

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, 2019 AND 2018

Osborne, Robbins & Buhler, PLLC

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MOUNTAIN REGIONAL WATER
SPECIAL SERVICE DISTRICT

Letter of Transmittal

April 8, 2020

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, 2019.

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, 2019, 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, 2019, 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 meet growing customer demand.

The District maintains a centralized, regional water system currently serving 4,404 customers. 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 2019 equated to over 10,800 Equivalent Residential Connections (ERCs).

Additionally, 1,219 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.

In June 2019 the District annexed an additional 500 customers from the former Community Water system located at the base of the Canyons Village resort. In addition, construction recently started on Silver Creek Village, a multi-use development with approval for over 1,000 new units (of which 230 are part of the 1,219 standby connections mentioned above). The first of these units should begin taking water during the summer of 2020.

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

To provide high-quality water and exceptional service in a safe, reliable, efficient, and sustainable manner.

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 conducted a rate study in 2018 that led to a 3% increase in rates in 2019. The District anticipates another small rate increase of 2-3% in the next two to three years.

During 2019 the District updated its Capital Facilities Plan and impact fees in accordance with the Utah Impact Fees Act. This led to a decrease in the impact fee per ERC from \$10,513 to \$8,119.

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 provide reasonable, but not absolute, assurance of safeguarding assets against loss from unauthorized use or disposition and to ensure the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires estimates and judgments by management.

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.

During 2018 the District performed a rate study and instituted a 3% rate increase to main retail water rates, effective 1/1/2019. It is anticipated additional small rate increases of 2-3% will be needed in the next two to three years.

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

Water Rates	Current Rates	
Residential - Per ERC		
Monthly Base Rate	\$61.80	<i>Per ERC</i>
Usage (in gallons)		
Zero to 5,000	1.80	<i>Per 1,000 Gallons</i>
5,001 to 20,000	4.64	<i>Per 1,000 Gallons</i>
20,001 to 30,000	5.15	<i>Per 1,000 Gallons</i>
30,001 to 40,000	8.24	<i>Per 1,000 Gallons</i>
40,001 to 60,000	12.36	<i>Per 1,000 Gallons</i>
60,001 to 80,000	15.45	<i>Per 1,000 Gallons</i>
80,001 to 100,000	18.54	<i>Per 1,000 Gallons</i>
Above 100,000	21.63	<i>Per 1,000 Gallons</i>
Non-residential/Commercial - Per ERC		
Monthly Base Rate	\$79.31	<i>Per Connection</i>
Usage (in gallons)		
Zero to 5,000	2.83	<i>Per 1,000 Gallons</i>
5,001 to 30,000	4.64	<i>Per 1,000 Gallons</i>
30,001 to 40,000	8.24	<i>Per 1,000 Gallons</i>
40,001 to 60,000	12.36	<i>Per 1,000 Gallons</i>
60,001 to 80,000	13.39	<i>Per 1,000 Gallons</i>
80,001 to 100,000	14.42	<i>Per 1,000 Gallons</i>
Above 100,000	15.45	<i>Per 1,000 Gallons</i>
Culinary Irrigation - Per ERC		
Monthly Base Rate	\$61.80	<i>Per Connection</i>
Usage (in gallons)		
Zero to 5,000	2.83	<i>Per 1,000 Gallons</i>
5,001 to 30,000	4.64	<i>Per 1,000 Gallons</i>
30,001 to 40,000	8.24	<i>Per 1,000 Gallons</i>
40,001 to 60,000	12.36	<i>Per 1,000 Gallons</i>
60,001 to 80,000	15.45	<i>Per 1,000 Gallons</i>
80,001 to 100,000	18.54	<i>Per 1,000 Gallons</i>
Above 100,000	21.63	<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 based on the cost to deliver water to the subdivision in which they reside. This surcharge was reviewed during 2018 and modified slightly for 2019. The surcharge rates for 2019 are shown below:

Pumping Surcharge		
Colony	2.40	<i>Per 1,000 Gallons</i>
Discovery	0.78	<i>Per 1,000 Gallons</i>
Glenwild	0.49	<i>Per 1,000 Gallons</i>
Preserve	2.22	<i>Per 1,000 Gallons</i>
Redhawk	0.80	<i>Per 1,000 Gallons</i>
Promontory West Hills	0.28	<i>Per 1,000 Gallons</i>
Promontory Middle Valley	0.14	<i>Per 1,000 Gallons</i>
Stagecoach	2.86	<i>Per 1,000 Gallons</i>
Summit Park	0.78	<i>Per 1,000 Gallons</i>
Sun Peak	1.21	<i>Per 1,000 Gallons</i>
Timberline	0.78	<i>Per 1,000 Gallons</i>
Weilenmann	0.78	<i>Per 1,000 Gallons</i>

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 0.50 acre-foot Equivalent Residential Connection (ERC) fee of \$8,119.

However, residents in the Promontory service area pay a lower \$1,244 impact per home, regardless of size, since most of the infrastructure serving Promontory was paid for with a special assessment.

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) \$ 8,119		
3,000 to 4,000	8,119	plus \$ 2.71 per additional square foot above 3,000	
4,000 to 5,000	10,825	plus \$ 2.71 per additional square foot above 4,000	
5,000 to 6,000	13,532	plus \$ 2.71 per additional square foot above 5,000	
6,000 to 7,000	16,238	plus \$ 2.71 per additional square foot above 6,000	
7,000 to 8,000	18,944	plus \$ 2.71 per additional square foot above 7,000	
8,000 to 10,000	(4) 21,651	plus \$ 2.71 per additional square foot above 8,000	plus \$ 3,027 per 0.10 acre foot of landscaping above 0.20 acre feet
10,000 to 12,000	27,063	plus \$ 2.71 per additional square foot above 10,000	plus \$ 3,027 per 0.10 acre foot of landscaping above 0.20 acre feet
12,000 to 14,000	32,476	plus \$ 2.71 per additional square foot above 12,000	plus \$ 3,027 per 0.10 acre foot of landscaping above 0.20 acre feet
14,000 to 16,000	37,889	plus \$ 2.71 per additional square foot above 14,000	plus \$ 3,027 per 0.10 acre foot of landscaping above 0.20 acre feet
16,000 to 18,000	43,301	plus \$ 2.71 per additional square foot above 16,000	plus \$ 3,027 per 0.10 acre foot of landscaping above 0.20 acre feet
18,000 to 20,000	48,714	plus \$ 2.71 per additional square foot above 18,000	plus \$ 3,027 per 0.10 acre foot of landscaping above 0.20 acre feet
Above 20,000	54,127	plus \$ 2.71 per additional square foot above 20,000	plus \$ 3,027 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, utility room, unfinished areas, 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 \$8,119.

(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 \$3,027 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 \$8,119 per ERC, based upon standards established by the State of Utah Division of Drinking Water. Non-residential customers in Promontory pay \$1,244 per ERC due to the aforementioned special assessment.

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, there are 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. It currently serves 4,229 residential connections and 175 commercial connections, with an estimated population of 7,975. Based upon the growth projections for Summit County, it is estimated that the District's population will be 8,707 in 2025 and 9,494 by 2030. The population could be higher than this if additional areas annex into the District as development continues.

This strong 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 as District's costs are largely fixed and it currently has sufficient excess capacity to meet its projected growth needs in the near term.

However, a weakening building economy and the unpredictability of weather patterns could result in a revenue drop in any given year. Accordingly, as discussed above, the District established a rate stabilization cash reserves to help mitigate the fluctuations in annual revenue collections, caused by these cycles.

Major Initiatives

In 2013 the District entered into a water regionalization agreement, The Western Summit County Master Agreement. The agreement is made up of four primary stakeholders, the District, Summit Water Distribution Company, Park City Municipal Water, and Weber Basin Water Conservancy District. The intent of the agreement was to consolidate future water importation projects into the basin to create economies of scale. Previously, it was expected there would be a need for a large importation project to be constructed by Weber Basin in order to supply the growing demand in the Snyderville Basin. However, as a result of planned source water development projects by Park City Municipal Water and improved cooperation of the agreement stakeholders, there are no current plans for a second importation project.

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 Counties Canal Company lease reservation fees for water rights purchased by Weber Basin.

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 which isn't anticipated until closer to 2026.

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 in 2023 to help offset the \$245,000 in additional annual costs related to the regionalization agreement that begin in 2020.

During 2019 the District substantially completed replacement of its water meters that can be read hourly, with information available to both the District and individual customers in real time using a water software management tool called EyeOnWater. This will allow both the District and customers to better monitor usage and identify water leaks.

Additionally, during 2019, the District completed an advance refunding of the Series 2012 bonds and a partial refunding of the Series 2014 bonds. The issuance of the Series 2019A refunding bonds results in a net present value savings to the District of \$1,516,208.

Awards

- Trust Accountability Program (TAP) Award, fourth consecutive, presented by Utah Local Governments Trust for excellence in safety and risk management
- 2019 Utah Extra Miler Award, Marti Gee, presented by the Rural Water Association of Utah
- 2019 Friend of Rural Water Award, Doug Evans, presented by Rural Water Association of Utah
- 2019 Certificate of Appreciation awarded to Doug Evans, for organizing, supporting and promoting the Northern Utah Water Quality Alliance, presented by the Utah Water Quality Alliance

Respectfully submitted,



Scott Morrison, 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 years ended December 31, 2019 and 2018 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2019 and 2018 and the changes in financial position and cash flows thereof for the years 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 18, and the Required Supplementary Information – Pensions on pages 60 through 62 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 audits were 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 i through ix and other supplemental financial information on pages 64 through 70, 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 have 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2020 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 solely 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 effectiveness of the District's 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 8, 2020

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019 and 2018

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, 2019 and 2018; 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 \$4.72 million increase in net position for 2019. This exceeded the budgeted increase by \$1.55 million;
- District revenue exceeded budget by approximately \$635,000 (5.15%). 2019 experienced a longer, wetter spring and cooler summer which led to lower retail water sales of \$23,000 under budget. Development related collections remained strong;
- 2019 expenses finished \$576,358 (6.5%) under budget due to lower repair and maintenance costs and lower depreciation due to a delay in capitalization of a large project;
- Unbudgeted capital contributions accounted for \$1.83 million or 38.8% of the \$4.72 million change in net position for 2019. Capital contributions are a non-cash transfer of water system assets to the District, and do not provide additional cash flow.
- District cash increased \$1.77 million during 2019 primarily due to collection of impact fees and also bond proceeds held for construction.
- Year-end 2019 operating cash and reserves amounted to 267 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.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019 and 2018

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 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, 2019 and 2018

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

	2019	2018	2017	2019 to 2018		2018 to 2017	
				Change	%	Change	%
Operating revenue	\$ 10,039,691	\$ 10,409,177	\$ 9,642,001	\$ (369,486)	(3.5) %	\$ 767,176	8.0 %
Operating expenses	<u>(8,169,805)</u>	<u>(7,728,677)</u>	<u>(7,279,312)</u>	<u>(441,128)</u>	5.7	<u>(449,365)</u>	6.2
Operating income	1,869,886	2,680,500	2,362,689	(810,614)	(30.2)	317,811	13.5
Non-operating revenue	2,299,940	3,094,608	3,580,373	\$ (794,668)	(25.7)	\$ (485,765)	(13.6)
Non-operating expense	<u>(1,284,252)</u>	<u>(1,501,016)</u>	<u>(1,498,700)</u>	<u>216,764</u>	(14.4)	<u>(2,316)</u>	0.2
Income before contributions	2,885,574	4,274,092	4,444,362	(1,388,518)	(32.5)	(170,270)	(3.8)
Capital Contributions	<u>1,831,643</u>	<u>2,126,661</u>	<u>1,284,366</u>	<u>(295,018)</u>	(13.9)	<u>842,295</u>	65.6
Change in net position	4,717,217	6,400,753	5,728,728	(1,683,536)	(26.3)	672,025	11.7
Net position - beginning	<u>61,341,900</u>	<u>54,941,147</u>	<u>49,212,419</u>	<u>6,400,753</u>	11.7	<u>5,728,728</u>	11.6
Net position - ending	<u>\$ 66,059,117</u>	<u>\$ 61,341,900</u>	<u>\$ 54,941,147</u>	<u>\$ 4,717,217</u>	7.7 %	<u>\$ 6,400,753</u>	11.7 %

Net position increased \$4.72 million in 2019 to \$66.06 million (a 7.7% increase in ending net position) as shown in the table above. This resulted primarily from significant capital contributions and continued strong development revenues. Water sales remain strong despite a decrease from 2018 resulting from a wetter spring and cooler summer in 2019.

