

**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, 2018 AND 2017

Osborne, Robbins & Buhler, PLLC

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MOUNTAIN REGIONAL WATER
SPECIAL SERVICE DISTRICT

Letter of Transmittal

April 5, 2019

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, 2018.

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, 2018, 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, 2018, 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 3,850 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 2018 equated to over 9,500 Equivalent Residential Connections (ERCs).

Additionally, 1,690 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.

It is anticipated by the end of the year the District will annex 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 300 are part of the 1,690 standby connections mentioned above).

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 recently conducted a rate study that led to a 3% increase in rates in 2019 and will likely lead to additional small rate increases of 2-3% each year for the next four to five years.

The District last updated its Capital Facilities Plan and impact fees in 2014 in accordance with the Utah Impact Fees Act. The District is currently in the process of updating this plan which will lead to changes in impact fees in 2020.

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 four to five 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 0.60 acre-foot Equivalent Residential Connection (ERC) fee of \$10,513.

However, residents in the Promontory service area pay a lower \$2,466 impact per home, regardless of size, since most of the infrastructure serving Promontory was paid for with 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)	\$ 10,513				
3,000 to 4,000		10,513	plus \$ 3.15	per additional square foot above 3,000		
4,000 to 5,000		13,662	plus 3.15	per additional square foot above 4,000		
5,000 to 6,000		16,812	plus 3.15	per additional square foot above 5,000		
6,000 to 7,000		19,962	plus 3.15	per additional square foot above 6,000		
7,000 to 8,000		23,113	plus 3.15	per additional square foot above 7,000		
8,000 to 10,000	(4)	26,263	plus 3.15	per additional square foot above 8,000	plus \$ 4,031	per 0.10 acre foot of landscaping above 0.20 acre feet
10,000 to 12,000		32,564	plus 3.15	per additional square foot above 10,000	plus 4,031	per 0.10 acre foot of landscaping above 0.20 acre feet
12,000 to 14,000		38,864	plus 3.15	per additional square foot above 12,000	plus 4,031	per 0.10 acre foot of landscaping above 0.20 acre feet
14,000 to 16,000		45,165	plus 3.15	per additional square foot above 14,000	plus 4,031	per 0.10 acre foot of landscaping above 0.20 acre feet
16,000 to 18,000		51,466	plus 3.15	per additional square foot above 16,000	plus 4,031	per 0.10 acre foot of landscaping above 0.20 acre feet
18,000 to 20,000		57,766	plus 3.15	per additional square foot above 18,000	plus 4,031	per 0.10 acre foot of landscaping above 0.20 acre feet
Above 20,000		64,067	plus 3.15	per additional square foot above 20,000	plus 4,031	per 0.10 acre foot of landscaping above 0.20 acre feet

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

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

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

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

The impact fees for non-residential customers (with the exception of the Promontory service area) is \$10,513 per ERC, based upon standards established by the State of Utah Division of Drinking Water. Non-residential customers in Promontory pay \$2,466 per ERC 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 3,605 residential connections and 173 commercial connections, with an estimated population of 7,550. Based upon the Utah Governor’s Office growth projections for Summit County, it is estimated that the District’s population will be 8,941 in 2020 and 13,970 by 2030. The population could be higher than this if additional areas annex into the District as development continues.

This 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, the strong building economy and dry summers will most likely not continue indefinitely. Accordingly, as discussed above, the District established a rate stabilization cash reserves to help mitigate the fluctuations in 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 fees 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 2030.

As such, the District created a regionalization cash reserve in 2015 into which this net cash benefit will be deposited each year. It is anticipated these reserves will be used to prepay long-term debt due between 2021 and 2023 to help offset the \$245,000 in additional annual costs related to the regionalization agreement that begin in 2020.

Currently, the District is also in the final phase of upgrading to 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 potential leaks sooner.

Awards

- Trust Accountability Program (TAP) Award, third consecutive, presented by Utah Local Governments Trust for excellence in safety and risk management
- Outstanding Service by a Water Operator, Stacy Blonquist, presented by the Rural Water Association of Utah

Respectfully submitted,

A handwritten signature in black ink that reads "Scott Morrison". The signature is fluid and cursive, with a long horizontal stroke at the end.

Scott Morrison, General Manager
District Clerk

A handwritten signature in black ink that reads "Lisa Hoffman". The signature is cursive and somewhat stylized, with a large initial "L".

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, 2018 and 2017 and the related notes to the financial statements, which comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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, 2018 and 2017 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 54 through 56 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 58 through 64, 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 5, 2019 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 5, 2019

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018 and 2017

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, 2018 and 2017; 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 \$6.40 million increase in net position for 2018. This exceeded the budgeted increase by \$2.09 million;
- District revenue exceeded budget by \$1.50 million (12.5%). 2018 experienced yet another hot dry summer which led to higher retail water sales of \$1.01 million above budget. Additionally, development related collections remained strong;
- 2018 expenses finished \$585,642 (6.0%) 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 \$2.13 million or 33.2% of the \$6.40 million change in net position for 2018. Capital contributions are a non-cash transfer of water system assets to the District, and do not provide additional cash flow.
- District cash increased \$1.82 million during 2018 primarily due to higher retail water sales due to the hot dry summer.
- Year-end 2018 operating cash and reserves amounted to 307 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, 2018 and 2017

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, 2018 and 2017

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

	2018	2017	2016	2018 to 2017 Change		2017 to 2016 Change	
				\$	%	\$	%
Operating revenue	\$ 10,409,177	\$ 9,642,001	\$ 9,175,041	\$ 767,176	8.0 %	\$ 466,960	5.1 %
Operating expenses	<u>(7,728,677)</u>	<u>(7,279,312)</u>	<u>(6,917,430)</u>	<u>(449,365)</u>	6.2	<u>(361,882)</u>	5.2
Operating income	2,680,500	2,362,689	2,257,611	317,811	13.5	105,078	4.7
Non-operating revenue	3,094,608	3,580,373	3,300,054	\$ (485,765)	(13.6)	\$ 280,319	8.5
Non-operating expense	<u>(1,501,016)</u>	<u>(1,498,700)</u>	<u>(1,493,445)</u>	<u>(2,316)</u>	0.2	<u>(5,255)</u>	0.4
Income before contributions	4,274,092	4,444,362	4,064,220	(170,270)	(3.8)	380,142	9.4
Capital Contributions	<u>2,126,661</u>	<u>1,284,366</u>	<u>35,064</u>	<u>842,295</u>	65.6	<u>1,249,302</u>	3,562.9
Change in net position	6,400,753	5,728,728	4,099,284	672,025	11.7	1,629,444	39.7
Net position - beginning	<u>54,941,147</u>	<u>49,212,419</u>	<u>45,113,135</u>	<u>5,728,728</u>	11.6	<u>4,099,284</u>	9.1
Net position - ending	<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 %

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

Net position increased \$5.73 million in 2017 to \$54.94 million (an 11.6% increase in ending net position). This resulted from strong retail water sales due to hot weather, strong development revenues, significant capital contributions, and lower power and repair expenses.

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

	2018	2017	2016	2018 to 2017		2017 to 2016	
				Change	%	Change	%
Unrestricted current assets	\$ 11,436,307	\$ 9,629,124	\$ 7,389,110	\$ 1,807,183	18.8 %	\$ 2,240,014	30.3 %
Capital assets	90,026,403	87,918,727	83,743,261	2,107,676	2.4	4,175,466	5.0
Net pension asset	-	-	87	-	-	(87)	(100.0)
Other assets	4,650,443	4,779,446	6,841,940	(129,003)	(2.7)	(2,062,494)	(30.1)
Total assets	<u>106,113,153</u>	<u>102,327,297</u>	<u>97,974,398</u>	<u>3,785,856</u>	3.7	<u>4,352,899</u>	4.4
Deferred outflows of resources	<u>1,328,848</u>	<u>1,512,568</u>	<u>1,459,413</u>	<u>(183,720)</u>	(12.1)	<u>53,155</u>	3.6
Unrestricted current liabilities	262,262	215,960	184,786	46,302	21.4	31,174	16.9
Long-term liabilities	41,980,630	44,208,631	45,828,132	(2,228,001)	(5.0)	(1,619,501)	(3.5)
Net pension liability	763,882	1,119,191	968,804	(355,309)	(31.7)	150,387	15.5
Other liabilities	2,579,472	3,024,564	2,940,781	(445,092)	(14.7)	83,783	2.8
Total liabilities	<u>45,586,246</u>	<u>48,568,346</u>	<u>49,922,503</u>	<u>(2,982,100)</u>	(6.1)	<u>(1,354,157)</u>	(2.7)
Deferred inflows of resources	<u>513,855</u>	<u>330,372</u>	<u>298,889</u>	<u>183,483</u>	55.5	<u>31,483</u>	10.5
Net position							
Net investment in capital assets	48,228,858	44,049,862	40,651,137	4,178,996	9.5	3,398,725	8.4
Restricted for:							
Capital projects	2,180,089	1,214,318	1,249,620	965,771	79.5	(35,302)	(2.8)
Debt service	770,266	1,320,938	1,092,592	(550,672)	(41.7)	228,346	20.9
Unrestricted	<u>10,162,687</u>	<u>8,356,029</u>	<u>6,219,070</u>	<u>1,806,658</u>	21.6	<u>2,136,959</u>	34.4
Total net position	<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 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 \$48.23 million (78.6%) of total net position in 2018 compared to \$44.05 million (80.2%) in 2017. The \$4.18 million (9.5%) increase in net investment during 2018 benefitted from the completion of capital projects, principal payments on debt, and capital contributions. Meanwhile net investment increased \$3.40 million (8.4%) in 2017 due to the completion of capital projects and principal payments on debt.

