990,000	-	(2,110,000)	41,880,000	2,119,000
Unamortized premiums	2,909,324	-	(175,635)	2,733,689	-
Capital lease obligation - Note 8	298,150	-	(12,196)	285,954	12,553
Payable to developer	1,344,308	-	(26,672)	1,317,636	51,244
Net pension liability	709,392	259,412	-	968,804	-
Compensated absences	371,318	271,654	(250,264)	392,708	-
	<u>\$ 51,212,225</u>	<u>\$ 531,066</u>	<u>\$ (2,667,040)</u>	<u>\$ 49,076,251</u>	<u>\$ 2,279,315</u>

All the District's bonds and the 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 and special assessment districts. Principal and interest payments are due annually and semi-annually.

Debt Coverage

The District exceeds its 1.25 debt coverage requirement for its bonding. The debt coverage ratios for 2017 and 2016 were 2.06 and 1.87, respectively.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 6 - Long-term Obligations - Continued

Debt Schedule

The District has issued the following notes and bonds payable as of December 31, 2017 and 2016:

Series	Original Issue	Interest Rate	Maturity Date	Principal Outstanding	
				2017	2016
Notes Payable					
Weber Basin Water Conservancy					
2009 District Note	2,033,436	4.6%	2029	\$ 1,400,941	\$ 1,497,460
2017 District Note	247,060	4.6%	2037	247,060	-
				<u>1,648,001</u>	<u>1,497,460</u>
Bonds Payable					
Water revenue					
2008	3,026,000	2.00%	2029	1,957,000	2,100,000
2009B	9,045,000	2.0% - 3.5%	2018	1,110,000	2,985,000
2011A	679,000	1.52%	2031	546,000	581,000
2011B	1,278,000	None	2032	983,000	1,049,000
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	7,895,000
				<u>39,761,000</u>	<u>41,880,000</u>
Unamortized Premiums					
2009B	202,474	N/A	2018	21,694	43,387
2012	2,383,832	N/A	2033	1,764,775	1,875,650
2014	904,371	N/A	2034	771,587	814,652
				<u>2,558,056</u>	<u>2,733,689</u>
				43,967,057	46,111,149
			Less current portion	<u>(1,915,751)</u>	<u>(2,215,518)</u>
				<u>\$ 42,051,306</u>	<u>\$ 43,895,631</u>

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 6 - Long-term Obligations - Continued

As of December 31, 2017, the aggregate maturities of notes and bonds payable, including interest, are as follows:

Years Ending December 31,	Notes Payable		Bonds Payable		Total Debt Service Requirement
	Principal	Interest	Principal	Interest	
2018	\$ 108,751	\$ 80,248	\$ 1,807,000	\$ 1,507,352	\$ 3,503,351
2019	113,753	75,450	1,861,000	1,456,049	3,506,252
2020	118,986	70,431	2,128,000	1,393,223	3,710,640
2021	124,460	65,181	2,198,000	1,323,935	3,711,575
2022	130,185	59,689	2,266,000	1,247,423	3,703,297
2023-27	746,454	206,816	12,647,000	4,934,935	18,535,204
2028-32	221,544	49,991	13,804,000	2,411,805	16,487,340
2033-37	83,868	11,919	3,050,000	170,499	3,316,287
	<u>\$ 1,648,001</u>	<u>\$ 619,724</u>	<u>\$ 39,761,000</u>	<u>\$ 14,445,221</u>	<u>\$ 56,473,946</u>

The amortization of the compensated absences, net pension liability, and the payable to developer have not been included in the above schedules due to the uncertainty of the timing of the payments.

Note 7 – Pledged Revenues

The District has pledged all its cash Net Revenue, excluding grants, totaling \$70.59 million through 2037 - which is 1.25 times the \$56.47 million in required parity debt service payments through 2037. Parity debt includes water revenue bonds plus notes payables issued by Weber Basin Water Conservation District. These bonds and notes were used to finance infrastructure improvements within the District.

Net Revenue is defined as all gross cash revenue, excluding grants, less reasonable Operations & Maintenance costs for the District to operate and maintain the water system in good working order. For 2017, Net Revenue was \$7.69 million and debt service payments on the bonds and notes were \$3.70 million. For 2016 Net Revenue was \$7.02 million and debt service payments were \$3.75 million.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 8 – Capital Lease Obligations

The District has two long-term capital lease purchase agreements with Zions National Bank. The first lease was entered into in 2014 to acquire land. The original issue amount was \$310,000 and expires on August 1, 2034. The second lease was entered into in 2017 to acquire diesel generators for the Lost Canyon facility. The original issue amount was \$373,385 and expires on March 31, 2037. These lease agreements qualified as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date:

The assets acquired through these capital leases are as follows as of December 31, 2017:

Land	\$	310,000
Diesel generators		373,385
less accumulated depreciation		<u>(1,876)</u>
		371,509
Total	\$	<u>681,509</u>

Future minimum lease payments are as follows:

Years Ending December 31,	Lease Purchase Payable		Capital
	Principal	Interest	Lease
2018	\$ 26,299	\$ 18,836	\$ 45,135
2019	27,166	17,968	45,134
2020	28,063	17,072	45,135
2021	28,989	16,145	45,135
2022	29,946	15,188	45,135
2023-27	164,841	60,833	225,674
2028-32	190,000	35,673	225,673
2033-37	144,491	9,674	154,166
Total minimum lease payments	<u>\$ 639,795</u>	<u>\$ 191,389</u>	<u>831,184</u>
Less portion representing interest			<u>(191,389)</u>
Present value of minimum lease payments			<u><u>\$ 639,795</u></u>

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 9 - Payable to 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 a payable 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 payable to this developer for prepaid impact fees as of December 31, 2017 and 2016 was \$1,197,612 and \$1,317,636, respectively.

Note 10 – Compensated Absences

Full-time, regular employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the District. Regular employees are entitled to all accrued vacation leave upon separation.

Employees also earn sick leave which may be accumulated up to 400 hours. Upon separation from the District, all sick leave earned prior to January 1, 2017 is paid out at 100 percent of the amount accrued, while sick leave earned after January 1, 2017 is paid out at 50 percent of the amount accrued.

Note 11– Employee Retirement Systems and Pension Plans

Plan Description

Eligible plan participants are provided with pensions through the Utah Retirement Systems. 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 direction of the Utah State Retirement 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.

Benefits Provided

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

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 11– Employee Retirement Systems and Pension Plans - Continued

Summary of Benefits by System

System	Final Average Salary	Years of service required and/or age eligible for benefit	Benefit percent per year of service	COLA**
Noncontributory System	Highest 3 years	30 years any age 25 years any age* 20 years age 60* 10 years age 62* 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 20 years age 60* 10 years age 62* 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.

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 URS 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, 2017 are as follows:

Utah Retirement Systems

	Employee	Employer	Employer 401(k)
Contributory System			
111 - Local Government Division - Tier 2	N/A	15.11	1.58
Noncontributory System			
15 - Local Government 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 liability of the Tier 1 plans.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 11– Employee Retirement Systems and Pension Plans - Continued

For fiscal year ended December 31, 2017, the employer and employee contributions to the Systems were as follows:

System	Employer Contributions	Employee Contributions
Noncontributory System	\$269,625	N/A
Tier 2 Public Employees System	36,444	-
Tier 2 DC Only System	14,081	N/A
Total Contributions	\$320,150	\$ -

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

System	Employer Contributions	Employee 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	\$ -

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 THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 11– Employee Retirement Systems and Pension Plans - Continued

Pension Assets, Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017 and 2016, the District reported a net pension asset of \$0 and \$87, respectively, and a net pension liability of \$1,119,191 and \$968,804, respectively.

(Measurement Date): December 31, 2016

	Net Pension Asset	Net Pension Liability	Proportionate Share	Proportionate Share December 31, 2015	Change (Decrease)
Noncontributory System	\$0	\$1,115,819	0.1737704%	0.1712125%	0.0025579%
Tier 2 Public Employees System	\$0	\$3,372	0.0302245%	0.0397209%	(0.0094964)%
	<u>\$0</u>	<u>\$1,119,191</u>			

(Measurement Date): December 31, 2015

	Net Pension Asset	Net Pension Liability	Proportionate Share
Noncontributory System	\$0	\$968,804	0.1712125%
Tier 2 Public Employees System	\$87	\$0	0.0397209%
	<u>\$87</u>	<u>\$968,804</u>	

The net pension asset and liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2016 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 year ended December 31, 2017 and 2016 the District recognized pension expense of \$414,253 and \$231,046, respectively.

Mountain Regional Water Special Service District
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NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 11– Employee Retirement Systems and Pension Plans - Continued

At December 31, 2017 and 2016 the District reported deferred outflows of resources and deferred inflows of resources relating to pensions from the following sources:

	December 31, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$24,237	\$33,163
Changes in assumptions	\$152,899	\$36,624
Net difference between projected and actual earnings on pension plan investments	\$249,255	\$73,918
Changes in proportion and differences between contributions and proportionate share of contributions	\$28,040	\$0
Contributions subsequent to the measurement date	\$320,150	\$0
Total	\$774,581	\$143,705

	December 31, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$46,064
Changes in assumptions	\$0	\$54,491
Net difference between projected and actual earnings on pension plan investments	\$329,412	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$27,508	\$0
Contributions subsequent to the measurement date	\$318,140	\$0
Total	\$675,060	\$100,555

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 11– Employee Retirement Systems and Pension Plans - Continued

\$320,150 reported as deferred outflows of resources related to pensions results from contributions made by the District prior to its fiscal year end, but subsequent to the measurement date of December 31, 2016. 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,	<u>Deferred Outflows (Inflows) of Resources</u>
2018	\$96,190
2019	\$97,157
2020	\$116,156
2021	\$162
2022	\$90
Thereafter	\$971

Actuarial Assumptions

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

Inflation	2.60 Percent
Salary increases	3.35 - 10.35 percent, average, including inflation
Investment rate of return	7.20 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.