The 2018 change in net position of \$6.40 million to \$61.34 million (an 11.7% increase in ending net position), resulted from significant capital contributions and strong retail water sales due to the hot dry summer.

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
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Mountain Regional Water Special Service District's Net Position

	2019	2018	2017	2019 to 2018 Change		2018 to 2017 Change	
				\$	%	\$	%
Unrestricted current assets	\$ 13,055,784	\$ 11,436,307	\$ 9,629,124	\$ 1,619,477	14.2 %	\$ 1,807,183	18.8 %
Capital assets	92,319,784	90,026,403	87,918,727	2,293,381	2.5	2,107,676	2.4
Other assets	6,629,602	4,650,443	4,779,446	1,979,159	42.6	(129,003)	(2.7)
Total assets	<u>112,005,170</u>	<u>106,113,153</u>	<u>102,327,297</u>	<u>5,892,017</u>	5.6	<u>3,785,856</u>	3.7
Deferred outflows of resources	1,901,308	1,328,848	1,512,568	572,460	43.1	(183,720)	(12.1)
Unrestricted current liabilities	562,366	262,262	215,960	300,104	114.4	46,302	21.4
Long-term liabilities	42,008,596	41,980,630	44,208,631	27,966	0.1	(2,228,001)	(5.0)
Net pension liability	1,256,115	763,882	1,119,191	492,233	64.4	(355,309)	(31.7)
Other liabilities	3,810,571	2,579,472	3,024,564	1,231,099	47.7	(445,092)	(14.7)
Total liabilities	<u>47,637,648</u>	<u>45,586,246</u>	<u>48,568,346</u>	<u>2,051,402</u>	4.5	<u>(2,982,100)</u>	(6.1)
Deferred inflows of resources	209,713	513,855	330,372	(304,142)	(59.2)	183,483	55.5
Net position							
Net investment in capital assets	51,258,145	48,228,858	44,049,862	3,029,287	6.3	4,178,996	9.5
Restricted for:							
Capital projects	2,399,432	2,180,089	1,214,318	219,343	10.1	965,771	79.5
Debt service	982,040	770,266	1,320,938	211,774	27.5	(550,672)	(41.7)
Unrestricted	<u>11,419,500</u>	<u>10,162,687</u>	<u>8,356,029</u>	<u>1,256,813</u>	12.4	<u>1,806,658</u>	21.6
Total net position	<u>\$ 66,059,117</u>	<u>\$ 61,341,900</u>	<u>\$ 54,941,147</u>	<u>\$ 4,717,217</u>	7.7 %	<u>\$ 6,400,753</u>	11.7 %

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 \$51.26 million (77.6%) of total net position in 2019 compared to \$48.23 million (78.6%) in 2018. The \$3.03 million (6.3%) increase in net investment during 2019 increased due to the completion of capital projects, principal payments on debt, and capital contributions. Meanwhile net investment increased \$4.18 million (9.5%) in 2018 due to the completion of capital projects and principal payments on debt.

Capital assets accounted for \$92.32 million (82.4%) of total assets in 2019; compared to \$90.03 million (84.8%) of total assets in 2018. Long-term liabilities (mostly bonds) accounted for \$42.01 million (88.18%) of total liabilities in 2019, compared to \$41.98 million (92.1%) for 2018.

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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 2019, net position restricted for capital projects increased \$219,343 (10.1%). In 2018, net position restricted for capital projects increased \$965,771 (79.5%). The increase for both years arose when required contributions to the reserves exceeded use of the reserves.

In 2019, net position restricted for debt service increased by \$211,774 (27.5%) to \$982,040. This resulted in part from cash restricted for debt service on the 2019A refunding bonds as well as cash restricted for Community Water related debt payments. In 2018, net position restricted for debt service decreased \$550,672 (41.7%) to \$770,266. This primarily resulted from the payoff of the Series 2009 Bonds in December 2018 which reduced the related trust accounts.

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.

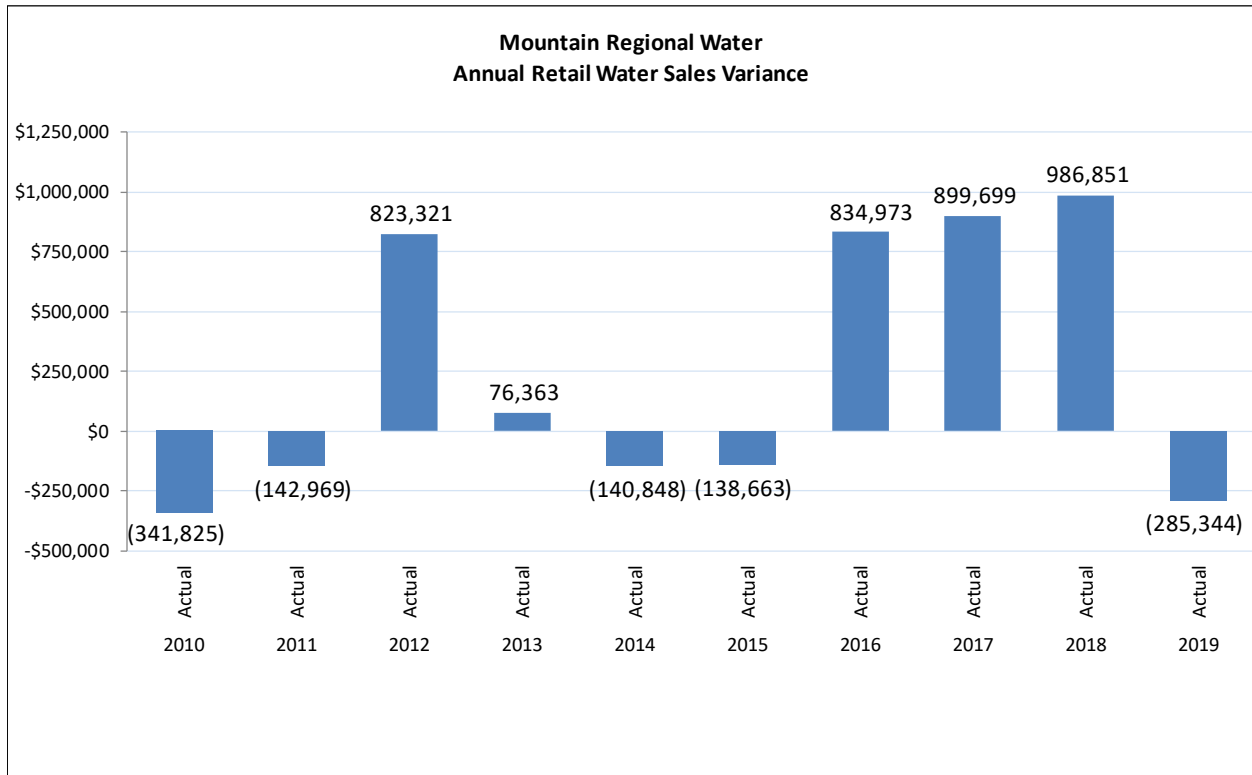
In 2019, unrestricted net position increased \$1.26 million (12.4%) to \$11.42 million. While water sales revenues were somewhat lower than in 2019 due to the wetter spring and cooler summer, they still exceeded operating costs, resulting in this increase. In 2018, unrestricted net position increased \$1.81 million (21.6%) to \$10.16 million, due strong water sales from hot summer weather and customer growth, along with lower operating 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.

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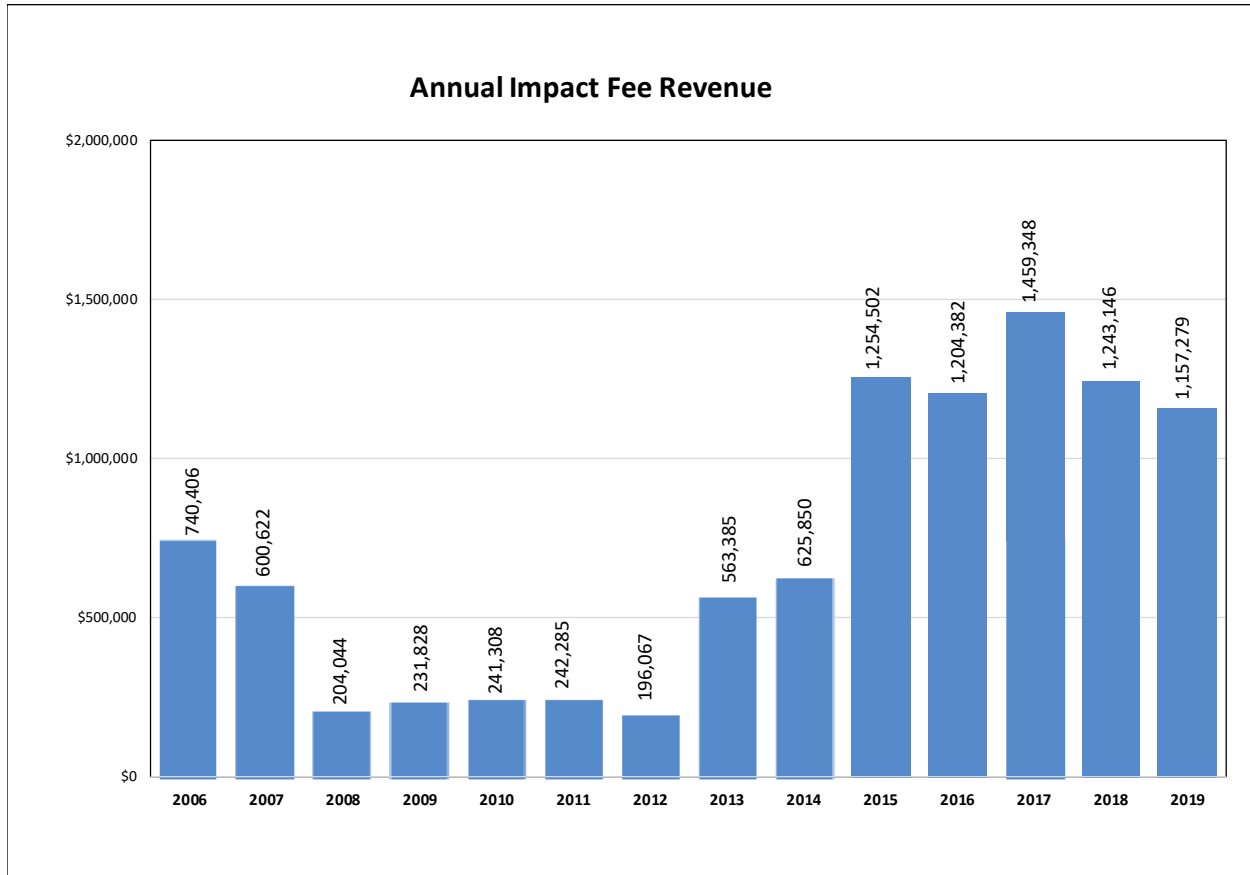
For example, the chart below shows the annual retail water sales budget variance over the past ten years, using the original adopted budget figures in comparison to final actual results.



The unusually hot dry weather experienced in 2012, and again in 2016 through 2018, resulted in retail water sales that were significantly above budget projections. Meanwhile, the cooler, wetter weather during 2019 resulted in retail water sales that were approximately \$285,000 below budget, with similar situations arising in 2014 and 2015. This shows that in the past five years annual retail water sales can vary from \$285,344 below budget to \$986,851 above budget, 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 2007, 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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It is unlikely impact fee revenues will remain at the level experienced the past several years as the building economy moves through its natural cycles and the impact of Covid-19 on the economy is felt.