Capital assets accounted for \$90.03 million (84.8%) of total assets in 2018; compared to \$87.92 million (85.9%) of total assets in 2017. Long-term liabilities (mostly bonds) accounted for \$41.98 million (92.1%) of total liabilities in 2018, compared to \$44.21 million (91.0%) for 2017.

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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 2018, net position restricted for capital projects increased \$965,771 (79.5%) as required contributions to the reserves exceeded use of the reserves. In 2017, net position restricted for capital projects decreased a nominal \$35,302 (2.8%).

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

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 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.

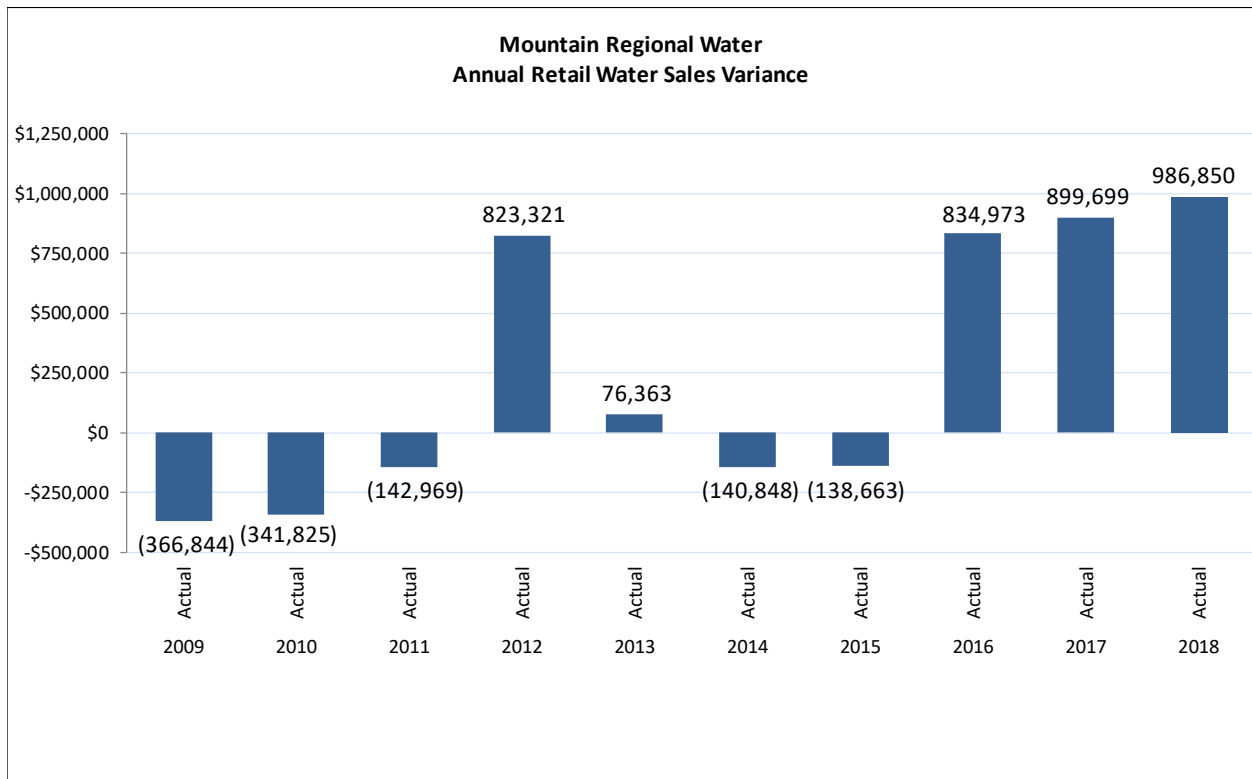
In 2017, unrestricted net position increased \$2.14 million (34.4%) to \$8.36 million because of the strong summer retail water sales due to hot weather and lower than anticipated repair and power expenses.

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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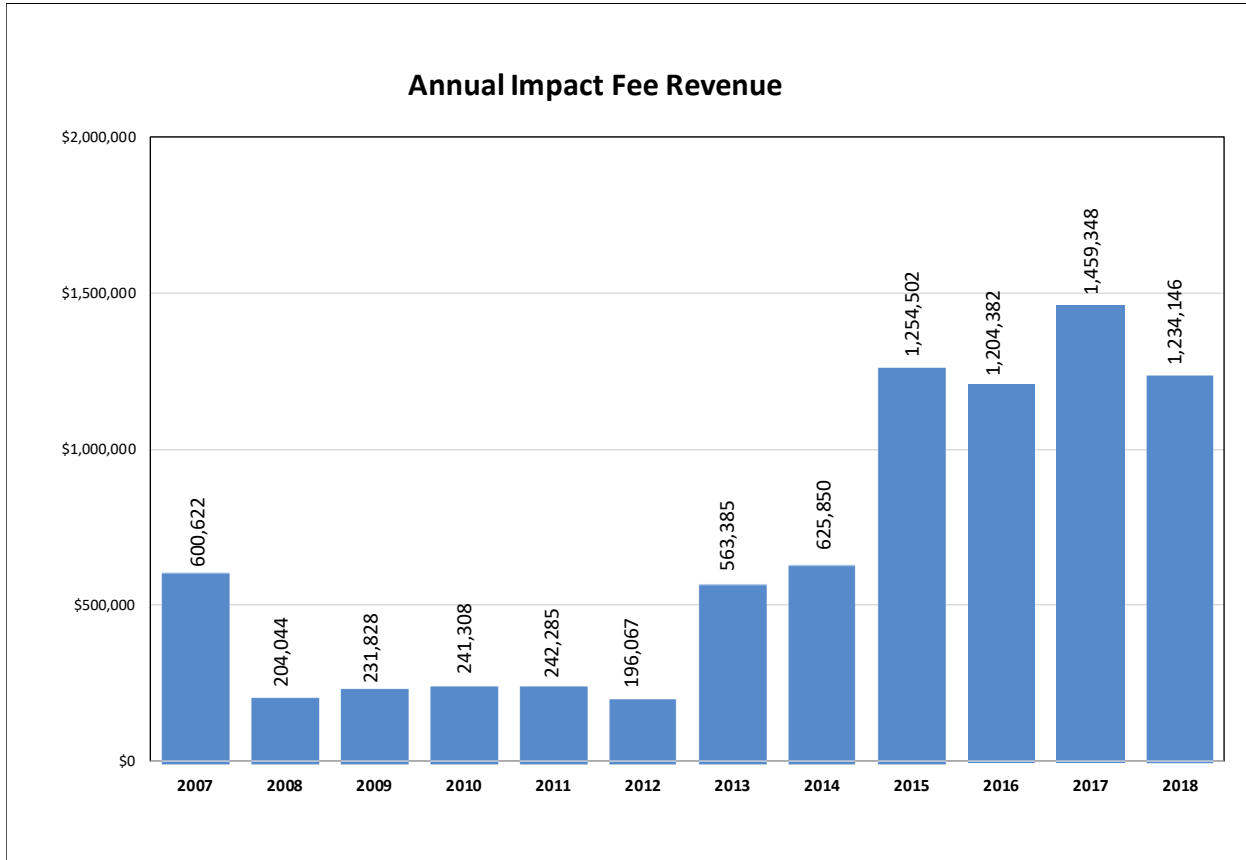
For example, the chart below shows the annual retail water sales budget variance over the past ten years.