The actuarial assumptions used in the January 1, 2016 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 THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 11– Employee Retirement Systems and Pension Plans - Continued

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:

	Expected Return Arithmetic Basis		
	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term expected portfolio real 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%
	Inflation		2.60%
	Expected arithmetic nominal return		7.83%

The 7.20% assumed investment rate of return is comprised of an inflation rate of 2.60%, a real return of 4.60% that is net of investment expense.

Discount Rate

The discount rate used to measure the total pension liability was 7.20 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 was reduced to 7.20 percent from 7.50 percent from the prior measurement period.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 11– Employee Retirement Systems and Pension Plans - Continued

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 7.20 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 (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

Note 11– Employee Retirement Systems and Pension Plans - Continued

System	1% Decrease (6.2%)	Discount Rate (7.2%)	1% Increase (8.2%)
Noncontributory System	\$2,311,239	\$1,115,819	\$118,306
Tier 2 Public Employees System	\$22,949	\$3,372	(\$11,522)
Total	\$2,334,188	\$1,119,191	\$106,784

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 Plans

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.

Mountain Regional Water SSD participates in the following Defined Contribution Savings Plans with Utah Retirement Systems:

- *401(k) Plan

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 11– Employee Retirement Systems and Pension Plans - Continued

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

401(k) Plan	2017	2016	2015
Employer Contributions	\$25,192	\$17,587	\$9,933
Employee Contributions	\$0	\$0	\$0

Note 12 - Related Party Transactions

Summit County, a related party, purchases water from the District at board approved water rates. The District sold water totaling \$59,761 and \$54,414 during the years ended December 31, 2017 and 2016, respectively. The amount owed to the District from Summit County at December 31, 2017 and 2016 totaled \$4,069 and \$4,664, respectively.

Snyderville Basin Special Recreation District (SBSRD), a component unit of Summit County, also purchases water from the District at board approved water rates. The District sold water totaling \$24,772 and \$20,163 during the years ended December 31, 2017 and 2016, respectively. The amount owed the District from SBSRD at December 31, 2017 and 2016 totaled \$2,333 and \$1,295, respectively.

Note 13 – 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.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 14 - 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 2017, the District did not increase any level of insurance coverage, but did add coverage for new infrastructure and equipment. During 2016, the District did not increase any level of insurance coverage, but did add coverage for new infrastructure and equipment. Additionally, during 2016, the District changed workers compensation insurance providers from Workers Compensation Fund (WCF) to ULGT. Settlement amounts have not exceeded insurance coverage for the current year or prior years.

Expenses and claims not covered by insurance are recognized when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. Claims information for the past two years is as follows:

	2017	2016
Claims liability, January 1	\$ 3,344	\$ -
Claims incurred during the year and changes in estimates	381	43,277
Payments on claims during the year		
Payments made by insurance	3,725	39,933
Payments made by the District	-	
Claims liability, December 31	\$ -	\$ 3,344

Note 15 - Reclassifications

Certain reclassifications have been made to the 2016 financial statements in order for them to conform to the 2017 presentation.

**REQUIRED SUPPLEMENTARY INFORMATION –
PENSIONS**

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
SCHEDULE OF THE PROPORTIONAL SHARE OF THE NET
PENSION LIABILITY – UTAH RETIREMENT SYSTEMS
For the Year Ended December 31, 2017
With a Measurement Date of December 31, 2016
Last 10 Fiscal Years*

Noncontributory System for the Fiscal Years Ended December 31,

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability (asset)	0.1737704%	0.1712125%	0.1633703%
Proportionate share of the net pension liability (asset)	\$ 1,115,819	\$ 968,804	\$ 709,392
Covered employee payroll	\$ 1,467,356	\$ 1,412,164	\$ 1,359,927
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	76.0%	68.6%	52.2%
Plan fiduciary net position as a percentage of the total pension liability	87.3%	87.8%	90.2%

Tier 2 Public Employees System for the Fiscal Years Ended December 31,

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability (asset)	0.0302245%	0.0397209%	0.0445357%
Proportionate share of the net pension liability (asset)	\$ 3,372	\$ (87)	\$ (1,350)
Covered employee payroll	\$ 247,865	\$ 256,656	\$ 218,559
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	1.4%	0.0%	-0.6%
Plan fiduciary net position as a percentage of the total pension liability	95.1%	100.2%	103.5%

*In accordance with paragraph 81.a of GASB 68, employers will need to disclose a 10 year history of their proportionate share of the net pension liability (asset) in their RSI. The District will continue to present information for available years until a full 10 year trend is compiled.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
SCHEDULE OF CONTRIBUTIONS -
UTAH RETIREMENT SYSTEMS
For the Year Ended December 31, 2017

	As of fiscal year ended December 31,	Actuarial Determined Contributions	Contributions in relation to the contractually required contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered employee payroll
<i>Noncontributory System</i>	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%
	2017	\$ 269,625	\$ 269,625	\$ -	\$ 1,455,675	18.52%
<i>Tier 2 Public Employees System*</i>	2014	\$ 29,018	\$ 29,018	\$ -	\$ 205,920	14.09%
	2015	\$ 39,235	\$ 39,235	\$ -	\$ 262,913	14.92%
	2016	\$ 38,422	\$ 38,422	\$ -	\$ 257,695	14.91%
	2017	\$ 36,444	\$ 36,444	\$ -	\$ 244,848	14.88%
<i>Tier 2 Public Employees DC Only System*</i>	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%
	2017	\$ 14,081	\$ 14,081	\$ -	\$ 210,476	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.