Capital contributions in-aid of construction can vary dramatically year-over-year, thus potentially significantly affecting annual changes in net position.

To address the potential for large variations in revenue collections year-over-year, the District established revenue stabilization reserves to cover any potential annual revenue shortfalls. The District's policy is to maintain at least \$1.0 million in these reserves that can only be used to make parity debt payments in case insufficient cash is generated from operations in any given year - or if other cash reserves are not available.

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Total revenue decreased \$1.16 million (8.6%) in 2019 to \$12.34 million, after increasing \$281,411 (2.1%) in 2018, as shown below.

Mountain Regional Water Special Service District's Revenue Summary

	2019	2018	2017	2019 to 2018		2018 to 2017	
				Change	%	Change	%
	\$	\$	\$	\$	%	\$	%
Operating							
Retail water sales	\$ 7,804,953	\$ 8,335,750	\$ 7,652,899	\$ (530,797)	(6.4) %	\$ 682,851	8.9 %
Wholesale water sales & wheeling fees	1,703,684	1,616,250	1,473,057	87,434	5.4	143,193	9.7
Operating fees	463,753	376,969	442,186	86,784	23.0	(65,217)	(14.7)
Other	67,301	80,208	73,859	(12,907)	(16.1)	6,349	8.6
Total operating	<u>10,039,691</u>	<u>10,409,177</u>	<u>9,642,001</u>	<u>(369,486)</u>	(3.5)	<u>767,176</u>	8.0
Non-Operating							
Impact fees	1,157,279	1,243,146	1,459,348	(85,867)	(6.9)	(216,202)	(14.8)
Interest income	405,843	303,724	176,988	102,119	33.6	126,736	71.6
Special district assessments	393,929	1,169,732	1,674,531	(775,803)	(66.3)	(504,799)	(30.1)
Intergovernmental grant revenue	11,666	11,667	11,667	(1)	(0.0)	-	-
Other nonoperating revenue	296,738	359,339	246,707	(62,601)	(17.4)	112,632	45.7
Gain on disposal of capital assets	34,485	7,000	11,132	27,485	392.6	(4,132)	(37.1)
Total nonoperating	<u>2,299,940</u>	<u>3,094,608</u>	<u>3,580,373</u>	<u>(794,668)</u>	(25.7)	<u>(485,765)</u>	(13.6)
Total revenue	<u>\$ 12,339,631</u>	<u>\$ 13,503,785</u>	<u>\$ 13,222,374</u>	<u>\$ (1,164,154)</u>	(8.6) %	<u>\$ 281,411</u>	2.1 %

Due to the hot dry weather and strong customer growth as previously mentioned, retail water sales increased \$682,851 (8.9%) in 2018 whereas in 2019 due to the wetter cooler weather, retail sales decreased by \$530,797 (6.4%).

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 increases to wholesale water sales and wheeling fees of \$87,434 (5.4%) and \$143,193 (9.7%) in 2019 and 2018, respectively, is due to higher fees for the water as costs to produce the water increased in 2019.

Impact fee revenues declined by \$85,867 (6.9%) in 2019 and by \$216,202 (14.8%) in 2018 but were still strong as compared to historical averages.

Special district assessments decreased by \$775,803 (66.3%) in 2019 and \$504,799 (30.1%) in 2018 because the associated bonds have been paid down and the assessments are no longer required to fund the debt service. Thus, of the total revenue decrease in 2019, of \$1.16 million, \$775,803 is attributable to this planned decrease in assessments.

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Summary of Expenses

District expenses increased \$224,364 in 2019.

Mountain Regional Water Special Service District's Expense Summary

	2019	2018	2017	2019 to 2018 Change		2018 to 2017 Change	
				\$	%	\$	%
Operating							
Operations, maintenance and repairs	\$ 2,290,509	\$ 2,232,424	\$ 2,057,065	\$ 58,085	2.6 %	\$ 175,359	8.5 %
Water production	2,305,353	2,012,813	2,003,330	292,540	14.5	9,483	0.5
Engineering and energy and technology management	805,521	823,821	714,647	(18,300)	(2.2)	109,174	15.3
Management and finance	1,018,738	996,296	895,226	22,442	2.3	101,070	11.3
Legal services	44,918	29,307	29,680	15,611	53.3	(373)	(1.3)
Depreciation	1,704,766	1,634,016	1,579,364	70,750	4.3	54,652	3.5
Total operating	<u>8,169,805</u>	<u>7,728,677</u>	<u>7,279,312</u>	<u>441,128</u>	5.7	<u>449,365</u>	6.2
Non-Operating							
Interest expense	934,486	1,473,282	1,470,966	(538,796)	(36.6)	2,316	0.2
Bond issuance expenses	334,193	-	-	334,193	-	-	-
Other nonoperating expenses	15,573	27,734	27,734	(12,161)	(43.8)	-	-
Total nonoperating	<u>1,284,252</u>	<u>1,501,016</u>	<u>1,498,700</u>	<u>(216,764)</u>	(14.4)	<u>2,316</u>	0.2
Total expenses	<u>\$ 9,454,057</u>	<u>\$ 9,229,693</u>	<u>\$ 8,778,012</u>	<u>\$ 224,364</u>	2.4 %	<u>\$ 451,681</u>	5.1 %

The Operations, maintenance and repairs increase of \$58,085 (2.6%) is largely due to higher personnel costs, higher lease fees and higher water testing fees, slightly offset by lower power and repair and maintenance costs.

The \$292,540 (14.5%) increase in Water production is largely due to the recharging of carbon and the replacement of filtering membranes at the treatment plant. A cash reserve account has been established and is funded monthly to help cover the costs in years when these expenses are incurred.

The \$18,300 (2.2%) decrease in Engineering and energy and technology management in 2019 is largely the result of transferring personnel to Operations, maintenance and repairs. Accordingly, this explains some of the increase in personnel costs in Operations, maintenance and repairs as noted above

The 2019 increase of \$22,442 (2.3%) in management and finance was due primarily to increases in personnel costs as well as online payment fees.

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During 2019, legal services increased by \$15,611 (53.3%) due to an increase in the contract with Summit County for legal services.

During 2018 District expenses increased by \$451,681 (5.1%) over the prior year with highlights as noted:

The Operations, maintenance and repairs increase of \$175,359 (8.5%) is due to increased power and repair costs due to higher retail water consumption and increased wholesale water sales, in addition to higher lease fees.

The \$109,174 (15.3%) increase in Engineering, energy and technology management in 2018 is largely the result of transferring personnel from Water production. This explains the nominal increase of \$9,483 (0.5%) increase in Water production as lower personnel costs were offset by higher water production costs due to increased retail water sales.

The 2018 increase of \$101,070 (11.3%) in Management and finance occurred due to the CFO position moving from part-time to full-time and the addition of a water operator that focuses on customer service issues. In addition, meter program fees increased as the meter upgrade program continued in 2018. Lastly, online payment fees increased due to increased retail water sales.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
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Capital Assets as of December 31

At the end of 2019, the District had invested \$116.69 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 accumulated depreciation, the District's net capital assets total \$92.32 million.

	(net of depreciation)								
				2019 to 2018		2018 to 2017			
	2019	2018	2017	\$	%	\$	%		
Land and water rights	\$ 20,693,190	\$ 20,529,449	\$ 20,529,449	163,741	0.8	-	-		
Construction in progress	1,003,240	1,049,503	3,139,175	(46,263)	(4.4)	(2,089,672)	(66.6)		
Infrastructure not buildings	64,103,709	61,856,445	57,382,865	2,247,264	3.6	4,473,580	7.8		
Buildings, equipment and furnishings	<u>6,519,645</u>	<u>6,591,006</u>	<u>6,867,238</u>	<u>(71,361)</u>	(1.1)	<u>(276,232)</u>	(4.0)		
Total capital assets (net)	<u>\$ 92,319,784</u>	<u>\$ 90,026,403</u>	<u>\$ 87,918,727</u>	<u>\$ 2,293,381</u>	2.5 %	<u>\$ 2,107,676</u>	2.4 %		

Capital assets (net of depreciation) increased \$2.29 million (2.5%) to \$92.32 million in 2019, with approximately \$1.38 million associated with the meter upgrade system and also improvements beginning on the Community Water infrastructure upgrade. Additionally, \$1.83 million in water system assets were received.

Capital assets (net of depreciation) increased \$2.11 million (2.4%) to \$90.03 million in 2018, as the Silver Creek Tank and Pump Station was completed, and continued progress was made on the meter upgrade program. In addition, capital contributions of \$2.13 million in water system assets were received.

Additional information on the District's capital assets can be found in Note 5 on pages 36-37 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 2039.

During 2019, the District issued \$25.82 million in Federally Taxable Water Revenue Refunding Bonds, Series 2019A for the purpose of refunding \$22.84 million of the remaining outstanding balance of the District's Series 2012 bonds and \$1.34 million, a partial refunding, of the District's Series 2014 bonds. Proceeds from the 2019A bonds were deposited into an escrow account to pay interest on the 2012 bonds maturing on and after 2022 and to redeem the 2012 refunded bonds on December 15, 2021 and to pay interest on the 2014 bonds maturing on December 15, 2034 and to redeem a portion the 2014 bonds on December 15, 2024. This refunding was anticipated to provide a savings in cash flows of approximately \$1.81 million (\$1.52 million Net Present Value) over the life of the bonds.

In addition, the District issued \$2.6 million in Water Revenue Bonds, Series 2019B. These bonds were purchased by the State of Utah Department of Environmental Quality and were issued to fund infrastructure improvements required to connect to Community Water system, a development annexed by the District during 2019.

The net increase to total long-term obligations during 2019 was \$520,199 (1.2%).

As shown below, total long-term obligations outstanding declined \$2.58 million (5.7%) to \$42.74 in 2018 due to principal and capital lease payments. No new debt was issued in 2018.

	2019	2018	2017	2019 to 2018		2018 to 2017	
				Change		Change	
				\$	%	\$	%
Capital leases	\$ 558,267	\$ 586,331	\$ 613,496	(28,064)	(4.8)	(27,165)	(4.4)
Payable to developer	1,033,135	1,095,369	1,135,377	(62,234)	(5.7)	(40,008)	(3.5)
Net pension liability	1,256,115	763,882	1,119,191	492,233	64.4	(355,309)	(31.7)
Compensated absences	409,988	398,014	408,452	11,974	3.0	(10,438)	(2.6)
Notes and bonds payable	40,007,206	39,900,916	42,051,306	106,290	0.3	(2,150,390)	(5.1)
Total long-term obligations	\$ 43,264,711	\$ 42,744,512	\$ 45,327,822	\$ 520,199	1.2 %	\$ (2,583,310)	(5.7) %

The District's underlying bond rating from Fitch and Standard & Poor's increased to AA- during 2019.

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

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Additional information on the District's long term obligations can be found in Note 6 on pages 38-45 of this report.