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 2014 and 2015 resulted in retail water sales that were almost \$150,000 below budget projections. This shows that in the past five years annual retail water sales can vary from \$140,848 below budget to \$986,850 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 four years as the building economy moves through its natural cycles.

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 increased \$281,411 (2.1%) in 2018 to \$13.50 million, after increasing \$747,279 million (6.0%) in 2017, as shown below.

Mountain Regional Water Special Service District's Revenue Summary

	2018	2017	2016	2018 to 2017 Change		2017 to 2016 Change	
				\$	%	\$	%
Operating							
Retail water sales	\$ 8,335,750	\$ 7,652,899	\$ 7,384,473	\$ 682,851	8.9 %	\$ 268,426	3.6 %
Wholesale water sales & wheeling fees	1,616,250	1,473,057	1,314,528	143,193	9.7	158,529	12.1
Operating fees	376,969	442,186	407,984	(65,217)	(14.7)	34,202	8.4
Other	80,208	73,859	68,056	6,349	8.6	5,803	8.5
Total operating	<u>10,409,177</u>	<u>9,642,001</u>	<u>9,175,041</u>	<u>767,176</u>	8.0	<u>466,960</u>	5.1
Non-Operating							
Impact fees	1,243,146	1,459,348	1,204,382	(216,202)	(14.8)	254,966	21.2
Interest income	303,724	176,988	112,941	126,736	71.6	64,047	56.7
Special district assessments	1,169,732	1,674,531	1,742,175	(504,799)	(30.1)	(67,644)	(3.9)
Intergovernmental grant revenue	11,667	11,667	31,101	-	-	(19,434)	(62.5)
Other nonoperating revenue	359,339	246,707	209,455	112,632	45.7	37,252	17.8
Gain on disposal of capital assets	7,000	11,132	-	(4,132)	(37.1)	11,132	-
Total nonoperating	<u>3,094,608</u>	<u>3,580,373</u>	<u>3,300,054</u>	<u>(485,765)</u>	(13.6)	<u>280,319</u>	8.5
Total revenue	<u>\$ 13,503,785</u>	<u>\$13,222,374</u>	<u>\$ 12,475,095</u>	<u>\$ 281,411</u>	2.1 %	<u>\$ 747,279</u>	6.0 %

Due to the hot dry weather and strong customer growth as previously mentioned, retail water sales increased \$682,851 (8.9%) in 2018 and \$268,426 (3.6%) in 2017.

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 \$143,193 (9.7%) increase in 2018 wholesale water sales and wheeling fees is due to higher fees for the water as costs to produce the water increased in 2018.

The \$158,529 (12.1%) increase in 2017 wholesale water sales and wheeling fees is due to an additional 100 acre-feet of water sold to Weber Basin through a regionalization agreement with several water companies located in the Snyderville Basin.

Impact fee revenues declined \$216,202 (17.4%) in 2018 but were still strong as compared to historical averages. Impact fee revenues increased \$254,966 (21.2%) in 2017 due to the strong building economy and also set record level highs for impact fees collected in one year.

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Special district assessments decreased by \$504,799 (30.1%) in 2018 as assessment collections were down because prepaid assessments from cash reserves were used to make the final payment on the Series 2009 bond.

Summary of Expenses

District expenses increased \$451,681 (5.1%) in 2018.

Mountain Regional Water Special Service District's Expense Summary

	2018	2017	2016	2018 to 2017 Change		2017 to 2016 Change	
				\$	%	\$	%
Operating							
Operations, maintenance and repairs	\$ 2,232,424	\$ 2,057,065	\$ 2,250,116	\$ 175,359	8.5 %	\$ (193,051)	(8.6) %
Water production	2,012,813	2,003,330	1,746,327	9,483	0.5	257,003	14.7
Engineering and energy and technology management	823,821	714,647	660,752	109,174	15.3	53,895	8.2
Management and finance	996,296	895,226	772,452	101,070	11.3	122,774	15.9
Legal services	29,307	29,680	13,305	(373)	(1.3)	16,375	123.1
Depreciation	1,634,016	1,579,364	1,474,478	54,652	3.5	104,886	7.1
Total operating	<u>7,728,677</u>	<u>7,279,312</u>	<u>6,917,430</u>	<u>449,365</u>	6.2	<u>361,882</u>	5.2
Non-Operating							
Interest expense	1,473,282	1,470,966	1,462,711	2,316	0.2	8,255	0.6
Other nonoperating expenses	27,734	27,734	30,734	-	-	(3,000)	(9.8)
Total nonoperating	<u>1,501,016</u>	<u>1,498,700</u>	<u>1,493,445</u>	<u>2,316</u>	0.2	<u>5,255</u>	0.4
Total expenses	<u>\$ 9,229,693</u>	<u>\$ 8,778,012</u>	<u>\$ 8,410,875</u>	<u>\$ 451,681</u>	5.1 %	<u>\$ 367,137</u>	4.4 %

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.

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Meanwhile, District expenses increased \$367,137 (4.4%) to \$8.78 million in 2017. Almost half of this is the result of an \$181,197 increase in the annual actuarial pension expense for 2017.

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

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

Excluding the increase in the actuarial pension expense, other District expenses increased only 2.2% in 2017 despite a 5.5% increase in Equivalent Residential Connections (ERCs). These other changes in expenses are discussed below.

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

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

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Capital Assets as of December 31

At the end of 2018, the District had invested \$112.78 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 \$90.03 million.

**Mountain Regional Water Special Service District's Net Position
(net of depreciation)**

	2018	2017	2016	2018 to 2017 Change		2017 to 2016 Change	
				\$	%	\$	%
Land and water rights	\$ 20,529,449	\$ 20,529,449	\$ 20,360,836	-	-	168,613	0.8
Construction in progress	1,049,503	3,139,175	1,900,452	(2,089,672)	(66.6)	1,238,723	65.2
Infrastructure not buildings	61,856,445	57,382,865	54,826,627	4,473,580	7.8	2,556,238	4.7
Buildings, equipment and furnishings	<u>6,591,006</u>	<u>6,867,238</u>	<u>6,655,346</u>	<u>(276,232)</u>	<u>(4.0)</u>	<u>211,892</u>	<u>3.2</u>
Total capital assets (net)	<u>\$ 90,026,403</u>	<u>\$ 87,918,727</u>	<u>\$ 83,743,261</u>	<u>\$ 2,107,676</u>	<u>2.4 %</u>	<u>\$ 4,175,466</u>	<u>5.0 %</u>

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.

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

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.

Mountain Regional Water Special Service District
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Long-term Obligations Outstanding as of December 31

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

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

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

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

	2018	2017	2016	2018 to 2017 Change		2017 to 2016 Change	
				\$	%	\$	%
Capital leases	\$ 586,331	\$ 613,496	\$ 273,401	(27,165)	(4.4)	340,095	124.4
Payable to developer	1,095,369	1,135,377	1,266,392	(40,008)	(3.5)	(131,015)	(10.3)
Net pension liability	763,882	1,119,191	968,804	(355,309)	(31.7)	150,387	15.5
Compensated absences	398,014	408,452	392,708	(10,438)	(2.6)	15,744	4.0
Notes and bonds payable	<u>39,900,916</u>	<u>42,051,306</u>	<u>43,895,631</u>	<u>(2,150,390)</u>	(5.1)	<u>(1,844,325)</u>	(4.2)
Total long-term obligations	<u>\$ 42,744,512</u>	<u>\$ 45,327,822</u>	<u>\$ 46,796,936</u>	<u>\$ (2,583,310)</u>	(5.7) %	<u>\$ (1,469,114)</u>	(3.1) %

The District's underlying bond rating from Fitch and Standard & Poor's remained at A+ during 2018.

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

Additional information on the District's long term obligations can be found in Note 6 on pages 38-40 of this report.