Paragraph 81.b of GASB 68 requires employers to disclose a 10 year history of contributions in RSI. The District will continue to present information for available years until a full 10 year trend is compiled. Contributions as a percentage of covered-payroll may be different than the board certified rate due to rounding and other administrative issues.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2017

Note 1 – Changes in Assumptions

The following actuarial assumption changes were adopted from the most recent actuarial experience study.

- The assumed investment return assumption was decreased from 7.50% to 7.20%
- The assumed inflation rate was decreased from 2.75% to 2.60%.
- With the decrease in the assumed rate of inflation, both the payroll growth and wage inflation assumptions were decreased by 0.15% from the prior year's assumption.

OTHER SUPPLEMENTARY FINANCIAL INFORMATION

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
DEBT COVERAGE RATIO
For the Year Ended December 31, 2017

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 below, the 2017 debt coverage ratio from current year operations improved from a very healthy 1.87 in 2016 to an even stronger 2.06 for 2017.

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

	2017	2016	2015
Water sales	\$ 9,125,956	\$ 8,699,001	\$ 7,362,259
Operating fees	442,186	407,984	421,448
Impact fees	1,459,348	1,204,382	1,254,502
SID assessments	1,674,531	1,742,175	1,730,632
Interest available for debt service	173,092	111,291	80,464
Treatment Plant Stabilization Fund	-	87,968	87,184
Other non-restricted cash revenue	<u>331,698</u>	<u>296,946</u>	<u>539,951</u>
Total cash revenue available for debt service from current year operations	13,206,811	12,549,747	11,476,440
Current year cash operating expenses	(5,605,845)	(5,530,046)	(5,300,731)
Net Revenue available for debt service payments from current year operations	<u>7,600,966</u>	<u>7,019,701</u>	<u>6,175,709</u>
Current year parity debt service payments	<u>3,695,368</u>	<u>3,747,398</u>	<u>3,463,535</u>
Debt service coverage from current year operations	<u>2.06</u>	<u>1.87</u>	<u>1.78</u>
Net Revenue available for debt service payments from current year operations	7,600,966	7,019,701	6,175,709
Rate Stabilization account balance	<u>1,384,663</u>	<u>1,219,370</u>	<u>1,226,512</u>
Total cash available for debt service payments	<u>8,985,629</u>	<u>8,239,071</u>	<u>7,402,221</u>
Debt service coverage with Rate Stabilization account	<u>2.43</u>	<u>2.20</u>	<u>2.14</u>

The strong 2.06 coverage ratio for 2017 can be attributed to record impact fees collected and a hot dry summer leading to higher water sales.

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 \$1.38 million rate stabilization cash reserve is included, the 2017 coverage ratio improves to 2.43 – compared to 2.20 for 2016.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
CASH FLOW ANALYSIS
For the Year Ended December 31, 2017

Strong development related revenues and hot dry weather led to a healthy increase in total 2017 cash and cash equivalents, once the decline in bond proceeds for construction projects is taken into account. As such, the District's cash and cash equivalent position remains very strong.

As shown below, total cash and cash equivalents decreased \$303,110 (2.5%) in 2017. However, if the decline in 2017 bonds proceeds for construction projects is excluded, total cash actually increased \$2.22 million. Further, during 2016, after accounting for the \$1.31 million decline in bond proceeds restricted for construction projects, District cash also increased \$1.55 million.