Economic Factors and Next Year's Operations

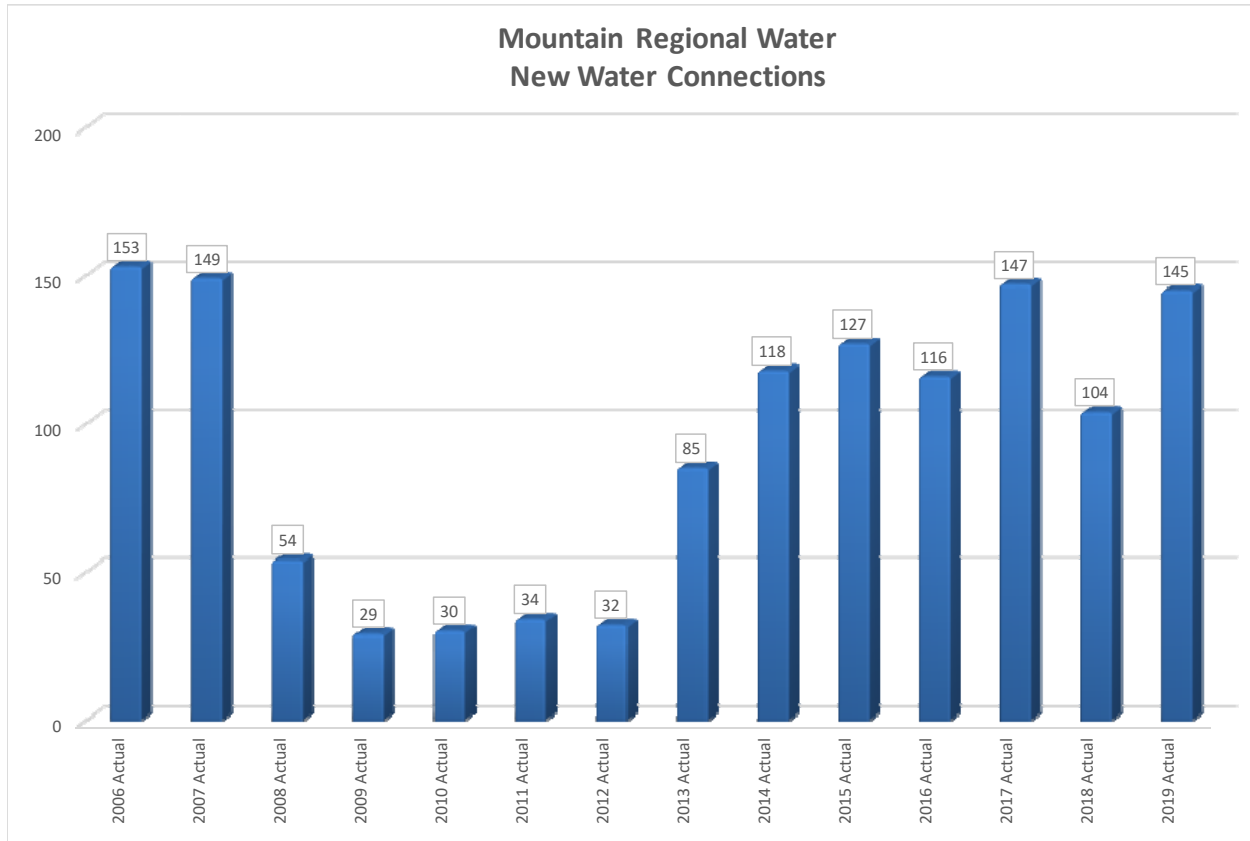
The average annual number of nonfarm payroll jobs in Summit County increased by 3.6% during 2019. Summit County had an average unemployment rate of 2.5% in 2019, down from 3.0% in 2018 and 2017. (Source: Utah Department of Workforce Services).

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. In 2018 the number of homes sold in Glenwild doubled from 2017, in Silver Creek Estates, the number of sales increased by 27% and there was continued buyer interest in new construction and amenities, as Promontory had the highest number of sales in the Snyderville Basin, with 68 sold homes.

2019 was the sixth consecutive year of rebounding economic growth. In Snyderville Basin, the number of single family homes sales equaled that of 2018 and posted a 5% median price increase reaching \$1.28 million. Promontory saw the greatest number of home sales in the Basin with a total of 79 and a median price of nearly \$2.25 million, up 8% over 2018. Condo sales in the Snyderville Basin totaled 390 up 45% from 2018 and the median price continued its upward trend growing 20% to \$649,500. Vacant land sales decreased as inventory shrinks and new offerings decline. With inventory down, competition for the remaining lots increased, driving up prices. (Source: Park City Board of Realtors).

These facts correlate with the customer growth experienced by the District the past 15 years, including the current strong growth in new connections, as shown below.

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As shown above, the annual growth in new connections varies year to year with the building cycle. The District is currently in a strong building cycle 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.

As the current strong building economy 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 \$500,000 annually moving forward despite collections averaging \$1.29 million the past three years.

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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 2019 balance was \$1.51 million. Expenditures are planned in 2020 on the Lost Canyon Transmission Line, Summit Park Infrastructure (through the cooperation of Summit County) and other District infrastructure to bring this balance down.

District policy requires a minimum 120 days reserves throughout the entire year. The 267-day balance at year-end 2019 should be more than sufficient to maintain the 120-day policy minimum throughout 2020.

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	
	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,724,454	\$ 8,937,785
Receivables		
Accounts receivable	1,011,479	947,747
Other	1,861,343	232,930
Inventory of supplies	99,226	95,099
Prepaid expenses	1,359,282	1,222,746
Current portion, restricted cash and cash equivalents	<u>3,810,571</u>	<u>2,579,472</u>
Total current assets	<u>16,866,355</u>	<u>14,015,779</u>
NONCURRENT ASSETS		
Restricted cash and cash equivalents	2,819,031	2,070,971
Nondepreciable capital assets	21,696,430	21,578,952
Depreciable capital assets, net	<u>70,623,354</u>	<u>68,447,451</u>
Total noncurrent assets	<u>95,138,815</u>	<u>92,097,374</u>
Total assets	<u>112,005,170</u>	<u>106,113,153</u>
DEFERRED OUTFLOWS OF RESOURCES		
Loss on bond refunding	1,127,473	691,621
Pensions	<u>773,835</u>	<u>637,227</u>
	<u>1,901,308</u>	<u>1,328,848</u>

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

	Business-type Activities	
	2019	2018
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 201,580	\$ 170,447
Accrued liabilities	332,723	64,649
Liabilities payable from restricted assets		
Accounts payable	3,867	-
Due to developer	629,334	95,654
Customer deposits	489,409	352,354
Arbitrage rebate	-	6,558
Accrued interest	72,458	87,918
Current portion, payable to developer	71,125	62,235
Current portion, notes and bonds payable	2,544,378	1,974,753
Current portion, capital leases	28,063	27,166
Total current liabilities	4,372,937	2,841,734
LONG-TERM OBLIGATIONS, less current maturities		
Capital leases	558,267	586,331
Payable to developer	1,033,135	1,095,369
Net pension liability	1,256,115	763,882
Compensated absences	409,988	398,014
Notes and bonds payable	40,007,206	39,900,916
Total liabilities	47,637,648	45,586,246
DEFERRED INFLOWS OF RESOURCES		
Grant revenues received in advance	163,334	175,000
Pensions	46,379	338,855
	209,713	513,855
NET POSITION		
Net investment in capital assets	51,258,145	48,228,858
Restricted for:		
Capital projects	2,399,432	2,180,089
Debt service	982,040	770,266
Unrestricted	11,419,500	10,162,687
Total net position	\$ 66,059,117	\$ 61,341,900

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	
	2019	2018
Operating revenues*		
Retail water sales	\$ 7,804,953	\$ 8,335,750
Wholesale water sales and wheeling fees	1,703,684	1,616,250
Operating fees	463,753	376,969
Other operating revenues	67,301	80,208
Total operating revenues	<u>10,039,691</u>	<u>10,409,177</u>
Operating expenses		
Operations, maintenance and repairs	2,290,509	2,232,424
Water production	2,305,353	2,012,813
Engineering and energy and technology management	805,521	823,821
Management and finance	1,018,738	996,296
Legal services	44,918	29,307
Depreciation	1,704,766	1,634,016
Total operating expenses	<u>8,169,805</u>	<u>7,728,677</u>
Operating income	<u>1,869,886</u>	<u>2,680,500</u>
Nonoperating revenues (expenses)		
Impact fees*	1,157,279	1,243,146
Interest income*	405,843	303,724
Special assessments*	393,929	1,169,732
Intergovernmental grant revenue	11,666	11,667
Other nonoperating revenue*	296,738	359,339
Gain on disposal of capital assets*	34,485	7,000
Interest expense	(934,486)	(1,473,282)
Bond issuance expenses	(334,193)	-
Other nonoperating expenses	(15,573)	(27,734)
Total nonoperating revenues (expenses)	<u>1,015,688</u>	<u>1,593,592</u>
Income before contributions	2,885,574	4,274,092
Capital contributions - assets	<u>1,831,643</u>	<u>2,126,661</u>
Increase in net position	4,717,217	6,400,753
Net position at beginning of year	<u>61,341,900</u>	<u>54,941,147</u>
Net position at end of year	<u>\$ 66,059,117</u>	<u>\$ 61,341,900</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	
	2019	2018
Cash flows from operating activities		
Receipts from customers	\$ 9,908,658	\$ 10,201,690
Payments to suppliers of goods and services	(4,268,982)	(4,449,309)
Payments to employees for services	(1,958,523)	(2,150,804)
Other receipts (payments)	703,065	363,303
Net cash provided by operating activities	<u>4,384,218</u>	<u>3,964,880</u>
Cash flows from investing activities		
Interest income collected	405,843	303,724
Net cash provided by investing activities	<u>405,843</u>	<u>303,724</u>
Cash flows from capital and related financing activities		
Impact fees collected	1,157,279	1,243,146
Special assessments and other nonoperating revenues collected	675,094	1,501,337
Purchase and construction of capital assets	(2,168,448)	(1,615,031)
Proceeds from sale of capital assets	36,429	7,000
Payments made on payable to developer	(53,344)	(40,008)
Bond issuance costs paid	(334,193)	-
Principal payments made on capital leases	(27,167)	(26,298)
Proceeds from issuance of long-term obligations	1,201,550	-
Reduction of long-term obligations	(1,983,280)	(1,915,752)
Interest payments made on long-term obligations	(1,528,153)	(1,606,590)
Net cash used in capital and related financing activities	<u>(3,024,233)</u>	<u>(2,452,196)</u>
Net increase in cash and cash equivalents	1,765,828	1,816,408
Cash and cash equivalents at beginning of year	<u>13,588,228</u>	<u>11,771,820</u>
Cash and cash equivalents at end of year	<u>\$ 15,354,056</u>	<u>\$ 13,588,228</u>
Cash and cash equivalents consists of :		
Unrestricted cash and cash equivalents	\$ 8,724,454	\$ 8,937,785
Current portion, restricted cash and cash equivalents	3,810,571	2,579,472
Noncurrent restricted cash and cash equivalents	<u>2,819,031</u>	<u>2,070,971</u>
Total cash and cash equivalents	<u>\$ 15,354,056</u>	<u>\$ 13,588,228</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	
	2019	2018
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 1,869,886	\$ 2,680,500
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,704,766	1,634,016
Changes in assets and liabilities		
Accounts receivable	(63,732)	(127,279)
Other receivables	(28,413)	271,298
Inventory of supplies	(4,127)	22,141
Prepaid expenses	(136,536)	(27,932)
Changes in net pension asset, liability and deferred inflows and outflows related to pensions	63,149	(22,805)
Accounts payable	31,133	52,758
Accrued liabilities	268,074	(7,323)
Accounts payable from restricted assets	3,867	(511,853)
Long-term portion compensated absences	11,974	(10,438)
Increase in amount due to developer	533,680	29,432
Increase arbitrage rebate payable	(6,558)	149
Collection of deposits	137,055	(17,784)
	<u>137,055</u>	<u>(17,784)</u>
Net cash provided by operating activities	<u>\$ 4,384,218</u>	<u>\$ 3,964,880</u>
Non-cash investing, capital and financing activities:		
Contributions of capital assets from developers	\$ 1,831,643	\$ 2,126,661
Bond proceeds due from State of Utah	1,600,000	-
Bond proceeds used in refunding	25,613,450	-
Bonds defeased in refunding	24,175,000	-

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

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.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

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.

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.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

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, 2019 and 2018

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. No interest was capitalized during 2019 or 2018.

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.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

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.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

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, 2019, the book value of cash on deposit was \$874,043 and the bank balance was \$1,180,157 (approximately \$920,000 of which was exposed to custodial credit risk as uninsured and uncollateralized) with the difference being outstanding checks and deposits.