Economic Factors and Next Year's Operations

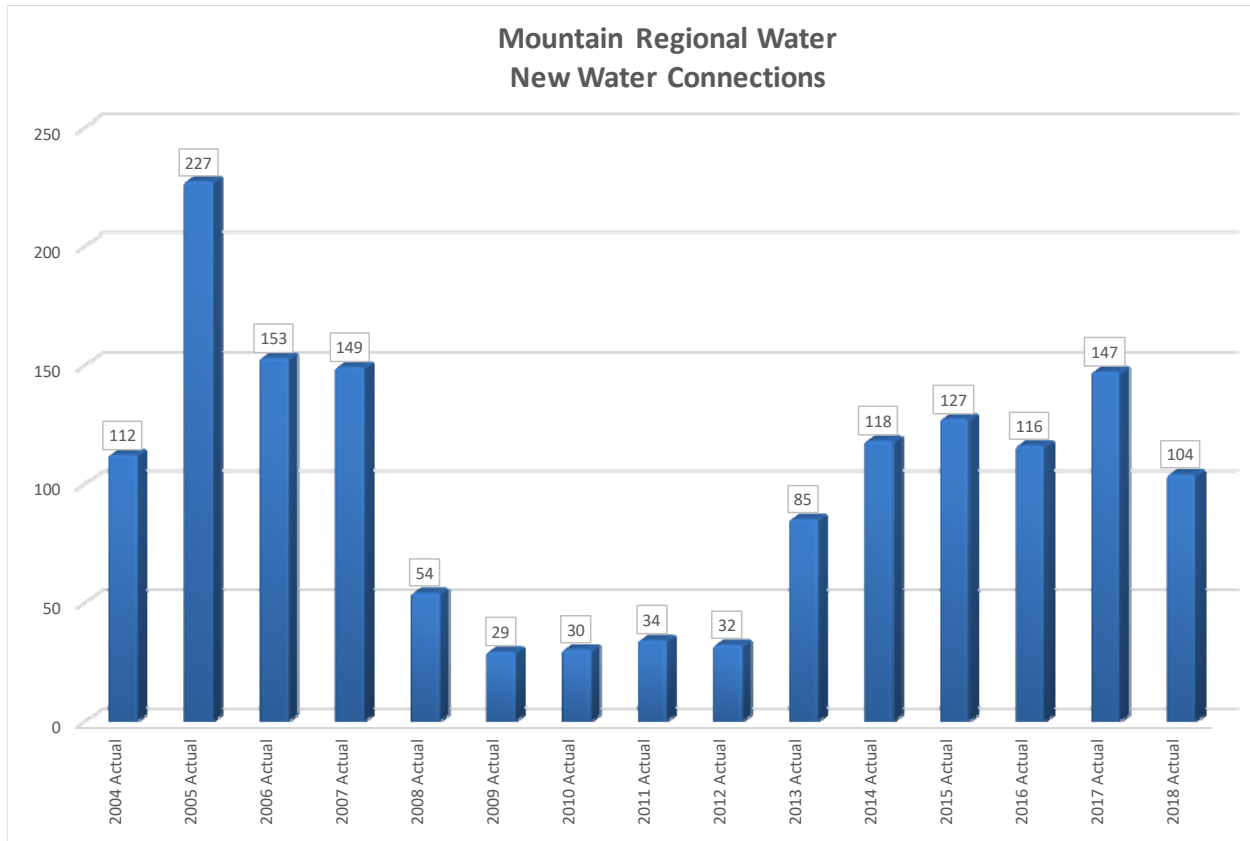
The average annual number of nonfarm payroll jobs in Summit County increased by 1.8% during 2018. Summit County had an average unemployment rate of 3.0% in 2018 and 2017, slightly lower than that which was seen in 2016 and 2015 of 3.3% (Source: Utah Department of Workforce Services).

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.

2018 was the fifth consecutive year of rebounding economic growth. In Snyderville Basin, the number of homes sold in the Glenwild doubled last year's number, 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. (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 \$700,000 annually moving forward despite collections averaging \$1.31 million the past three years. The \$700,000 in budgeted impact fee revenues is based upon the 10-year average.

The District attempts to finish each year with a \$750,000 to \$1.0 million balance in capital facility repair & replacement cash reserves. The year-end 2018 balance was \$1.32 million.

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Approximately \$250,000 of this is anticipated to be expended in 2019 to finish the meter upgrade program.

District policy requires a minimum 120 days reserves throughout the entire year. The 307-day balance at year-end 2018 should be more than sufficient to maintain the 120-day policy minimum throughout 2018.

The District is currently in the process of updating its six-year capital facilities plan which will most likely change impact fees charged in 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	
	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,937,785	\$ 6,992,374
Receivables		
Accounts receivable	947,747	820,468
Other	232,930	504,228
Inventory of supplies	95,099	117,240
Prepaid expenses	1,222,746	1,194,814
Current portion, restricted cash and cash equivalents	<u>2,579,472</u>	<u>3,024,564</u>
Total current assets	<u>14,015,779</u>	<u>12,653,688</u>
NONCURRENT ASSETS		
Restricted cash and cash equivalents	2,070,971	1,754,882
Nondepreciable capital assets	21,578,952	23,668,624
Depreciable capital assets, net	<u>68,447,451</u>	<u>64,250,103</u>
Total noncurrent assets	<u>92,097,374</u>	<u>89,673,609</u>
Total assets	<u>106,113,153</u>	<u>102,327,297</u>
DEFERRED OUTFLOWS OF RESOURCES		
Loss on bond refunding	691,621	737,987
Pensions	<u>637,227</u>	<u>774,581</u>
	<u>1,328,848</u>	<u>1,512,568</u>

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

	Business-type Activities	
	2018	2017
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 170,447	\$ 117,689
Accrued liabilities	64,649	71,972
Liabilities payable from restricted assets		
Accounts payable	-	511,853
Due to developer	95,654	66,222
Customer deposits	352,354	370,138
Arbitrage rebate	6,558	6,409
Accrued interest	87,918	91,956
Current portion, payable to developer	62,235	62,235
Current portion, notes and bonds payable	1,974,753	1,915,751
Current portion, capital leases	27,166	26,299
Total current liabilities	2,841,734	3,240,524
LONG-TERM OBLIGATIONS, less current maturities		
Capital leases	586,331	613,496
Payable to developer	1,095,369	1,135,377
Net pension liability	763,882	1,119,191
Compensated absences	398,014	408,452
Notes and bonds payable	39,900,916	42,051,306
Total liabilities	45,586,246	48,568,346
DEFERRED INFLOWS OF RESOURCES		
Grant revenues received in advance	175,000	186,667
Pensions	338,855	143,705
	513,855	330,372
NET POSITION		
Net investment in capital assets	48,228,858	44,049,862
Restricted for:		
Capital projects	2,180,089	1,214,318
Debt service	770,266	1,320,938
Unrestricted	10,162,687	8,356,029
Total net position	\$ 61,341,900	\$ 54,941,147

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	
	2018	2017
Operating revenues*		
Retail water sales	\$ 8,335,750	\$ 7,652,899
Wholesale water sales and wheeling fees	1,616,250	1,473,057
Operating fees	376,969	442,186
Other operating revenues	80,208	73,859
Total operating revenues	<u>10,409,177</u>	<u>9,642,001</u>
Operating expenses		
Operations, maintenance and repairs	2,232,424	2,057,065
Water production	2,012,813	2,003,330
Engineering and energy and technology management	823,821	714,647
Management and finance	996,296	895,226
Legal services	29,307	29,680
Depreciation	1,634,016	1,579,364
Total operating expenses	<u>7,728,677</u>	<u>7,279,312</u>
Operating income	<u>2,680,500</u>	<u>2,362,689</u>
Nonoperating revenues (expenses)		
Impact fees*	1,243,146	1,459,348
Interest income*	303,724	176,988
Special assessments*	1,169,732	1,674,531
Intergovernmental grant revenue	11,667	11,667
Other nonoperating revenue*	359,339	246,707
Gain on disposal of capital assets*	7,000	11,132
Interest expense	(1,473,282)	(1,470,966)
Other nonoperating expenses	(27,734)	(27,734)
Total nonoperating revenues (expenses)	<u>1,593,592</u>	<u>2,081,673</u>
Income before contributions	4,274,092	4,444,362
Capital contributions - assets	<u>2,126,661</u>	<u>1,284,366</u>
Increase in net position	6,400,753	5,728,728
Net position at beginning of year	<u>54,941,147</u>	<u>49,212,419</u>
Net position at end of year	<u>\$ 61,341,900</u>	<u>\$ 54,941,147</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	
	2018	2017
Cash flows from operating activities		
Receipts from customers	\$ 10,201,690	\$ 9,654,059
Payments to suppliers of goods and services	(4,449,309)	(3,506,789)
Payments to employees for services	(2,150,804)	(1,848,378)
Other receipts (payments)	363,303	(336,785)
Net cash provided by operating activities	<u>3,964,880</u>	<u>3,962,107</u>
Cash flows from investing activities		
Interest income collected	303,724	176,988
Net cash provided by investing activities	<u>303,724</u>	<u>176,988</u>
Cash flows from capital and related financing activities		
Impact fees collected	1,243,146	1,459,348
Special assessments and other nonoperating revenues collected	1,501,337	1,893,504
Purchase and construction of capital assets	(1,615,031)	(4,470,464)
Proceeds from sale of capital assets	7,000	11,132
Payments made on payable to developer	(40,008)	(120,024)
Proceeds from capital leases	-	373,385
Principal payments made on capital leases	(26,298)	(19,543)
Proceeds from issuance of long-term obligations	-	247,060
Reduction of long-term obligations	(1,915,752)	(2,215,519)
Interest payments made on long-term obligations	(1,606,590)	(1,601,084)
Net cash used in capital and related financing activities	<u>(2,452,196)</u>	<u>(4,442,205)</u>
Net increase (decrease) in cash and cash equivalents	1,816,408	(303,110)
Cash and cash equivalents at beginning of year	<u>11,771,820</u>	<u>12,074,930</u>
Cash and cash equivalents at end of year	<u>\$ 13,588,228</u>	<u>\$ 11,771,820</u>
Cash and cash equivalents consists of :		
Unrestricted cash and cash equivalents	\$ 8,937,785	\$ 6,992,374
Current portion, restricted cash and cash equivalents	2,579,472	3,024,564
Noncurrent restricted cash and cash equivalents	<u>2,070,971</u>	<u>1,754,882</u>
Total cash and cash equivalents	<u>\$ 13,588,228</u>	<u>\$ 11,771,820</u>