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

	2017	2016	2015	2017 to 2016		2016 to 2015	
				Change		Change	
				\$	%	\$	%
Unrestricted							
Operating	\$ 4,532,512	\$ 3,318,364	\$ 3,166,757	\$ 1,214,148	36.6 %	\$ 151,607	4.8 %
Rate stabilization reserves for:							
Debt service	1,090,163	1,075,082	1,064,910	15,081	1.4	10,172	1.0
Treatment plant	204,839	87,895	109,914	116,944	133.0	(22,019)	(20.0)
Regionalization reserves	1,164,860	751,649	382,126	413,211	55.0	369,523	96.7
Total unrestricted cash and cash equivalents	<u>6,992,374</u>	<u>5,232,990</u>	<u>4,723,707</u>	<u>1,759,384</u>	<u>33.6</u>	<u>509,283</u>	<u>10.8</u>
Restricted for debt payments							
Held by trustee	795,713	738,437	510,669	57,276	7.8	227,768	44.6
Held by district	617,181	446,961	632,513	170,220	38.1	(185,552)	(29.3)
Total cash and cash equivalents restricted for debt payments	<u>1,412,894</u>	<u>1,185,398</u>	<u>1,143,182</u>	<u>227,496</u>	<u>19.2</u>	<u>42,216</u>	<u>3.7</u>
Other restricted							
Impact fee reserves	2,124,779	1,858,613	1,243,343	266,166	14.3	615,270	49.5
Capital facilities construction, repair & replacement reserves	865,226	965,125	589,672	(99,899)	(10.4)	375,453	63.7
IRS rebate	6,409	6,323	6,266	86	1.4	57	0.9
Customer deposits	370,138	305,855	299,459	64,283	21.0	6,396	2.1
Bond construction	-	2,520,626	3,829,119	(2,520,626)	(100.0)	(1,308,493)	(34.2)
Total other restricted cash and cash equivalents	<u>3,366,552</u>	<u>5,656,542</u>	<u>5,967,859</u>	<u>(2,289,990)</u>	<u>(40.5)</u>	<u>(311,317)</u>	<u>(5.2)</u>
Total cash	<u>\$ 11,771,820</u>	<u>\$ 12,074,930</u>	<u>\$ 11,834,748</u>	<u>\$ (303,110)</u>	<u>(2.5) %</u>	<u>\$ 240,182</u>	<u>2.0 %</u>

A large part of this 2017 improvement was in unrestricted cash and reserves, which increased \$1.76 million (33.6%) to \$6.99 million due to hot dry summer weather that led to increased water sales as well as strong customer growth. Unrestricted cash and reserves also increased in 2016 by \$509,283 (10.8%) for the same reason. In addition, regionalization reserves increased \$413,211 (55.0%) from 2016 as the District continued to fund this reserve with wholesale water sales to Weber Basin, and the treatment plant reserve also increased \$116,944 (133.0%) from 2016 as there were no carbon or membranes purchased for the treatment plant in 2017.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
CASH FLOW ANALYSIS - Continued
For the Year Ended December 31, 2017

Operating cash and reserves \$4.53 million year-end balance equates to 288 days reserves. This compares to \$3.32 million or 211 days reserves at year-end 2016. District policy requires a minimum 120 days reserves year-round. Operating cash and reserves is generally lowest April through June.

Since the 288 days reserve at year-end 2017 is significantly higher than necessary to ensure the District can maintain 120 days reserve throughout all of 2018, the District appropriated almost three-fourths of the 2017 increase in operating cash and reserves to fund a portion of the 2018 capital budget.

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.

Cash restricted for debt payments has been maintained at mandatory levels or higher since the District's inception and finished 2017 at \$1.41 million for 2017. This represents a \$227,496 (19.2%) increase over 2016 due to strong assessment collections in 2017.

Cash restricted for debt payments increased to \$1.19 million for 2016. This represents a nominal \$42,216 (3.7%) increase over 2015.

Other restricted cash decreased \$2.29 million in 2017 primarily due to the decline in Series 2014 bond proceeds used to pay for construction projects. This was slightly offset by a \$266,166 (14.3%) increase in impact fee reserves. This is after \$500,000 was used to fund construction projects.

Other restricted cash declined \$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 above, this increase was driven by higher than normal building activity in 2016.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
BUDGETARY INFORMATION
For the Year Ended December 31, 2017

The District realized a \$5.73 million change in net position for 2017. After adjusting the budget for non-cash year-end journal entries, the District's change in net position exceeded budget by \$2.80 million, as shown below.