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, 2019 and 2018

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, 2019 are presented below:

Investment Type	Fair Value	Investment Maturity in Years			
		Less Than 1	1 - 5	6 - 10	More Than 10
Utah Public Treasurer's Investment Fund	\$ 14,480,013	\$ 14,480,013	\$ -	\$ -	\$ -

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, 2019 and 2018

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>Investment Type</u>	<u>Fair Value</u>	<u>Quality Ratings</u>			
		<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Unrated</u>
Utah Public Treasurer's Investment Fund	<u>\$ 14,480,013</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,480,013</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, 2019 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, 2019 and 2018

Note 2 - Deposits and Investments – Continued

All of the District's investments at December 31, 2019 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, 2019 and 2018

Note 3 – External Investment Pool - Continued

As of December 31, 2019, the District had \$14,480,013 invested in the PTIF which had a fair value of \$14,540,145 for an unrealized gain of \$60,132. 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	87.99%
Money market agreements	4.76%
Commercial paper	7.25%
	<u>100.00%</u>

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 4 – Restricted Cash and Cash Equivalents

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

	<u>2019</u>	<u>2018</u>
Revenue bonds		
Current debt service	\$ 539,167	\$ 351,518
Debt service reserves	515,331	506,666
Renewal and replacement and capital facilities construction	1,507,080	1,315,254
Construction account	948,802	-
IRS arbitrage rebate	-	6,558
Customer deposits	489,409	352,354
Impact fee reserve	<u>2,629,813</u>	<u>2,118,093</u>
Total	<u>\$ 6,629,602</u>	<u>\$ 4,650,443</u>
Included in the accompanying financial statements as follows:		
Current portion restricted cash and cash equivalents	\$ 3,810,571	\$ 2,579,472
Noncurrent restricted cash and cash equivalents	<u>2,819,031</u>	<u>2,070,971</u>
Total	<u>\$ 6,629,602</u>	<u>\$ 4,650,443</u>

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 5 - Capital Assets

A summary of activity in the capital assets for the year ended December 31, 2019 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balance</u>
Capital assets not being depreciated					
Land and water rights	\$20,529,449	\$ 163,741	\$ -	\$ -	\$ 20,693,190
Construction-in-progress	1,049,503	1,908,207	-	(1,954,470)	1,003,240
	<u>21,578,952</u>	<u>2,071,948</u>	<u>-</u>	<u>(1,954,470)</u>	<u>21,696,430</u>
Depreciable Assets					
Buildings	7,759,547	-	-	-	7,759,547
Improvements other than buildings	80,469,866	1,638,340	-	1,954,470	84,062,676
Furniture and fixtures	166,776	-	(15,715)	-	151,061
Machinery and equipment	1,708,346	87,427	(41,891)	-	1,753,882
Vehicles	991,074	202,375	(30,017)	-	1,163,432
Engineering library	105,000	-	-	-	105,000
	<u>91,200,609</u>	<u>1,928,142</u>	<u>(87,623)</u>	<u>1,954,470</u>	<u>94,995,598</u>
Less accumulated depreciation					
Buildings	(2,216,432)	(128,491)	-	-	(2,344,923)
Improvements other than buildings	(18,613,421)	(1,345,546)	-	-	(19,958,967)
Furniture and fixtures	(166,765)	-	15,704	-	(151,061)
Machinery and equipment	(960,175)	(147,309)	41,891	-	(1,065,593)
Vehicles	(691,365)	(83,420)	28,085	-	(746,700)
Engineering library	(105,000)	-	-	-	(105,000)
Total accumulated depreciation	<u>(22,753,158)</u>	<u>(1,704,766)</u>	<u>85,680</u>	<u>-</u>	<u>(24,372,244)</u>
Total capital assets being depreciated, net	<u>68,447,451</u>	<u>223,376</u>	<u>(1,943)</u>	<u>1,954,470</u>	<u>70,623,354</u>
	<u>\$90,026,403</u>	<u>\$ 2,295,324</u>	<u>\$ (1,943)</u>	<u>\$ -</u>	<u>\$ 92,319,784</u>

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 5 - Capital Assets - Continued

A summary of activity in the capital assets for the year ended December 31, 2018 was as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets not being depreciated					
Land and water rights	\$ 20,529,449	\$ -	\$ -	\$ -	\$ 20,529,449
Construction-in-progress	3,139,175	1,629,674	-	(3,719,346)	1,049,503
	<u>23,668,624</u>	<u>1,629,674</u>	<u>-</u>	<u>(3,719,346)</u>	<u>21,578,952</u>
Depreciable Assets					
Buildings	7,759,547	-	-	-	7,759,547
Improvements other than buildings	74,724,258	2,026,262	-	3,719,346	80,469,866
Furniture and fixtures	166,776	-	-	-	166,776
Machinery and equipment	1,694,933	13,413	-	-	1,708,346
Vehicles	948,767	72,343	(30,036)	-	991,074
Engineering library	105,000	-	-	-	105,000
	<u>85,399,281</u>	<u>2,112,018</u>	<u>(30,036)</u>	<u>3,719,346</u>	<u>91,200,609</u>
Less accumulated depreciation					
Buildings	(2,087,940)	(128,492)	-	-	(2,216,432)
Improvements other than buildings	(17,341,393)	(1,272,028)	-	-	(18,613,421)
Furniture and fixtures	(161,923)	(4,842)	-	-	(166,765)
Machinery and equipment	(809,165)	(151,010)	-	-	(960,175)
Vehicles	(643,757)	(77,644)	30,036	-	(691,365)
Engineering library	(105,000)	-	-	-	(105,000)
Total accumulated depreciation	<u>(21,149,178)</u>	<u>(1,634,016)</u>	<u>30,036</u>	<u>-</u>	<u>(22,753,158)</u>
Total capital assets being depreciated, net	<u>64,250,103</u>	<u>478,002</u>	<u>-</u>	<u>3,719,346</u>	<u>68,447,451</u>
	<u>\$ 87,918,727</u>	<u>\$ 2,107,676</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90,026,403</u>

Depreciation expense for 2019 and 2018 was \$1,704,766 and \$1,634,016, respectively.

Total contributions-in-aid of construction for 2019 and 2018 were \$1,831,643 and \$2,126,661, respectively.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 6 - Long-term Obligations

A summary of long-term obligation activity for the year ended December 31, 2019 and 2018 is as follows:

	<u>Balance January 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2019</u>	<u>Due Within One Year</u>
Direct placements					
Bonds payable	\$ 3,239,000	\$ 2,600,000	\$ (251,000)	\$ 5,588,000	\$ 360,000
Other bonds and long term obligations					
Notes payable	1,539,249	-	(122,280)	1,416,969	119,378
Bonds payable	34,715,000	25,815,000	(25,785,000)	34,745,000	2,065,000
Unamortized premiums	2,382,420	-	(1,580,805)	801,615	-
Capital lease obligation - Note 8	613,497	-	(27,167)	586,330	28,063
Payable to developer	1,157,604	-	(53,344)	1,104,260	71,125
Net pension liability	763,882	492,233	-	1,256,115	-
Compensated absences	398,014	237,413	(225,439)	409,988	-
	<u>\$ 44,808,666</u>	<u>\$ 29,144,646</u>	<u>\$ (28,045,035)</u>	<u>\$ 45,908,277</u>	<u>\$ 2,643,566</u>

	<u>Balance January 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2018</u>	<u>Due Within One Year</u>
Direct placements					
Bonds payable	\$ 3,486,000	\$ -	\$ (247,000)	\$ 3,239,000	\$ 251,000
Other bonds and long term obligations					
Notes payable	1,648,001	-	(108,752)	1,539,249	113,753
Bonds payable	36,275,000	-	(1,560,000)	34,715,000	1,861,000
Unamortized premiums	2,558,056	-	(175,636)	2,382,420	-
Capital lease obligation - Note 8	639,795	-	(26,298)	613,497	27,166
Payable to developer	1,197,612	-	(40,008)	1,157,604	62,235
Net pension liability	1,119,191	-	(355,309)	763,882	-
Compensated absences	408,452	238,422	(248,860)	398,014	-
	<u>\$ 47,332,107</u>	<u>\$ 238,422</u>	<u>\$ (2,761,863)</u>	<u>\$ 44,808,666</u>	<u>\$ 2,315,154</u>

As part of the Series 2014 issuance, a portion of the District's revenue bonds are also now secured by special assessments on property within a special improvement district. Principal and interest payments are due annually and semi-annually.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 6 - Long-term Obligations – Continued

Debt Coverage

The District complies with its 1.25 debt coverage requirement for its bonding. The debt coverage ratios for 2019 and 2018 were 2.13 and 2.22, respectively.

Debt Schedule

The District has issued the following notes and bonds payable as of December 31, 2019 and 2018:

Series	Original Issue	Interest Rate	Maturity Date	Principal Outstanding	
				2019	2018
Notes Payable					
Weber Basin Water Conservancy					
2009 District Note	\$ 2,033,436	4.6%	2029	\$ 1,194,382	\$ 1,299,983
2017 District Note	247,060	4.6%	2037	222,587	239,266
				<u>1,416,969</u>	<u>1,539,249</u>
Bonds Payable					
Water revenue					
2008	3,026,000	2.00%	2029	1,662,000	1,811,000
2011A	679,000	1.52%	2031	475,000	511,000
2011B	1,278,000	None	2032	851,000	917,000
2012	27,270,000	2.0% - 5.0%	2033	2,875,000	27,070,000
2014	8,140,000	2.0% - 5.0%	2034	6,055,000	7,645,000
2019A	25,815,000	1.922% - 3.034%	2034	25,815,000	-
2019B	2,600,000	2.00%	2039	2,600,000	-
				<u>40,333,000</u>	<u>37,954,000</u>
Unamortized Premiums					
2012	2,383,832	N/A	2033	234,618	1,653,898
2014	904,371	N/A	2034	566,997	728,522
				<u>801,615</u>	<u>2,382,420</u>
				42,551,584	41,875,669
			Less current portion	<u>(2,544,378)</u>	<u>(1,974,753)</u>
				<u>\$ 40,007,206</u>	<u>\$ 39,900,916</u>

Mountain Regional Water Special Service District
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NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 6 - Long-term Obligations - Continued

As of December 31, 2019, 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	
2020	\$ 119,378	\$ 70,431	\$ 2,425,000	\$ 1,130,975	\$ 3,745,784
2021	124,870	65,181	2,552,000	1,000,736	3,742,787
2022	130,614	59,689	2,622,000	917,335	3,729,638
2023	136,622	53,945	2,689,000	862,216	3,741,783
2024	142,907	47,937	2,744,000	799,602	3,734,446
2025-29	650,100	139,431	14,802,000	2,937,277	18,528,808
2030-34	76,655	22,506	11,749,000	918,465	12,766,626
2035-39	35,823	4,065	750,000	45,600	835,488
	\$ 1,416,969	\$ 463,185	\$ 40,333,000	\$ 8,612,206	\$ 50,825,360

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.

Collateral and Events of Default:

All of the District's bonds and the Weber Basin notes are payable from and secured solely by a pledge and assignment of the Net Revenues from the District's water system and funds on deposit in accounts held by the District's trustee, Zions Bank. See Note 7 – Pledged Revenues for further discussion of Net Revenues.

In the event of default on the District's bonds, the trustee may pursue any available remedy by suit at law or in equity to enforce payment of the principal and interest then outstanding or to enforce any obligations of the District under its bond indenture. The District has bond insurance in place on its non-direct placement bonds and in the event of default under the District's bond indenture, the insurer becomes the sole owner of the bonds and is entitled to control and direct the enforcement of all rights and remedies granted to the owners of the bonds.