Continued

A Component Unit of Summit County, Utah
STATEMENTS OF CASH FLOWS - CONTINUED
Year Ended December 31,

	Business-type Activities	
	2018	2017
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 2,680,500	\$ 2,362,689
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,634,016	1,579,364
Changes in assets and liabilities		
Accounts receivable	(127,279)	85,917
Other receivables	271,298	(494,228)
Inventory of supplies	22,141	8,611
Prepaid expenses	(27,932)	(80,930)
Changes in net pension asset, liability and deferred inflows and outflows related to pensions	(22,805)	94,103
Accounts payable	52,758	(20,561)
Accrued liabilities	(7,323)	25,436
Accounts payable from restricted assets	(511,853)	302,378
Long-term portion compensated absences	(10,438)	15,744
Increase in amount due to developer	29,432	17,742
Increase arbitrage rebate payable	149	59
Collection of deposits	(17,784)	65,783
	<u>\$ 3,964,880</u>	<u>\$ 3,962,107</u>
Net cash provided by operating activities		
Non-cash transactions affecting financial position:		
Contributions of capital assets from developers	<u>\$ 2,126,661</u>	<u>\$ 1,284,366</u>

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 1 - Summary of Significant Accounting Policies

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

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

Reporting Entity

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

Budgetary Policy

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

In accordance with state law, a budget is prepared on an annual basis. On or before the first regularly scheduled meeting of the Summit County Council in November, the Council must adopt a tentative budget for the following fiscal year for public review. At least thirty days after the tentative budget is adopted, but no later than December 31, the Council must hold a public hearing on the tentative budget. A final budget must be adopted by the Council no later than December 31.

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

Note 1 - Summary of Significant Accounting Policies - Continued

Basic Financial Statements and Basis of Accounting

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

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

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

Estimates

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

Cash and Cash Equivalents

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

Note 1 - Summary of Significant Accounting Policies - Continued

Accounts Receivable

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

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

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

Inventories

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

Capital Assets

Capital additions, improvements and major renewals are classified as property, plant and equipment and are recorded at cost. The District capitalizes all fixed asset purchases with costs in excess of \$5,000. Major maintenance projects in excess of \$5,000 are examined to determine whether they should be capitalized or expensed.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

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 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.

Note 1 - Summary of Significant Accounting Policies - Continued

Deferred Outflow and Inflows of Resources

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

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

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

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

Note 2 - Deposits and Investments

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

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be recovered. The District's policy for managing custodial credit risk is to adhere to the Act. The Act requires all deposits of the District to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Council.

The District's deposits are insured up to \$250,000 per account by the Federal Deposit Insurance Corporation. Deposits in the bank in excess of the insured amount are exposed to custodial credit risk. Deposits are not collateralized nor are they required to be by state statute. As of December 31, 2018, the book value of cash on deposit was \$758,374 and the bank balance was \$966,175 (approximately \$716,000 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, 2018 and 2017

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, 2018 are presented below:

Investment Type	Fair Value	Investment Maturity in Years			More Than 10
		Less Than 1	1 - 5	6 - 10	
Utah Public Treasurer's Investment Fund	\$ 12,829,854	\$ 12,829,854	\$ -	\$ -	\$ -

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, 2018 and 2017

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>\$ 12,829,854</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,829,854</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, 2018 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.

Note 2 - Deposits and Investments – Continued

All of the District's investments at December 31, 2018 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, 2018 and 2017

Note 3 – External Investment Pool - Continued

As of December 31, 2018, the District had \$12,829,854 invested in the PTIF which had a fair value of \$12,826,361 for an unrealized loss of \$3,493. 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	84.46%
Money market agreements and commercial paper	14.14%
Certificates of deposit and other	<u>1.4%</u>
	<u><u>100.00%</u></u>

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 4 – Restricted Cash and Cash Equivalents

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

	<u>2018</u>	<u>2017</u>
Revenue bonds		
Current debt service	\$ 351,518	\$ 926,609
Debt service reserves	506,666	486,285
Renewal and replacement and capital facilities construction	1,315,254	865,226
IRS arbitrage rebate	6,558	6,409
Customer deposits	352,354	370,138
Impact fee reserve	<u>2,118,093</u>	<u>2,124,779</u>
Total	<u>\$ 4,650,443</u>	<u>\$ 4,779,446</u>
Included in the accompanying financial statements as follows:		
Current portion restricted cash and cash equivalents	\$ 2,579,472	\$ 3,024,564
Noncurrent restricted cash and cash equivalents	<u>2,070,971</u>	<u>1,754,882</u>
Total	<u>\$ 4,650,443</u>	<u>\$ 4,779,446</u>

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 5 - Capital Assets

A summary of activity in the capital assets for the year ended December 31, 2018 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	\$ -	\$ -	\$ -	\$ 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>

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 5 - Capital Assets - Continued

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

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

Depreciation expense for 2018 and 2017 was \$1,634,016 and \$1,579,364, respectively.

Total contributions-in-aid of construction for 2018 and 2017 were \$2,126,661 and \$1,284,366, respectively.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 6 - Long-term Obligations

A summary of long-term obligation activity for the year ended December 31, 2018 and 2017 is as follows:

	Balance January 1, 2018	Additions	Reductions	Balance December 31, 2018	Due Within One Year
Notes payable	\$ 1,648,001	\$ -	\$ (108,752)	\$ 1,539,249	\$ 113,753
Bonds payable	39,761,000	-	(1,807,000)	37,954,000	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>\$ 2,064,154</u>

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

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

Debt Coverage

The District complies with its 1.25 debt coverage requirement for its bonding. The debt coverage ratios for 2018 and 2017 were 2.22 and 2.06, respectively.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 6 - Long-term Obligations - Continued

Debt Schedule

The District has issued the following notes and bonds payable as of December 31, 2018 and 2017:

Series	Original Issue	Interest Rate	Maturity Date	Principal Outstanding	
				2018	2017
Notes Payable					
Weber Basin Water Conservancy					
2009 District Note	\$ 2,033,436	4.6%	2029	\$ 1,299,983	\$ 1,400,941
2017 District Note	247,060	4.6%	2037	239,266	247,060
				<u>1,539,249</u>	<u>1,648,001</u>
Bonds Payable					
Water revenue					
2008	3,026,000	2.00%	2029	1,811,000	1,957,000
2009B	9,045,000	2.0% - 3.5%	2018	-	1,110,000
2011A	679,000	1.52%	2031	511,000	546,000
2011B	1,278,000	None	2032	917,000	983,000
2012	27,270,000	2.0% - 5.0%	2033	27,070,000	27,270,000
2014	8,140,000	2.0% - 5.0%	2034	7,645,000	7,895,000
				<u>37,954,000</u>	<u>39,761,000</u>
Unamortized Premiums					
2009B	202,474	N/A	2018	-	21,694
2012	2,383,832	N/A	2033	1,653,898	1,764,775
2014	904,371	N/A	2034	728,522	771,587
				<u>2,382,420</u>	<u>2,558,056</u>
				41,875,669	43,967,057
			Less current portion	<u>(1,974,753)</u>	<u>(1,915,751)</u>
				<u>\$ 39,900,916</u>	<u>\$ 42,051,306</u>

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 6 - Long-term Obligations - Continued

As of December 31, 2018, 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	
2019	\$ 113,754	\$ 75,449	\$ 1,861,000	\$ 1,456,049	\$ 3,506,252
2020	118,986	70,430	2,128,000	1,393,223	3,710,639
2021	124,460	65,181	2,198,000	1,323,935	3,711,576
2022	130,184	59,689	2,266,000	1,247,423	3,703,296
2023	136,173	53,946	2,355,000	1,168,335	3,713,454
2024-28	777,063	173,880	13,111,000	4,462,334	18,524,277
2029-33	70,061	32,839	13,675,000	1,868,571	15,646,471
2034-37	68,568	8,062	360,000	18,000	454,630
	\$ 1,539,249	\$ 539,476	\$ 37,954,000	\$ 12,937,870	\$ 52,970,595

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

Note 7 – Pledged Revenues

The District has pledged all its cash Net Revenue, excluding grants, totaling \$66.21 million through 2037 - which is 1.25 times the \$52.97 million in required parity debt service payments through 2037. Parity debt includes water revenue bonds plus notes payables issued by Weber Basin Water Conservation District. These bonds and notes were used to finance infrastructure improvements within the District.