Mountain Regional Water Special Service District's Budget Comparison

	2017 Budget	Retirement Accrual	Change In Inventory	Capitalized Interest	Contributions In-Aid	2017 Adjusted Budget	2017 Actual	Favorable (Unfavorable)	
Operating revenues:									
Water sales	\$ 8,258,000	\$ -	\$ -	\$ -	\$ -	\$ 8,258,000	\$ 9,125,956	\$ 867,956	
Operating fees	303,300	-	-	-	-	303,300	442,186	138,886	
Other	50,000	-	-	-	-	50,000	73,859	23,859	
Total operating revenue	<u>8,611,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,611,300</u>	<u>9,642,001</u>	<u>1,030,701</u>	12.0%
Operating expenses:									
Operations									
Energy & resource management	411,500	10,396	-	-	-	421,896	452,614		
Lost Canyon water transmission	1,625,800	13,286	-	-	-	1,639,086	1,369,068		
Treatment plant	693,600	9,768	-	-	-	703,368	634,262		
Distribution	2,155,700	25,455	8,611	-	-	2,189,766	2,005,367		
Safety	45,300	488	-	-	-	45,788	51,698		
Subtotal Line Item	<u>4,931,900</u>	<u>59,393</u>	<u>8,611</u>	<u>-</u>	<u>-</u>	<u>4,999,904</u>	<u>4,513,009</u>	<u>486,895</u>	
General Manager									
Engineering and development	274,500	11,379	-	-	-	285,879	262,033		
Human resources	122,300	1,735	-	-	-	124,035	85,426		
Legal	43,500	-	-	-	-	43,500	29,680		
Subtotal Line Item	<u>440,300</u>	<u>13,114</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>453,414</u>	<u>377,139</u>	<u>76,275</u>	
Public services									
Public services	490,700	14,063	-	-	-	504,763	490,087		
Subtotal Line Item	<u>490,700</u>	<u>14,063</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>504,763</u>	<u>490,087</u>	<u>14,676</u>	
Financial management									
Financial management	325,100	7,533	-	-	-	332,633	319,713		
Subtotal Line Item	<u>325,100</u>	<u>7,533</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>332,633</u>	<u>319,713</u>	<u>12,920</u>	
Non-cash Expenses									
Depreciation	1,662,300	-	-	-	-	1,662,300	1,579,364		
Subtotal Line Item	<u>1,662,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,662,300</u>	<u>1,579,364</u>	<u>82,936</u>	
Total operating expenses	<u>7,850,300</u>	<u>94,103</u>	<u>8,611</u>	<u>-</u>	<u>-</u>	<u>7,953,014</u>	<u>7,279,312</u>	<u>673,702</u>	8.5%
Operating income	<u>761,000</u>	<u>(94,103)</u>	<u>(8,611)</u>	<u>-</u>	<u>-</u>	<u>658,286</u>	<u>2,362,689</u>	<u>1,704,403</u>	
Non-operating revenue									
Grants	11,700	-	-	-	-	11,700	11,667	(33)	
Interest income	85,400	-	-	-	-	85,400	176,988	91,588	
Impact fees	600,000	-	-	-	-	600,000	1,459,348	859,348	
SID assessments	1,617,100	-	-	-	-	1,617,100	1,674,531	57,431	
Other non-operating revenue	183,000	-	-	-	-	183,000	257,839	74,839	
Total Non-operating revenue	<u>2,497,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,497,200</u>	<u>3,580,373</u>	<u>1,083,173</u>	43.4%
Non-operating expenses									
Interest expense	1,538,400	-	-	(61,100)	-	1,477,300	1,470,966	6,334	
Bond insurance cost amortization	15,800	-	-	-	-	15,800	15,734	66	
Trustee fees	12,000	-	-	-	-	12,000	12,000	-	
Total non-operating expenses	<u>1,566,200</u>	<u>-</u>	<u>-</u>	<u>(61,100)</u>	<u>-</u>	<u>1,505,100</u>	<u>1,498,700</u>	<u>6,400</u>	0.4%
Total non-operating income	<u>931,000</u>	<u>-</u>	<u>-</u>	<u>61,100</u>	<u>-</u>	<u>992,100</u>	<u>2,081,673</u>	<u>1,089,573</u>	
Income (loss) before contributions	<u>1,692,000</u>	<u>(94,103)</u>	<u>(8,611)</u>	<u>61,100</u>	<u>-</u>	<u>1,650,386</u>	<u>4,444,362</u>	<u>2,793,976</u>	
Contributions-in-aid of construction	-	-	-	-	1,284,366	1,284,366	1,284,366	-	
Change in net position	<u>\$ 1,692,000</u>	<u>\$ (94,103)</u>	<u>\$ (8,611)</u>	<u>\$ 61,100</u>	<u>\$ 1,284,366</u>	<u>\$ 2,934,752</u>	<u>\$ 5,728,728</u>	<u>\$ 2,793,976</u>	95.2%

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
BUDGETARY INFORMATION - Continued
For the Year Ended December 31, 2017

The non-cash year-end budget adjustments include the non-budgeted pension accrual required by GASB. During 2017, \$94,103 was added back to the 2017 budget to account for the difference between the \$413,332 in actuarial pension expense reported on these financial statements, and the \$319,229 in actual contributions. Projected cash contributions to pension plans are used to develop budgets.

In addition, an \$8,611 decrease in inventory during 2017 increased operating expenses, so the budget was adjusted accordingly.

Finally, the budget was adjusted to account for \$61,100 of interest expense that was capitalized during 2017.

The \$1.28 million in net capital contributions was added to the 2017 budget to account for non-cash capital contributions to the District by developers and other governmental entities during 2017. The District does not budget for capital contributions since the amounts are not known when the budget is adopted.

The \$2.79 million positive budget variance for 2017 was driven by both strong revenues that were \$2.11 million (16.0%) over projections, and expenses that were \$680,102 (7.7%) under budget.

Operating revenue exceeded budget projections by \$1.03 million (12.0%) due strong retail water sales that resulted from hot dry weather. In fact, overall water sales finished \$867,956 (9.5%) over budget.

Non-operating revenue exceeded projections by \$1.08 million (43.4%) due to strong building activity. In particular, impact fees exceeded budget by \$859,348 (143.2%). The 2017 impact fees benefitted from the collection of fees for two multi-unit housing complexes.

Operating expenses finished 2017 at \$673,702 (8.5%) under budget. Of this positive expense budget variance, operations accounted for \$486,895 (72.3%) due to lower power and repair and maintenance expenses.