Mountain Regional Water Special Service District
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NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 6 - Long-term Obligations - Continued

Details of Direct Placement Bonds

Series 2008 Water Revenue Bonds

Type: Direct Placement
Purpose: Construction of a fire prevention system in the Stagechoach Area
Date of issuance: September 4, 2008
Term: 20 years
Interest rate: 2.00%
Original Issue: \$3,026,000

Debt service requirements, including interest:

<u>Year ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 152,000	\$ 33,240	\$ 185,240
2021	155,000	30,200	185,200
2022	158,000	27,100	185,100
2023	161,000	23,940	184,940
2024	164,000	20,720	184,720
2025	168,000	17,440	185,440
2026	171,000	14,080	185,080
2027	174,000	10,660	184,660
2028	178,000	7,180	185,180
2029	181,000	3,620	184,620
	<u>\$ 1,662,000</u>	<u>\$ 188,180</u>	<u>\$ 1,850,180</u>

Series 2011A Water Revenue Refunding Bonds

Type: Direct Placement
Purpose: Refunding Series 2002 and Series 2009A Water Revenue Bonds
Date of issuance: December 22, 2011
Term: 20 years
Interest rate: 1.52%
Original Issue: \$679,000

Debt service requirements, including interest:

<u>Year ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 36,000	\$ 7,220	\$ 43,220
2021	37,000	6,673	43,673
2022	38,000	6,110	44,110
2023	38,000	5,533	43,533
2024	39,000	4,955	43,955
2025	39,000	4,362	43,362
2026	40,000	3,770	43,770
2027	40,000	3,162	43,162
2028	41,000	2,554	43,554
2029	42,000	1,930	43,930
2030	42,000	1,292	43,292
2031	43,000	654	43,654
	<u>\$ 475,000</u>	<u>\$ 48,215</u>	<u>\$ 523,215</u>

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 6 - Long-term Obligations - Continued

Series 2011B Water Revenue Bonds

Type: Direct Placement
Purpose: Acquisition, construction and installation of a new SCADA system and a skid-mounted pretreatment unit at the treatment plan
Date of issuance: May 17, 2012
Term: 20 years
Interest rate: 0.00%
Original Issue: \$1,278,000

Debt service requirements, including interest:

<u>Year ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 65,000	\$ -	\$ 65,000
2021	66,000	-	66,000
2022	65,000	-	65,000
2023	66,000	-	66,000
2024	65,000	-	65,000
2025	66,000	-	66,000
2026	65,000	-	65,000
2027	66,000	-	66,000
2028	65,000	-	65,000
2029	66,000	-	66,000
2030	65,000	-	65,000
2031	66,000	-	66,000
2032	65,000	-	65,000
	<u>\$ 851,000</u>	<u>\$ -</u>	<u>\$ 851,000</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 6 - Long-term Obligations - Continued

Series 2019B Water Revenue Bonds

Type: Direct Placement
Purpose: Construction costs to improve the Community Water System
Date of issuance: December 12, 2019
Term: 20 years
Interest rate: 2.00%
Original Issue: \$2,600,000

Debt service requirements, including interest:

<u>Year ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 107,000	\$ 52,433	\$ 159,433
2021	109,000	49,860	158,860
2022	111,000	47,680	158,680
2023	114,000	45,460	159,460
2024	116,000	43,180	159,180
2025	118,000	40,860	158,860
2026	121,000	38,500	159,500
2027	123,000	36,080	159,080
2028	125,000	33,620	158,620
2029	128,000	31,120	159,120
2030	130,000	28,560	158,560
2031	133,000	25,960	158,960
2032	136,000	23,300	159,300
2033	138,000	20,580	158,580
2034	141,000	17,820	158,820
2035	144,000	15,000	159,000
2036	147,000	12,120	159,120
2037	150,000	9,180	159,180
2038	153,000	6,180	159,180
2039	156,000	3,120	159,120
	<u>\$ 2,600,000</u>	<u>\$ 580,613</u>	<u>\$ 3,180,613</u>

Mountain Regional Water Special Service District
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NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 6 - Long-term Obligations - Continued

Details of Other Bonds

Series 2012 Water Revenue Refunding Bonds

Type: Public Offering
Purpose: Refunding 2003 Water Revenue Bonds. This series was partially refunded by the Series 2019A Bonds
Date of issuance: June 13, 2012
Term: 2 years
Interest rate: 4.00%
Original Issue: \$27,270,000

Debt service requirements, including interest:

<u>Year ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,410,000	\$ 115,000	\$ 1,525,000
2021	1,465,000	58,600	1,523,600
	<u>\$ 2,875,000</u>	<u>\$ 173,600</u>	<u>\$ 3,048,600</u>

Series 2014 Water Revenue Bonds

Type: Public Offering
Purpose: Construction of water system and other related improvements
Date of issuance: December 18, 2014
Term: 20 years
Interest rate: 2.00% to 4.50%
Original Issue: \$8,140,000

Debt service requirements, including interest:

<u>Year ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 465,000	\$ 232,813	\$ 697,813
2021	475,000	223,513	698,513
2022	485,000	209,263	694,263
2023	505,000	194,713	699,713
2024	520,000	174,513	694,513
2025	540,000	153,713	693,713
2026	565,000	132,113	697,113
2027	585,000	109,513	694,513
2028	610,000	84,650	694,650
2029	640,000	58,725	698,725
2030	665,000	29,925	694,925
	<u>\$ 6,055,000</u>	<u>\$ 1,603,454</u>	<u>\$ 7,658,454</u>

Mountain Regional Water Special Service District
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December 31, 2019 and 2018

Note 6 - Long-term Obligations - Continued

Type: Public Offering
Purpose: Partial Refunding of Series 2012 and Series 2014 Water Revenue Bonds
Date of issuance: November 7, 2019
Term: 15 years
Interest rate: 1.92% to 3.03%
Original Issue: \$25,815,000

Debt service requirements, including interest:

Year ending December 31	Principal	Interest	Total
2020	\$ 190,000	\$ 690,269	\$ 880,269
2021	245,000	631,890	876,890
2022	1,765,000	627,182	2,392,182
2023	1,805,000	592,570	2,397,570
2024	1,840,000	556,234	2,396,234
2025	1,880,000	518,276	2,398,276
2026	1,925,000	476,934	2,401,934
2027	1,965,000	432,678	2,397,678
2028	2,010,000	385,833	2,395,833
2029	2,065,000	335,904	2,400,904
2030	2,115,000	283,578	2,398,578
2031	2,480,000	227,868	2,707,868
2032	2,545,000	160,066	2,705,066
2033	2,625,000	87,940	2,712,940
2034	360,000	10,922	370,922
	<u>\$ 25,815,000</u>	<u>\$ 6,018,144</u>	<u>\$ 31,833,144</u>

Refunding

During 2019, the District issued \$25.82 million in Water Revenue Refunding Bonds Series 2019A with interest rates ranging from 1.922% to 3.034%. The proceeds were used to advance refund \$22.84 million of outstanding 2012 Water Revenue Refunding bonds and \$1.34 million 2014 Water Revenue bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$1.03 million. This amount is reported as a deferred charge on refunding and will be amortized over the life of the new bonds. The District refunded these portions of the outstanding 2012 and 2014 Water Revenue and Refunding bonds to take advantage of lower interest rates. The reduction in debt service payments is \$1.81 million and resulted in a net present value benefit of \$1.52 million.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 7 – Pledged Revenues

The District has pledged all its cash Net Revenue, excluding grants, totaling \$63.53 million through 2039 - which is 1.25 times the \$50.83 million in required parity debt service payments through 2039. 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 2019, Net Revenue was \$6.01 million and debt service payments on the bonds and notes were \$2.81 million. For 2018 Net Revenue was \$7.37 million and debt service payments were \$3.31 million.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

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, 2019:

Land	\$	310,000
Diesel generators		373,385
less accumulated depreciation		93,806
		279,579
 Total	 \$	 589,579

Future minimum lease payments are as follows:

Years Ending December 31,	Lease Purchase Payable		Capital Lease
	Principal	Interest	
2020	\$ 28,063	\$ 17,072	\$ 45,135
2021	28,989	16,145	45,134
2022	29,946	15,188	45,134
2023	30,936	14,198	45,134
2024	31,958	13,177	45,135
2025-29	174,451	50,804	225,255
2030-34	201,018	25,073	226,091
2035-37	60,969	2,929	63,898
Total minimum lease payments	\$ 586,330	\$ 154,586	740,916
Less portion representing interest			(154,586)
Present value of minimum lease payments			\$ 586,330

Mountain Regional Water Special Service District
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NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

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, 2019 and 2018 was \$1,104,260 and \$1,157,604, 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.

Mountain Regional Water Special Service District
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NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

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
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NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

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, 2019 are as follows:

Utah Retirement Systems

	<u>Employee</u>	<u>Employer</u>	<u>Employer 401(k)</u>
Contributory System			
111 - Local Government Division - Tier 2	N/A	15.66	1.03
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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 11– Employee Retirement Systems and Pension Plans - Continued

For fiscal year ended December 31, 2019, the employer and employee contributions to the Systems were as follows:

<u>System</u>	<u>Employer Contributions</u>	<u>Employee Contributions</u>
Noncontributory System	\$ 235,447	N/A
Tier 2 Public Employees System	59,522	-
Tier 2 DC Only System	19,429	N/A
Total Contributions	<u>\$ 314,398</u>	<u>\$ -</u>

For fiscal year ended December 31, 2018, the employer and employee contributions to the Systems were as follows:

<u>System</u>	<u>Employer Contributions</u>	<u>Employee Contributions</u>
Noncontributory System	\$ 257,065	N/A
Tier 2 Public Employees System	51,080	-
Tier 2 DC Only System	16,813	N/A
Total Contributions	<u>\$ 324,958</u>	<u>\$ -</u>

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
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NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

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, 2019 and 2018, the District reported no net pension asset, and a net pension liability of \$1,256,115 and \$763,882, respectively.

(Measurement Date): December 31, 2018

	Net Pension Asset	Net Pension Liability	Proportionate Share	Proportionate Share December 31, 2017	Increase/ (Decrease)
Noncontributory System	\$ -	\$ 1,243,885	0.1689206%	0.1738540%	(0.0049334) %
Tier 2 Public Employees System	-	12,230	0.0285559%	0.0246634%	0.0038925 %
	<u>\$ -</u>	<u>\$ 1,256,115</u>			

(Measurement Date): December 31, 2017

	Net Pension Asset	Net Pension Liability	Proportionate Share	Proportionate Share December 31, 2016	Increase/ (Decrease)
Noncontributory System	\$ -	\$ 761,707	0.1738540%	0.1737704%	0.0000836 %
Tier 2 Public Employees System	-	2,175	0.0246634%	0.0302245%	(0.0055611) %
	<u>\$ -</u>	<u>\$ 763,882</u>			

The net pension asset and liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2018 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, 2019 and 2018 the District recognized pension expense of \$377,349 and \$300,330, respectively.

Mountain Regional Water Special Service District
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NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 11– Employee Retirement Systems and Pension Plans - Continued

At December 31, 2019 and 2018 the District reported deferred outflows of resources and deferred inflows of resources relating to pensions from the following sources:

	December 31, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 16,084	\$ 25,728
Changes in assumptions	169,698	220
Net difference between projected and actual earnings on pension plan investments	262,820	-
Changes in proportion and differences between contributions and proportionate share of contributions	10,835	20,431
Contributions subsequent to the measurement date	314,398	-
Total	\$ 773,835	\$ 46,379

	December 31, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 17,072	\$ 48,651
Changes in assumptions	276,527	18,017
Net difference between projected and actual earnings on pension plan investments	-	269,101
Changes in proportion and differences between contributions and proportionate share of contributions	18,671	3,086
Contributions subsequent to the measurement date	324,957	-
Total	\$ 637,227	\$ 338,855

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NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 11– Employee Retirement Systems and Pension Plans - Continued

\$314,398 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, 2018. 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>Net Deferred Outflows (Inflows) of Resources</u>
2020	\$ 185,805
2021	70,575
2022	29,472
2023	124,581
2024	361
Thereafter	2,264

Actuarial Assumptions

The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.25 – 9.75 percent, average, including inflation
Investment rate of return	6.95 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, 2018 valuation were based on the results of an actuarial experience study for the five year period ending December 31, 2016.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

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:

Asset Class	Expected Return Arithmetic Basis		
	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term expected portfolio real rate of return
Equity securities	40.00%	6.15%	2.46%
Debt securities	20.00%	0.40%	0.08%
Real assets	15.00%	5.75%	0.86%
Private equity	9.00%	9.95%	0.89%
Absolute return	16.00%	2.85%	0.46%
Cash and cash equivalents	0.00%	0.00%	0.00%
Totals	100.00%		4.75%
	Inflation		2.50%
	Expected arithmetic nominal return		7.25%

The 6.95% assumed investment rate of return is comprised of an inflation rate of 2.50%, and a real return of 4.45% that is net of investment expense.