Net Revenue is defined as all gross cash revenue, excluding grants, less reasonable Operations & Maintenance costs for the District to operate and maintain the water system in good working order. For 2018, Net Revenue was \$7.37 million and debt service payments on the bonds and notes were \$3.31 million. For 2017 Net Revenue was \$7.69 million and debt service payments were \$3.70 million.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

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, 2018:

Land	\$	310,000
Diesel generators		373,385
less accumulated depreciation		(48,779)
		324,606
 Total	 \$	 634,606

Future minimum lease payments are as follows:

Years Ending December 31,	Lease Purchase Payable		Capital
	Principal	Interest	Lease
2019	\$ 27,166	\$ 17,968	\$ 45,134
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
2024-28	169,873	55,800	225,673
2029-33	195,222	30,448	225,670
2034-37	103,302	5,734	109,036
Total minimum lease payments	\$ 613,497	\$ 172,553	786,050
Less portion representing interest			(172,553)
Present value of minimum lease payments			\$ 613,497

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

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, 2018 and 2017 was \$1,157,604 and \$1,197,612, respectively.

Note 10 – Compensated Absences

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

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

Note 11– Employee Retirement Systems and Pension Plans

Plan Description

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

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

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

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

Benefits Provided

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

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

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, 2018 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	15.54	1.15
Noncontributory System			
15 - Local Government Division - Tier 1	N/A	18.47	N/A
Tier 2 DC Only			
211 - Local Government	N/A	6.69	10.00

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

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 11– Employee Retirement Systems and Pension Plans - Continued

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

System	Employer Contributions	Employee Contributions
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>

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

System	Employer Contributions	Employee Contributions
Noncontributory System	\$ 271,021	N/A
Tier 2 Public Employees System	38,422	-
Tier 2 DC Only System	8,697	N/A
Total Contributions	<u>\$ 318,140</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
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

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, 2018 and 2017, the District reported no net pension asset, and a net pension liability of \$763,882 and \$1,119,191, respectively.

(Measurement Date): December 31, 2017

	<u>Net Pension Asset</u>	<u>Net Pension Liability</u>	<u>Proportionate Share</u>	<u>Proportionate Share December 31, 2016</u>	<u>Increase/ (Decrease)</u>
Noncontributory System	\$ -	\$ 761,707	0.1738540%	0.1737704%	0.000836%
Tier 2 Public Employees System	-	2,175	0.0246634%	0.0302245%	-0.0055611%
	<u>\$ -</u>	<u>\$ 763,882</u>			

(Measurement Date): December 31, 2016

	<u>Net Pension Asset</u>	<u>Net Pension Liability</u>	<u>Proportionate Share</u>	<u>Proportionate Share December 31, 2015</u>	<u>Increase/ (Decrease)</u>
Noncontributory System	\$ -	\$ 1,115,819	0.1737704%	0.1712125%	0.0025579%
Tier 2 Public Employees System	-	3,372	0.0302245%	0.3972090%	-0.3669845%
	<u>\$ -</u>	<u>\$ 1,119,191</u>			

The net pension asset and liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2017 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, 2018 and 2017 the District recognized pension expense of \$300,330 and \$414,253, respectively.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 11– Employee Retirement Systems and Pension Plans - Continued

At December 31, 2018 and 2017 the District reported deferred outflows of resources and deferred inflows of resources relating to pensions from the following sources:

	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

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

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 11– Employee Retirement Systems and Pension Plans - Continued

\$324,957 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, 2017. 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>
2019	\$ 48,700
2020	67,749
2021	(50,322)
2022	(94,424)
2023	(478)
Thereafter	2,190

Actuarial Assumptions

The total pension liability in the December 31, 2017 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, 2017 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, 2018 and 2017

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:

<u>Asset Class</u>	<u>Expected Return Arithmetic Basis</u>		
	<u>Target Asset Allocation</u>	<u>Real Return Arithmetic Basis</u>	<u>Long-Term expected portfolio real rate of return</u>
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%, 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 was reduced to 6.95 percent from 7.20 percent from the prior measurement period.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

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	\$ 2,060,012	\$ 761,707	\$ (317,770)
Tier 2 Public Employees System	25,604	2,175	(15,893)
Total	<u>\$ 2,085,616</u>	<u>\$ 763,882</u>	<u>\$ (333,663)</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, 2018 and 2017

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>2018</u>	<u>2017</u>	<u>2016</u>
Employer Contributions	\$ 29,601	\$ 25,192	\$ 17,587
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 \$55,980 and \$59,761 to the County during the years ended December 31, 2018 and 2017, respectively. The amount owed to the District from Summit County at December 31, 2018 and 2017 totaled \$3,971 and \$4,069, 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 \$17,089 and \$24,772 to SBSRD during the years ended December 31, 2018 and 2017, respectively. The amount owed the District from SBSRD at December 31, 2018 and 2017 totaled \$1,282 and \$2,333, respectively.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

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 2018 and 2017, 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:

	2018	2017
Claims liability, January 1	\$ -	\$ 3,344
Claims incurred during the year and changes in estimates	14,900	381
Payments on claims during the year		
Payments made by insurance	11,409	3,725
Payments made by the District	-	
Claims liability, December 31	\$ 3,491	\$ -

**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, 2018
With a Measurement Date of December 31, 2017
Last 10 Fiscal Years*

Noncontributory System for the Fiscal Years Ended December 31,

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

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

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

	As of fiscal year ended December 31,	Actuarial Determined Contributions	Contributions in relation to the contractually required contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered employee payroll
<i>Noncontributory System</i>						
	2014	\$ 244,034	\$ 244,034	\$ -	\$ 1,361,027	17.93%
	2015	\$ 260,772	\$ 260,772	\$ -	\$ 1,405,863	18.55%
	2016	\$ 271,021	\$ 271,021	\$ -	\$ 1,484,334	18.26%
	2017	\$ 269,625	\$ 269,625	\$ -	\$ 1,455,675	18.52%
	2018	\$ 257,065	\$ 257,065	\$ -	\$ 1,499,825	17.14%
<i>Tier 2 Public Employees System*</i>						
	2014	\$ 29,018	\$ 29,018	\$ -	\$ 205,920	14.09%
	2015	\$ 39,235	\$ 39,235	\$ -	\$ 262,913	14.92%
	2016	\$ 38,422	\$ 38,422	\$ -	\$ 257,695	14.91%
	2017	\$ 36,444	\$ 36,444	\$ -	\$ 244,848	14.88%
	2018	\$ 51,080	\$ 51,080	\$ -	\$ 332,852	15.35%
<i>Tier 2 Public Employees DC Only System*</i>						
	2014	\$ 705	\$ 705	\$ -	\$ 12,639	5.58%
	2015	\$ 3,524	\$ 3,524	\$ -	\$ 52,533	6.71%
	2016	\$ 8,697	\$ 8,697	\$ -	\$ 130,001	6.69%
	2017	\$ 14,081	\$ 14,081	\$ -	\$ 210,476	6.69%
	2018	\$ 16,813	\$ 16,813	\$ -	\$ 251,311	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, 2018

Note 1 – Changes in Assumptions

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

- The assumed investment return assumption was decreased from 7.20% to 6.95%
- The assumed inflation rate was decreased from 2.60% to 2.50% which resulted in a corresponding decrease in the cost-of-living-adjustment assumption for the funds with a 4.00% annual COLA max.
- The adoption of an updated retiree mortality table that is developed using the URS's actual retiree mortality experience.