Non-operating expense finished a nominal \$6,400 (0.4%) under budget for 2017.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
IMPACT FEES (CASH BASIS) - Continued
For the Year Ended December 31, 2017

As shown below, the District has collected \$11.49 million in impact fees and another \$437,159 in related interest earnings since impact fees were first adopted by the District in 2003.

Mountain Regional Water Impact Fees Collections & Expenditures (Cash Basis)							
	2003 to 2012	2013	2014	2015	2016	2017	Total
Cash Collections							
Impact Fees	\$ 6,611,677	\$ 519,352	\$ 594,360	\$ 1,217,084	\$ 1,177,710	\$ 1,366,580	\$ 11,486,763
Interest Earnings	387,920	3,372	3,217	5,504	10,888	26,258	437,159
Total cash collections	<u>6,999,597</u>	<u>522,724</u>	<u>597,577</u>	<u>1,222,588</u>	<u>1,188,598</u>	<u>1,392,838</u>	<u>11,923,922</u>
Cumulative cash collections	6,999,597	7,522,321	8,119,898	9,342,486	10,531,084	11,923,922	
Cash Expenditures							
Debt Service ⁽¹⁾	4,976,929	430,000	529,100	838,900	600,000	600,000	7,974,929
Basin Pipeline	1,322,226	-	1,988	-	-	500,000	1,824,214
Total cash expenditures	<u>6,299,155</u>	<u>430,000</u>	<u>531,088</u>	<u>838,900</u>	<u>600,000</u>	<u>1,100,000</u>	<u>9,799,143</u>
Cumulative cash expenditures	6,299,155	6,729,155	7,260,243	8,099,143	8,699,143	9,199,143	
Net Cash Flow to Date	\$ 700,442	\$ 92,724	\$ 66,489	\$ 383,688	\$ 588,598	\$ 292,838	\$ 2,124,779
Cumulative Cash Flow	700,442	793,166	859,655	1,243,343	1,831,941	2,124,779	
Projected Future Uses							
	2018	2019	2020	2021	2022	2023	Total
Debt Service ⁽¹⁾	\$ 600,000	\$ 600,000	\$ 924,779	\$ -	\$ -	\$ -	\$ 2,124,779
Capital Projects	-	-	-	-	-	-	-
Total Future Cash Expenditures	<u>\$ 600,000</u>	<u>\$ 600,000</u>	<u>\$ 924,779</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,124,779</u>
Total Projected Cumulative Cash Flow							\$ -

(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
Funded Projects Completed			
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%
Total Projects	\$ 87,723,453	\$ 45,785,702	52.2%
	Max Years Financed	30	
	Annual Debt Service	\$ 1,526,190	

Of this, \$7.97 million has been applied to debt service payments on bonding that funds projects in the capital facilities plan, while another \$1.82 million has been used to pay directly for projects in the capital facilities plan.

It is anticipated that all of the \$2.12 million current remaining balance will be applied to debt service payments on bonding that funds projects in the capital facilities plan.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
IMPACT FEES (CASH BASIS) - Continued
For the Year Ended December 31, 2017

In 2017, the District collected a record \$1.37 million in cash impact fee collections following then near record cash collections of \$1.18 million 2016. It is not anticipated that this level of collections can be maintained long-term as the District is currently experiencing a strong building economy.

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

Since 2003, about \$22.9 million of District debt payments qualified to be paid from impact fees, while only \$11.9 million in collections have been collected. This means impact fee collections have been 52.8% of the amount needed to apply to debt payments, with the rest of the funding for the remaining debt service coming from unrestricted revenue sources such as water sales, interest earnings, and operating fees.

MOUNTAIN REGIONAL WATER
SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF
SUMMIT COUNTY, UTAH)

REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

REPORT ON STATE LEGAL COMPLIANCE

FOR THE YEAR ENDED DECEMBER 31, 2017

MOUNTAIN REGIONAL WATER
SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF
SUMMIT COUNTY, UTAH)

REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

REPORT ON STATE LEGAL COMPLIANCE

FOR THE YEAR ENDED DECEMBER 31, 2017

REPORT OF INDEPENDENT CERTIFIED PUBLIC
ACCOUNTANTS 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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Mountain Regional Water Special Service District (the District), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 4, 2018.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be significant deficiencies. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free 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.

Osborne, Robbins & Buhler PLLC

April 4, 2018

INDEPENDENT AUDITOR'S REPORT AS REQUIRED BY THE
STATE OF UTAH LEGAL COMPLIANCE AUDIT GUIDE ON:

- COMPLIANCE WITH GENERAL STATE COMPLIANCE REQUIREMENTS
- INTERNAL CONTROL OVER COMPLIANCE

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

REPORT ON COMPLIANCE

We have audited the Mountain Regional Water Special Service District's (the District) compliance with the applicable general state program compliance requirements described in the *State Compliance Audit Guide*, issued by the Office of the Utah State Auditor, that could have a direct and material effect on the District or each of its major state programs for the year ended December 31, 2017.