Discount Rate

The discount rate used to measure the total pension liability was 6.95 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from all participating employers will be made at contractually required rates that are actuarially determined and certified by the URS Board. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current, active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate does not use the Municipal Bond Index Rate. The discount rate remained unchanged at 6.95%.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

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 6.95 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 (5.95 percent) or 1-percentage-point higher (7.95 percent) than the current rate:

<u>System</u>	<u>1% Decrease (5.95%)</u>	<u>Discount Rate (6.95%)</u>	<u>1% Increase (7.95%)</u>
Noncontributory System	\$ 2,549,292	\$ 1,243,885	\$ 156,825
Tier 2 Public Employees System	48,995	12,230	(16,144)
Total	<u>\$ 2,598,287</u>	<u>\$ 1,256,115</u>	<u>\$ 140,681</u>

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, 2019 and 2018

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	<u>2019</u>	<u>2018</u>	<u>2017</u>
Employer Contributions	\$ 33,192	\$ 29,601	\$ 25,192
Employee Contributions	-	-	-

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 \$53,123 and \$55,980 to the County during the years ended December 31, 2019 and 2018, respectively. The amount owed to the District from Summit County at December 31, 2019 and 2018 totaled \$4,304 and \$3,971, 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 \$41,019 and \$37,246 to SBSRD during the years ended December 31, 2019 and 2018, respectively. The amount owed the District from SBSRD at December 31, 2019 and 2018 totaled \$1,677 and \$1,750, respectively.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 13 - 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 2019 and 2018, the District did not increase any level of insurance coverage, but did add coverage for new infrastructure and equipment. 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:

	2019	2018
Claims liability, January 1	\$ 3,491	\$ -
Claims incurred during the year and changes in estimates	68,629	14,900
Payments on claims during the year		
Payments made by insurance	71,216	11,409
Payments made by the District	-	-
Claims liability, December 31	\$ 904	\$ 3,491

Note 13 – Adoption of Accounting Pronouncement

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The Statement is meant to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The District implemented this Statement during 2019. It had no effect on the District’s net position but required additional disclosures regarding the District’s long-term obligations.

**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, 2019
With a Measurement Date of December 31, 2018
Last 10 Fiscal Years*

Noncontributory System for the Fiscal Years Ended December 31,

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability (asset)	0.1689206%	0.1738540%	0.1737704%	0.1712125%	0.1633703%
Proportionate share of the net pension liability (asset)	\$ 1,243,885	\$ 761,707	\$ 1,115,819	\$ 968,804	\$ 709,392
Covered employee payroll	\$ 1,391,796	\$ 1,451,472	\$ 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	89.4%	52.5%	76.0%	68.6%	52.2%
Plan fiduciary net position as a percentage of the total pension liability (asset)	87.0%	91.9%	87.3%	87.8%	90.2%

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

	<u>2018</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability (asset)	0.0285559%	0.0246634%	0.0302245%	0.0397209%	0.0445357%
Proportionate share of the net pension liability (asset)	\$ 12,230	\$ 2,175	\$ 3,372	\$ (87)	\$ (1,350)
Covered employee payroll	\$ 332,677	\$ 241,614	\$ 247,865	\$ 256,656	\$ 218,559
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	3.7%	0.9%	1.4%	0.0%	-0.6%
Plan fiduciary net position as a percentage of the total pension liability (asset)	90.8%	97.4%	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, 2019

	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
Noncontributory System						
	2014	\$ 244,034	\$ 244,034	\$ -	\$ 1,361,027	17.93%
	2015	\$ 260,772	\$ 260,772	\$ -	\$ 1,405,863	18.55%
	2016	\$ 271,021	\$ 271,021	\$ -	\$ 1,484,334	18.26%
	2017	\$ 269,625	\$ 269,625	\$ -	\$ 1,455,675	18.52%
	2018	\$ 257,065	\$ 257,065	\$ -	\$ 1,499,825	17.14%
	2019	\$ 235,447	\$ 235,447	\$ -	\$ 1,274,754	18.47%
Tier 2 Public Employees System*						
	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%
	2018	\$ 51,080	\$ 51,080	\$ -	\$ 332,852	15.35%
	2019	\$ 59,522	\$ 59,522	\$ -	\$ 381,495	15.60%
Tier 2 Public Employees DC Only System*						
	2014	\$ 705	\$ 705	\$ -	\$ 12,639	5.58%
	2015	\$ 3,524	\$ 3,524	\$ -	\$ 52,533	6.71%
	2016	\$ 8,697	\$ 8,697	\$ -	\$ 130,001	6.69%
	2017	\$ 14,081	\$ 14,081	\$ -	\$ 210,476	6.69%
	2018	\$ 16,813	\$ 16,813	\$ -	\$ 251,311	6.69%
	2019	\$ 19,429	\$ 19,429	\$ -	\$ 290,416	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, 2019

Note 1 – Changes in Assumptions

The assumptions and methods used to calculate the total pension liability remain unchanged from the prior year.

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, 2019

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 debt coverage ratio from current year operations decreased from 2.22 in 2018 to 2.13 for 2019.

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

	2019	2018	2017
Water sales	\$ 9,508,637	\$ 9,952,000	\$ 9,125,956
Operating fees	463,753	376,969	442,186
Impact fees	1,157,279	1,243,146	1,459,348
SID assessments	393,929	1,169,732	1,674,531
Interest available for debt service	393,473	295,388	173,092
Treatment Plant Stabilization Fund	92,334	-	-
Other non-restricted cash revenue	398,423	446,547	331,698
Total cash revenue available for debt service from current year operations	<u>12,407,828</u>	<u>13,483,782</u>	<u>13,206,811</u>
Current year cash operating expenses	<u>(6,402,353)</u>	<u>(6,117,468)</u>	<u>(5,605,845)</u>
Net Revenue available for debt service payments from current year operations	<u>\$ 6,005,475</u>	<u>\$ 7,366,314</u>	<u>\$ 7,600,966</u>
Current year parity debt service payments	<u>\$ 2,814,575</u>	<u>\$ 3,314,352</u>	<u>\$ 3,695,368</u>
Debt service coverage from current year operations	<u>2.13</u>	<u>2.22</u>	<u>2.06</u>
Net Revenue available for debt service payments from current year operations	\$ 6,005,475	\$ 7,366,314	\$ 7,600,966
Rate Stabilization account balance	<u>1,408,856</u>	<u>1,476,716</u>	<u>1,384,663</u>
Total cash available for debt service payments	<u>\$ 7,414,331</u>	<u>\$ 8,843,030</u>	<u>\$ 8,985,629</u>
Debt service coverage with Rate Stabilization account	<u>2.63</u>	<u>2.67</u>	<u>2.43</u>

The decrease in the ratio during 2019 is attributed to the cooler, wetter weather in 2019 resulting in reduced water sales. The increased coverage ratios for 2018 and 2017 can be attributed to impact fee collections and hot dry summers 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. 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 \$1.48 million rate stabilization cash reserve is included, the 2019 coverage ratio improves to 2.63.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
CASH FLOW ANALYSIS
For the Year Ended December 31, 2019

Increased development related revenues and undisbursed proceeds from the 2019B bond issue were the primary reasons for the increase in cash and cash equivalents in 2019.

As shown below, total cash and cash equivalents increased \$1.77 (13.0%) in 2019 and \$1.82 million (15.4%) in 2018.

Mountain Regional Water Special Service District's Cash and Cash Equivalents Summary

	2019	2018	2017	2019 to 2018		2018 to 2017	
				Change	%	Change	%
	\$	\$	\$	\$	%	\$	%
Unrestricted							
Operating	\$ 5,423,063	\$ 5,929,116	\$ 4,532,512	\$ (506,053)	(8.5) %	\$ 1,396,604	30.8 %
Rate stabilization reserves for:							
Debt service	1,147,635	1,116,491	1,090,163	31,144	2.8	26,328	2.4
Treatment plant	261,221	346,264	204,839	(85,043)	(24.6)	141,425	69.0
Regionalization reserves	1,892,535	1,545,914	1,164,860	346,621	22.4	381,054	32.7
Total unrestricted cash and cash equivalents	<u>8,724,454</u>	<u>8,937,785</u>	<u>6,992,374</u>	<u>(213,331)</u>	(2.4)	<u>1,945,411</u>	27.8
Restricted for debt payments							
Held by trustee	841,070	681,784	795,713	159,286	23.4	(113,929)	(14.3)
Held by district	213,428	176,400	617,181	37,028	21.0	(440,781)	(71.4)
Total cash and cash equivalents restricted for debt payments	<u>1,054,498</u>	<u>858,184</u>	<u>1,412,894</u>	<u>196,314</u>	22.9	<u>(554,710)</u>	(39.3)
Other restricted							
Impact fee reserves	2,629,813	2,118,093	2,124,779	511,720	24.2	(6,686)	(0.3)
Capital facilities construction, repair & replacement reserves	1,507,080	1,315,254	865,226	191,826	14.6	450,028	52.0
IRS rebate	-	6,558	6,409	(6,558)	-	149	2.3
Customer deposits	489,409	352,354	370,138	137,055	38.9	(17,784)	(4.8)
Bond construction	948,802	-	-	948,802	100.0	-	n/a
Total liabilities	<u>5,575,104</u>	<u>3,792,259</u>	<u>3,366,552</u>	<u>1,782,845</u>	47.0	<u>425,707</u>	12.6
Total cash and cash equivalents	<u>\$ 15,354,056</u>	<u>\$ 13,588,228</u>	<u>\$ 11,771,820</u>	<u>\$ 1,765,828</u>	13.0 %	<u>\$ 1,816,408</u>	15.4 %

Unrestricted cash reserves decreased by \$213,331 (2.4%) in 2019 due to the reduced water sales that arose from the wetter and cooler weather. During 2018 unrestricted cash and reserves increased \$1.95 million (27.8%) to \$8.94 million due to hot dry summer weather that led to increased water sales. In addition, the District continued to see increased customer growth.

Furthermore, regionalization reserves increased by \$346,621 in 2019 and \$381,054 in 2018 as the District continued to fund this reserve with wholesale water sales to Weber Basin.

The treatment plant reserve decreased by \$85,043 in 2019 due to the purchase of carbon and membranes for the treatment plant. In 2018, there were no such purchases and the reserve increased \$141,425.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
CASH FLOW ANALYSIS - Continued
For the Year Ended December 31, 2019

Operating cash and reserves \$5.42 million year-end balance equates to 267 days reserves and is down from \$5.93 million or 307 days reserves at year-end 2018. This decrease is due to the hot dry summer experienced in 2018 which resulted in higher cash balances. District policy requires a minimum 120 days reserves year-round.

Cash restricted for debt payments has been maintained at mandatory levels or higher since the District's inception and was \$1.05 million as of December 31, 2019 (\$858,184 at December 31, 2018). The increase of \$196,314 (22.9%) in 2019 was due primarily to the establishment of bond funds for the new 2019A and 2019B bonds, whereas in 2018, the decrease of \$554,710 (39.3%) decrease over 2017 was due to the final payment on the Series 2009 bonds in December 2018.

Other restricted cash increased by \$1.78 million (47.0%) in 2019 due primarily to unspent bond proceeds of \$948,802 from the 2019B bonds that were issued in December 2019. Another \$700,000 of this increase was attributable to an increase impact fee reserves and capital facilities construction, repair and replacement reserves.