There were changes to several other demographic assumptions, but those changes had a minimal impact on the Total Pension Liability (an actuarial accrued liability).

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, 2018

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 2018 debt coverage ratio from current year operations increased from 2.06 in 2017 to 2.22 for 2018.

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

	2018	2017	2016
Water sales	\$ 9,952,000	\$ 9,125,956	\$ 8,699,001
Operating fees	376,969	442,186	407,984
Impact fees	1,243,146	1,459,348	1,204,382
SID assessments	1,169,732	1,674,531	1,742,175
Interest available for debt service	295,388	173,092	111,291
Treatment Plant Stabilization Fund	-	-	87,968
Other non-restricted cash revenue	446,547	331,698	296,946
Total cash revenue available for debt service from current year operations	<u>13,483,782</u>	<u>13,206,811</u>	<u>12,549,747</u>
Current year cash operating expenses	<u>(6,117,468)</u>	<u>(5,605,845)</u>	<u>(5,530,046)</u>
Net Revenue available for debt service payments from current year operations	<u>\$ 7,366,314</u>	<u>\$ 7,600,966</u>	<u>\$ 7,019,701</u>
Current year parity debt service payments	<u>\$ 3,314,352</u>	<u>\$ 3,695,368</u>	<u>\$ 3,747,398</u>
Debt service coverage from current year operations	<u>2.22</u>	<u>2.06</u>	<u>1.87</u>
Net Revenue available for debt service payments from current year operations	\$ 7,366,314	\$ 7,600,966	\$ 7,019,701
Rate Stabilization account balance	<u>1,476,716</u>	<u>1,384,663</u>	<u>1,219,370</u>
Total cash available for debt service payments	<u>\$ 8,843,030</u>	<u>\$ 8,985,629</u>	<u>\$ 8,239,071</u>
Debt service coverage with Rate Stabilization account	<u>2.67</u>	<u>2.43</u>	<u>2.20</u>

The increased coverage ratios for all three years 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 indefinitely. Further, debt payments are increasing. As such, the coverage ratio is projected to decline to around 1.35 to 1.40 over the next few years.

As a note, when the \$1.48 million rate stabilization cash reserve is included, the 2018 coverage ratio improves to 2.67 – compared to 2.43 for 2017.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
CASH FLOW ANALYSIS
For the Year Ended December 31, 2018

Increased development related revenues and hot dry summer weather led to a significant increase in total 2018 cash and cash equivalents.

As shown below, total cash and cash equivalents increased \$1.82 million (15.4%) in 2018. During 2017, after accounting for the \$2.52 million decline in bond proceeds restricted for construction projects, District cash also increased \$2.22 million.

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

	2018	2017	2016	2018 to 2017		2017 to 2016	
				Change	%	Change	%
Unrestricted				\$	%	\$	%
Operating	\$ 5,929,116	\$ 4,532,512	\$ 3,318,363	\$ 1,396,604	30.8 %	\$ 1,214,149	36.6 %
Rate stabilization reserves for:							
Debt service	1,116,491	1,090,163	1,075,082	26,328	2.4	15,081	1.4
Treatment plant	346,264	204,839	87,895	141,425	69.0	116,944	133.0
Regionalization reserves	1,545,914	1,164,860	751,649	381,054	32.7	413,211	55.0
Total unrestricted cash and cash equivalents	<u>8,937,785</u>	<u>6,992,374</u>	<u>5,232,989</u>	<u>1,945,411</u>	27.8	<u>1,759,385</u>	33.6
Restricted for debt payments							
Held by trustee	681,784	795,713	738,437	(113,929)	(14.3)	57,276	7.8
Held by district	176,400	617,181	446,962	(440,781)	(71.4)	170,219	38.1
Total cash and cash equivalents restricted for debt payments	<u>858,184</u>	<u>1,412,894</u>	<u>1,185,399</u>	<u>(554,710)</u>	(39.3)	<u>227,495</u>	19.2
Other restricted							
Impact fee reserves	2,118,093	2,124,779	1,858,613	(6,686)	(0.3)	266,166	14.3
Capital facilities construction, repair & replacement reserves	1,315,254	865,226	965,125	450,028	52.0	(99,899)	(10.4)
IRS rebate	6,558	6,409	6,323	149	2.3	86	1.4
Customer deposits	352,354	370,138	305,855	(17,784)	(4.8)	64,283	21.0
Bond construction	-	-	2,520,626	-	n/a	(2,520,626)	(100.0)
Total liabilities	<u>3,792,259</u>	<u>3,366,552</u>	<u>5,656,542</u>	<u>425,707</u>	12.6	<u>(2,289,990)</u>	(40.5)
Total cash and cash equivalents	<u>\$ 13,588,228</u>	<u>\$ 11,771,820</u>	<u>\$ 12,074,930</u>	<u>\$ 1,816,408</u>	15.4 %	<u>\$ (303,110)</u>	(2.5) %

A large part of the 2018 increase was in unrestricted cash and reserves, which increased \$1.95 million (21.8%) 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. Unrestricted cash and reserves also increased in 2017 by \$1.76 million (33.6%) for the same reasons.

Furthermore, regionalization reserves increased \$381,054 from 2017 as the District continued to fund this reserve with wholesale water sales to Weber Basin. The treatment plant reserve also increased \$141,425 from 2017 as there were no carbon or membranes purchased for the treatment plant in 2018.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
CASH FLOW ANALYSIS - Continued
For the Year Ended December 31, 2018

Operating cash and reserves \$5.93 million year-end balance equates to 307 days reserves. This compares to \$4.53 million or 288 days reserves at year-end 2017. District policy requires a minimum 120 days reserves year-round. Operating cash and reserves are generally lowest April through June.

Since the 307 days reserve at year-end 2018 is significantly higher than necessary to ensure the District can maintain 120 days reserve throughout all of 2019, the District appropriated almost two-thirds of the 2018 increase in operating cash and reserves to fund a portion of the 2019 capital budget.

Cash restricted for debt payments has been maintained at mandatory levels or higher since the District's inception and finished 2018 at \$858,184. This represents a \$554,710 (39.3%) decrease over 2017 due to the final payment on the Series 2009 bonds in December 2018.

Cash restricted for debt payments increased to \$1.41 million for 2017. This represents a \$227,496 (19.2%) increase over 2016 due to stronger assessment collections in 2017.

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 will be used to fund the remaining portion of the meter replacement program.

Other restricted cash decreased \$2.29 million (40.5%) in 2017 primarily due to the decline in Series 2014 bond proceeds used to pay for construction projects. This was slightly offset by a \$266,166 (14.3%) increase in impact fee reserves. This is after \$500,000 was used to fund construction projects.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
BUDGETARY INFORMATION
For the Year Ended December 31, 2018

The District realized a \$6.40 million change in net position for 2018. After adjusting the budget for non-cash year-end journal entries, the District's change in net position exceeded budget by \$2.09 million, as shown below.