General state compliance requirements were tested for the year ended December 31, 2017 in the following areas:

- Budgetary Compliance
- Utah Retirement System
- Open and Public Meetings Act
- Treasurer's Bond
- Cash Management
- Impact Fees
- Special and Local Service District Board Members

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on General State Compliance Requirements

In our opinion, the District complied, in all material respects, with the state compliance requirements referred to above that could have a direct and material effect on the District for the year ended December 31, 2017.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Osborne, Robbins & Buhler PLLC

April 4, 2018

April 4, 2018

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

We have audited the financial statements of Mountain Regional Water Special Service District (the District) for the year ended December 31, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 15, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were:

Management's estimate of the net pension liability is based on information provided by Utah Retirement Systems (URS). The net pension liability was calculated by actuaries hired by URS, and details about it and the related deferred inflows and outflows of resources were included in the URS annual report as of December 31, 2016. We traced the information to the URS annual report, as well as to specific other data provided by URS to the District. We also noted that URS engaged its auditor to issue a Service Organization Controls (SOC 1) Type 2 report on the design and operating effectiveness regarding census data maintained by URS. This report was intended to meet the needs of the participating employers and their auditors in evaluating the effectiveness of the controls at URS on the URS financial statement assertions. We noted that the opinion of the URS auditors in the SOC 1 Type 2 report contained a modified opinion, with an emphasis of a matter paragraph. This paragraph indicated that the auditor was not able to perform any tests of the design or operating effectiveness of controls related to the control objective, "Controls provide reasonable assurance that management monitors the actuary's activities over the net pension liability for accuracy, completeness and timeliness."

Management's estimate of the depreciation methods and useful lives of the District's capital assets is based on management's determination of the rate at which the usefulness of the capital assets is expected to deteriorate. We have compared the lives and methods used by the District to independent expectations we have established and have concluded they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the financial statements were:

Note 4 regarding the District's restricted assets because it provides information about assets that are required to be used for certain purposes and aren't available for general operating needs of the District.

Note 6 regarding long-term debt outstanding and pledged revenues at December 31, 2017 is significant to financial statement users because it can be used to understand how the District will meet its debt obligations.

Financial Statement Disclosures

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 4, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

Required Supplementary Information

We applied certain limited procedures to the Management's Discussion and Analysis and the Pension information, which are required supplementary information that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge

we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

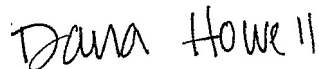
Other Information

We were engaged to report on the other supplemental information, which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

This information is intended solely for the use of the Board of Trustees and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,
OSBORNE ROBBINS & BUHLER PLLC

A handwritten signature in black ink that reads "Dana Howell". The signature is written in a cursive, slightly slanted style.

Dana Howell



MOUNTAIN REGIONAL WATER
SPECIAL SERVICE DISTRICT

April 4, 2018

OSBORNE, ROBBINS & BUHLER, PLLC
4527 S 2300 E, Suite 201
Salt Lake City, Utah 84117

This representation letter is provided in connection with your audits of the financial statements of Mountain Regional Water Special Service District (the District), a component unit of Summit County, Utah which comprise the financial position as of December 31, 2017 and 2016 and the respective changes in financial 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 conformity with accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that 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 April 4, 2018, 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 January 15, 2018, including our responsibility for the preparation and fair presentation of the financial statements 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 assets and liabilities under the organization's control. In addition, there are no 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 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 the requirements of 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. There are no uncorrected misstatements to the financial statements. In addition, we are in agreement with the adjusting journal entries you have proposed and they have been posted to the accounts.
9. Guarantees, whether written or oral, under with the District is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

10. We have provided you with all--
 - 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.
 - Additional information that you have requested from us for the purpose of the audit.
 - Unrestricted access to persons within the District from whom you determined it necessary to obtain audit evidence.
 - Minutes of meetings of the Administrative Control Board 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:
 - Management,
 - Employees who have significant roles in internal control, or
 - 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 are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements, and we have not consulted a lawyer concerning litigation, claims, or assessments.
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

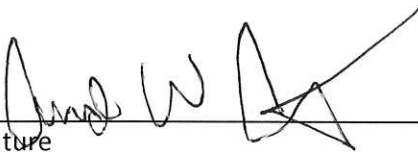
18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
19. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
20. The District has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
21. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; including debt limits and debt contracts; and including legal and contractual provisions for reporting specific activities in separate funds.
22. We have identified and disclosed to you all instances, which 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.
23. 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.

24. 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.
25. 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.
26. As part of your audits, you assisted with preparation of the financial statements and related notes. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
27. 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.
28. 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.
29. There are no component units or joint ventures with an equity interest that should be included in the financial statements.
30. The financial statements properly classify the District's one fund and related activities.
31. Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
32. Provisions for uncollectible receivables have been properly identified and recorded.
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. Deposits and investment securities are properly classified as to risk and are properly valued and disclosed.


35. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

36. The District meets the GASB-established requirements for accounting for eligible infrastructure assets using the modified approach.


37. 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.



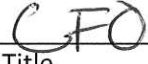
Signature



Title



Signature



Title