Other restricted cash increased \$425,707 (12.6%) in 2018 primarily due to the increase in the capital facilities construction, repair and replacement reserves, as required contributions to the reserves exceeded use of the reserves in 2018. In 2019, \$250,000 of this reserve was used to fund the remaining portion of the meter replacement program.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
BUDGETARY INFORMATION
For the Year Ended December 31, 2019

The District realized a \$4.72 million change in net position for 2019. After adjusting the budget for non-cash year-end journal entries, the District's change in net position exceeded budget by \$1.55 million, as shown below.

Mountain Regional Water Special Service District's Budget Comparison

	2019 Amended Budget	Retirement Accrual	Change In Inventory	Contributions In-Aid	2019 Adjusted Budget	2019 Actual	Favorable (Unfavorable)	
Operating revenues:								
Water sales	\$ 9,532,400	\$ -	\$ -	\$ -	\$ 9,532,400	\$ 9,508,637	\$ (23,763)	
Operating fees	375,000	-	-	-	375,000	463,753	88,753	
Other	50,000	-	-	-	50,000	67,301	17,301	
Total operating revenue	<u>9,957,400</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,957,400</u>	<u>10,039,691</u>	<u>82,291</u>	0.8%
Operating expenses:								
Operations								
Energy & resource management	576,800	6,853	-	-	583,653	506,681		
Lost Canyon water transmission	1,728,800	5,449	-	-	1,734,249	1,460,103		
Treatment plant	765,600	7,239	-	-	772,839	845,250		
Distribution	2,316,200	19,264	(4,127)	-	2,331,337	2,231,029		
Safety	69,100	396	-	-	69,496	59,480		
Subtotal Line Item	<u>5,456,500</u>	<u>39,201</u>	<u>(4,127)</u>	<u>-</u>	<u>5,491,574</u>	<u>5,102,543</u>	<u>389,031</u>	
General Manager								
Engineering and development	345,900	6,139	-	-	352,039	298,869		
Human resources	121,900	2,140	-	-	124,040	110,848		
Legal	66,000	-	-	-	66,000	44,918		
Subtotal Line Item	<u>533,800</u>	<u>8,279</u>	<u>-</u>	<u>-</u>	<u>542,079</u>	<u>454,635</u>	<u>87,444</u>	
Public services								
Public services	558,100	9,040	-	-	567,140	498,985		
Subtotal Line Item	<u>558,100</u>	<u>9,040</u>	<u>-</u>	<u>-</u>	<u>567,140</u>	<u>498,985</u>	<u>68,155</u>	
Financial management								
Financial management	415,800	6,168	-	-	421,968	408,876		
Subtotal Line Item	<u>415,800</u>	<u>6,168</u>	<u>-</u>	<u>-</u>	<u>421,968</u>	<u>408,876</u>	<u>13,092</u>	
Non-cash Expenses								
Depreciation	1,862,300	-	-	-	1,862,300	1,704,766		
Subtotal Line Item	<u>1,862,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,862,300</u>	<u>1,704,766</u>	<u>157,534</u>	
Total operating expenses	<u>8,826,500</u>	<u>62,688</u>	<u>(4,127)</u>	<u>-</u>	<u>8,885,061</u>	<u>8,169,805</u>	<u>576,358</u>	6.5%
Operating income	<u>1,130,900</u>	<u>(62,688)</u>	<u>4,127</u>	<u>-</u>	<u>1,072,339</u>	<u>1,869,886</u>	<u>797,547</u>	
Non-operating revenue								
Grants	11,700	-	-	-	11,700	11,666	(34)	
Interest income	375,200	-	-	-	375,200	405,843	30,643	
Impact fees	700,000	-	-	-	700,000	1,157,279	457,279	
SID assessments	387,100	-	-	-	387,100	393,929	6,829	
Other non-operating revenue	272,500	-	-	-	272,500	331,223	58,723	
Total non-operating revenue	<u>1,746,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,746,500</u>	<u>2,299,940</u>	<u>553,440</u>	31.7%
Non-operating expenses								
Interest expense	1,174,200	-	-	-	1,174,200	934,486	239,714	
Loss on sale of assets	-	-	-	-	-	-	-	
Bond insurance cost amortization	6,500	-	-	-	6,500	5,573	927	
Bond issuance expense	287,200	-	-	-	287,200	334,193	(46,993)	
Trustee fees	12,000	-	-	-	12,000	10,000	2,000	
Total non-operating expenses	<u>1,479,900</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,479,900</u>	<u>1,284,252</u>	<u>195,648</u>	13.2%
Total non-operating income	<u>266,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>266,600</u>	<u>1,015,688</u>	<u>749,088</u>	
Income (loss) before contributions	<u>1,397,500</u>	<u>(62,688)</u>	<u>4,127</u>	<u>-</u>	<u>1,338,939</u>	<u>2,885,574</u>	<u>1,546,635</u>	
Contributions-in-aid of construction								
Change in net position	<u>\$ 1,397,500</u>	<u>\$ (62,688)</u>	<u>\$ 4,127</u>	<u>\$ 1,831,643</u>	<u>\$ 1,831,643</u>	<u>\$ 1,831,643</u>	<u>\$ 1,546,635</u>	48.8%

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
BUDGETARY INFORMATION - Continued
For the Year Ended December 31, 2019

The non-cash year-end budget adjustments include the non-budgeted pension accrual required by GASB Statement No. 68. During 2019, \$62,688 was deducted from the 2019 budget to account for the difference between the \$377,349 in actuarial pension expense reported on these financial statements, and the \$314,661 in actual contributions. Projected cash contributions to pension plans are used to develop budgets.

In addition, a \$4,127 decrease in inventory during 2019 increased operating expenses, so the budget was adjusted accordingly.

The \$1.83 million in net contributions in-aid-of construction was added to the 2019 budget to account for non-cash contributions of capital assets to the District by developers during 2019. The District does not budget for contributions in-aid-of construction since the amounts are not known when the budget is adopted.

The \$1.55 million positive budget variance for 2019 was driven primarily by expenses that were \$576,358 (6.5%) under budget and also nonoperating revenues that were \$553,440 (31.7%) over budget.

Operating revenue was very close to budget projections with a variance from the adjusted budget of \$82,291 (0.8%). As previously mentioned, the wetter, cooler weather in 2019 resulted in decreased water sales and the original budget was adjusted during the year to reflect this.

Non-operating revenue exceeded projections by \$553,440 (31.7%). Primarily due to a strong building economy, in which impact fees exceeded budget by \$457,279 (65.3%) and other non-operating revenue, which includes development and inspection fees, exceeded budget by \$58,723 (21.5%). Additionally, interest income was \$30,643 (8.2%) above budget due to higher invested cash balances and a higher earned interest rate than budgeted.

Operating expenses finished 2019 at \$576,358 (6.5%) under budget. Of this positive expense budget variance, operations accounted for \$389,031 (7.1%) due to lower power and repair and maintenance expenses than budgeted.

Non-operating expense finished \$195,648 (13.2%) under budget for 2019 due primarily to lower than expected interest expense as a result of the refunding that took place in 2019 offset by higher than expected bond issue costs.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
IMPACT FEES (CASH BASIS) - Continued
For the Year Ended December 31, 2019

As shown below, the District has collected \$13.79 million in impact fees and another \$534,033 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 2014	2015	2016	2017	2018	2019	Total
Cash Collections							
Impact Fees	\$ 7,725,389	\$ 1,217,084	\$ 1,177,710	\$ 1,366,580	\$ 1,203,138	\$ 1,103,935	\$ 13,793,836
Interest Earnings	394,509	5,504	10,888	26,258	42,433	54,441	534,033
Total cash collections	<u>8,119,898</u>	<u>1,222,588</u>	<u>1,188,598</u>	<u>1,392,838</u>	<u>1,245,571</u>	<u>1,158,376</u>	<u>14,327,869</u>
Cumulative cash collections	8,119,898	9,342,486	10,531,084	11,923,922	13,169,493	14,327,869	
Cash Expenditures							
Debt Service ⁽¹⁾	5,936,029	838,900	600,000	600,000	600,000	700,000	9,274,929
Basin Pipeline	1,324,214	-	-	500,000	625,000	-	2,449,214
Total cash expenditures	<u>7,260,243</u>	<u>838,900</u>	<u>600,000</u>	<u>1,100,000</u>	<u>1,225,000</u>	<u>700,000</u>	<u>11,724,143</u>
Cumulative cash expenditures	7,260,243	8,099,143	8,699,143	9,799,143	11,024,143	11,724,143	
Net Cash Flow to Date	\$ 859,655	\$ 383,688	\$ 588,598	\$ 292,838	\$ 20,571	\$ 458,376	\$ 2,603,726
Cumulative Cash Flow	859,655	1,243,343	1,831,941	2,124,779	2,145,350	2,603,726	
Projected Future Uses							
	2020	2021	2022	2023	2024	2025	Total
Debt Service ⁽¹⁾	\$ 500,000	\$ 500,000	\$ 478,726	\$ -	\$ -	\$ -	\$ 1,478,726
Capital Projects	775,000	350,000	-	-	-	-	1,125,000
Total Future Cash Expenditures	<u>\$ 1,275,000</u>	<u>\$ 850,000</u>	<u>\$ 478,726</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,603,726</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	\$ 32,277,946	\$ 12,218,151	37.9%
Source Development	13,299,382	3,757,260	28.3%
Storage	4,518,596	4,107,741	90.9%
Lost Canyon Importation and Basin Transmission Lines	17,025,819	5,809,768	34.1%
Total Projects	\$ 67,121,743	\$ 25,892,920	38.6%

Max Years Financed	15
Annual Debt Service	\$ 1,726,195

Of this, \$9.27 million has been applied to debt service payments on bonding that funds projects in the capital facilities plan, while another \$2.45 million has been used to pay directly for 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, 2019

It is anticipated that \$1.48 million current remaining balance will be applied to debt service payments on bonding that funds projects in the capital facilities plan and the remaining \$1.13 million will be used to pay directly for projects in the capital facilities plan in 2020 and 2021.

In 2019, the District collected \$1.10 million in impact fees. In 2018, the District collected \$1.20 million in impact fees collections, following record cash collections of \$1.37 million 2017. 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 \$25.94 million of District debt payments qualified to be paid from impact fees, while only \$14.33 million in collections have been received. This means impact fee collections have been 55.2% 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, 2019

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, 2019

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, 2019, 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 8, 2020.

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 8, 2020

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 state compliance requirements described in the *State Compliance Audit Guide*, issued by the Office of the Utah State Auditor, that could have a direct and material effect on the District for the year ended December 31, 2019.

State compliance requirements were tested for the year ended December 31, 2019 in the following areas:

- Budgetary Compliance
- Utah Retirement System
- Open and Public Meetings Act
- Public Treasurer's Bond

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 for the year ended December 31, 2019.

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 8, 2020

April 8, 2020

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, 2019. 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 16, 2020. 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. The District adopted the requirements of Government Accounting Standards Board Statement No. 88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* in 2019. The requirements of GASB Statement No. 88 had no effect on the District's net position but required certain additional disclosures with regard to the District's long term obligations.

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, 2018. 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 was unqualified.

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, 2019 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 is 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 8, 2020.

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

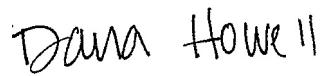
we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Other Information

We were not engaged to report on the transmittal letter and other supplemental financial information, 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 8, 2020

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, 2019 and 2018 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 8, 2020, 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 16, 2020, 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, 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. 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.
25. 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.
26. 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.
27. 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.
28. There are no component units or joint ventures with an equity interest that should be included in the financial statements.
29. The financial statements properly classify the District's one enterprise fund and related activities.
30. Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
31. Provisions for uncollectible receivables have been properly identified and recorded.
32. 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.
33. Deposits and investment securities are properly classified as to risk and are properly valued and disclosed.
34. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

35. 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

CFO
Title


Signature

General Manager
Title