Mountain Regional Water Special Service District's Budget Comparison

	2018 Budget	Retirement Accrual	Change In Inventory	Contributions In-Aid	2018 Adjusted Budget	2018 Actual	Favorable (Unfavorable)	
Operating revenues:								
Water sales	\$ 8,937,600	\$ -	\$ -	\$ -	\$ 8,937,600	\$ 9,952,000	\$ 1,014,400	
Operating fees	279,000	-	-	-	279,000	376,969	97,969	
Other	52,500	-	-	-	52,500	80,208	27,708	
Total operating revenue	<u>9,269,100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,269,100</u>	<u>10,409,177</u>	<u>1,140,077</u>	12.3%
Operating expenses:								
Operations								
Energy & resource management	560,200	(3,207)	-	-	556,993	509,636		
Lost Canyon water transmission	1,647,700	(2,511)	-	-	1,645,189	1,447,805		
Treatment plant	711,400	(2,460)	-	-	708,940	565,008		
Distribution	2,168,200	(6,246)	22,141	-	2,184,095	2,174,232		
Safety	55,400	(186)	-	-	55,214	58,192		
Subtotal Line Item	<u>5,142,900</u>	<u>(14,610)</u>	<u>22,141</u>	<u>-</u>	<u>5,150,431</u>	<u>4,754,873</u>	<u>395,558</u>	
General Manager								
Engineering and development	321,100	(1,824)	-	-	319,276	314,185		
Human resources	126,600	(689)	-	-	125,911	99,579		
Legal	34,000	-	-	-	34,000	29,307		
Subtotal Line Item	<u>481,700</u>	<u>(2,513)</u>	<u>-</u>	<u>-</u>	<u>479,187</u>	<u>443,071</u>	<u>36,116</u>	
Public services								
Public services	545,200	(3,681)	-	-	541,519	528,787		
Subtotal Line Item	<u>545,200</u>	<u>(3,681)</u>	<u>-</u>	<u>-</u>	<u>541,519</u>	<u>528,787</u>	<u>12,732</u>	
Financial management								
Financial management	373,600	(2,002)	-	-	371,598	367,930		
Subtotal Line Item	<u>373,600</u>	<u>(2,002)</u>	<u>-</u>	<u>-</u>	<u>371,598</u>	<u>367,930</u>	<u>3,668</u>	
Non-cash Expenses								
Depreciation	1,762,300	-	-	-	1,762,300	1,634,016		
Subtotal Line Item	<u>1,762,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,762,300</u>	<u>1,634,016</u>	<u>128,284</u>	
Total operating expenses	<u>8,305,700</u>	<u>(22,806)</u>	<u>22,141</u>	<u>-</u>	<u>8,305,035</u>	<u>7,728,677</u>	<u>576,358</u>	6.9%
Operating income	<u>963,400</u>	<u>22,806</u>	<u>(22,141)</u>	<u>-</u>	<u>964,065</u>	<u>2,680,500</u>	<u>1,716,435</u>	
Non-operating revenue								
Grants	11,700	-	-	-	11,700	11,667	(33)	
Interest income	138,500	-	-	-	138,500	303,724	165,224	
Impact fees	600,000	-	-	-	600,000	1,243,146	643,146	
SID assessments	1,787,800	-	-	-	1,787,800	1,169,732	(618,068)	
Other non-operating revenue	193,000	-	-	-	193,000	366,339	173,339	
Total non-operating revenue	<u>2,731,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,731,000</u>	<u>3,094,608</u>	<u>363,608</u>	13.3%
Non-operating expenses								
Interest expense	1,482,500	-	-	-	1,482,500	1,473,282	9,218	
Loss on sale of assets	-	-	-	-	-	-	-	
Bond insurance cost amortization	15,800	-	-	-	15,800	15,734	66	
Bond issuance expense	-	-	-	-	-	-	-	
Trustee fees	12,000	-	-	-	12,000	12,000	-	
Total non-operating expenses	<u>1,510,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,510,300</u>	<u>1,501,016</u>	<u>9,284</u>	0.6%
Total non-operating income	<u>1,220,700</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,220,700</u>	<u>1,593,592</u>	<u>372,892</u>	
Income (loss) before contributions	<u>2,184,100</u>	<u>22,806</u>	<u>(22,141)</u>	<u>-</u>	<u>2,184,765</u>	<u>4,274,092</u>	<u>2,089,327</u>	
Contributions-in-aid of construction	-	-	-	2,126,661	2,126,661	2,126,661	-	
Change in net position	<u>\$ 2,184,100</u>	<u>\$ 22,806</u>	<u>\$ (22,141)</u>	<u>\$ 2,126,661</u>	<u>\$ 4,311,426</u>	<u>\$ 6,400,753</u>	<u>\$ 2,089,327</u>	48.5%

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
BUDGETARY INFORMATION - Continued
For the Year Ended December 31, 2018

The non-cash year-end budget adjustments include the non-budgeted pension accrual required by GASB Statement No. 68. During 2018, \$22,806 was deducted from the 2018 budget to account for the difference between the \$300,330 in actuarial pension expense reported on these financial statements, and the \$323,136 in actual contributions. Projected cash contributions to pension plans are used to develop budgets.

In addition, a \$22,141 decrease in inventory during 2018 increased operating expenses, so the budget was adjusted accordingly.

The \$2.13 million in net contributions in-aid-of construction was added to the 2018 budget to account for non-cash contributions of capital assets to the District by developers during 2018. The District does not budget for contributions in-aid-of construction since the amounts are not known when the budget is adopted.

The \$2.09 million positive budget variance for 2018 was driven by both strong revenues that were \$1.50 million (12.5%) over projections, and expenses that were \$585,642 (6.0%) under budget.

Operating revenue exceeded budget projections by \$1.14 million (12.3%) due strong retail water sales that resulted from hot dry summer weather. In fact, overall water sales finished \$1.01 million (11.3%) over budget.

Non-operating revenue exceeded projections by \$363,608 (13.3%). Primarily due to a strong building economy, in which impact fees exceeded budget by \$643,146 (107.19%) and other non-operating revenue, which includes development and inspection fees, exceeded budget by \$173,339 (89.81%). Additionally, interest income was \$165,224 (119.30%) above budget due to higher invested cash balances and a higher earned interest rate than budgeted. These were offset by lower SID assessments of \$618,068 (34.57%) due to lower assessment collections and the application of the assessment stabilization reserve to the final payment of the Series 2009 bonds.

Operating expenses finished 2018 at \$576,358 (6.9%) under budget. Of this positive expense budget variance, operations accounted for \$395,558 (7.68%) due to lower power and repair and maintenance expenses than budgeted.

Non-operating expense finished a nominal \$9,284 (0.6%) under budget for 2018.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
IMPACT FEES (CASH BASIS) - Continued
For the Year Ended December 31, 2018

As shown below, the District has collected \$12.69 million in impact fees and another \$479,592 in related interest earnings since impact fees were first adopted by the District in 2003.

Mountain Regional Water Impact Fees Collections & Expenditures (Cash Basis)								
	2003 to 2012	2013	2014	2015	2016	2017	2018	Total
Cash Collections								
Impact Fees	\$ 6,611,677	\$ 519,352	\$ 594,360	\$ 1,217,084	\$ 1,177,710	\$ 1,366,580	\$ 1,203,138	\$ 12,689,901
Interest Earnings	387,920	3,372	3,217	5,504	10,888	26,258	42,433	479,592
Total cash collections	<u>6,999,597</u>	<u>522,724</u>	<u>597,577</u>	<u>1,222,588</u>	<u>1,188,598</u>	<u>1,392,838</u>	<u>1,245,571</u>	<u>13,169,493</u>
Cumulative cash collections	6,999,597	7,522,321	8,119,898	9,342,486	10,531,084	11,923,922	13,169,493	
Cash Expenditures								
Debt Service ⁽¹⁾	4,976,929	430,000	529,100	838,900	600,000	600,000	600,000	8,574,929
Basin Pipeline	1,322,226	-	1,988	-	-	500,000	625,000	2,449,214
Total cash expenditures	<u>6,299,155</u>	<u>430,000</u>	<u>531,088</u>	<u>838,900</u>	<u>600,000</u>	<u>1,100,000</u>	<u>1,225,000</u>	<u>11,024,143</u>
Cumulative cash expenditures	6,299,155	6,729,155	7,260,243	8,099,143	8,699,143	9,799,143	11,024,143	
Net Cash Flow to Date	<u>\$ 700,442</u>	<u>\$ 92,724</u>	<u>\$ 66,489</u>	<u>\$ 383,688</u>	<u>\$ 588,598</u>	<u>\$ 292,838</u>	<u>\$ 20,571</u>	<u>\$ 2,145,350</u>
Cumulative Cash Flow	700,442	793,166	859,655	1,243,343	1,831,941	2,124,779	2,145,350	
Projected Future Uses								
	2019	2020	2021	2022	2023	2,024	2,024	Total
Debt Service ⁽¹⁾	\$ 700,000	\$ 700,000	\$ 255,350	\$ -	\$ -	\$ -	\$ -	\$ 1,655,350
Capital Projects	490,000	-	-	-	-	-	-	490,000
Total Future Cash Expenditures	<u>\$ 1,190,000</u>	<u>\$ 700,000</u>	<u>\$ 255,350</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,145,350</u>
Total Projected Cumulative Cash Flow								<u>\$ -</u>

(1) The following projects are shown at the pro-rata cost, including financing, for the project capacity that will serve new development. These projects were funded with a

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

Of this, \$8.57 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.

It is anticipated that \$1.66 million current remaining balance will be applied to debt service payments on bonding that funds projects in the capital facilities plan and the remaining \$490,000 will be used to pay directly for projects in the capital facilities plan in 2019.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
IMPACT FEES (CASH BASIS) - Continued
For the Year Ended December 31, 2018

In 2018, the District collected \$1.20 million in cash impact fee 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 \$24.42 million of District debt payments qualified to be paid from impact fees, while only \$13.17 million in collections have been received. This means impact fee collections have been 53.9% 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.