

**GRANGER-HUNTER
IMPROVEMENT DISTRICT**

FINANCIAL STATEMENTS

December 31, 2017

**GRANGER-HUNTER IMPROVEMENT DISTRICT
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Keddington & Christensen, LLC
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Granger-Hunter Improvement District

Report on the Financial Statements

We have audited the accompanying financial statements of the Granger-Hunter Improvement District (the District), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Granger-Hunter Improvement District as of December 31, 2017, and the respective change in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as noted in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient audit evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Budget to Actual Comparison is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Budget to Actual Comparison is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budget to Actual Comparison is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Report Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a separate report dated May 14, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Keddington & Christensen

Keddington & Christensen, LLC
Salt Lake City, Utah
May 14, 2018

GRANGER-HUNTER IMPROVEMENT DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS

As management of the Granger-Hunter Improvement District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ending December 31, 2017. We encourage readers to consider the financial information presented here in conjunction with the financial statements and accompanying notes which follow this section.

Financial Highlights

- The Total Assets and Deferred Outflows of Resources of the District exceeded its Total Liabilities and Deferred Inflows of Resources at the close of the most recent fiscal year by \$143,652,333 (net position). Of this amount, \$36,885,763 (unrestricted net assets) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position increased by \$5,078,641. The increase is partially due to developer-contributed water and sewer lines in the amount of \$1,387,131. The District also implemented a new "Central Valley Water Reclamation Facility (CVWRF) Assessment" to fund significant construction occurring at the CVWRF, and this resulted in new revenue of \$2,536,157 during 2017. Equity in net loss of CVWRF was \$806,962 less in 2017 than in 2016. The remainder of the change, \$348,391 or 6.9%, is due primarily to increases in non-operating revenues (especially interest income and gain on disposal of assets). We continue striving to contain expenses by proactive maintenance (which is typically less expensive than reactive repairs) and cost containment in other areas, including reduction of wage expenses through attrition, though this has been less than the prior two years.
- The District's total long-term debt decreased by \$1,094,115 during the current fiscal year, as represented in Note 4 to the financial statements. No new debts were incurred during 2017.

Budgetary Highlights

During the year there were several amendments to the original budget of the District. Total revenues were somewhat better than budget (by \$572,862), and total expenditures were held significantly below budget (by \$3,192,488). Therefore, the District's net position did not deteriorate from the prior year. The following analysis is offered as explanation of variances from budget that were greater than \$200,000.

- Impact Fees, budgeted at \$750,000, were actually \$1,105,989 or \$355,989 over budget due primarily to better than anticipated new construction within the District in an economy that was not expected to remain as strong for yet another year.
- Salaries and wages were budgeted at \$4,944,780, but actual expenditures were \$4,316,931, a difference of \$627,849 under budget. Similar to the prior year, the difference was largely the result of a two higher paid employees retiring during the year and an aggressive maintenance program resulting in fewer system problems that otherwise would have required overtime pay. There were also a few positions that went unfilled for part or all of the year.
- Materials and supplies were budgeted at \$694,202, and actual expenditures were \$447,979, leaving this line item \$246,223 under budget. The difference is largely due to the District's maintenance program which continues to keep breaks and leaks lower than in the past by properly lining and maintaining the District's pipes. We must budget to be prepared for any significant events, yet we try to prevent them from happening, as we generally were able to do this past year.
- Water Purchases were budgeted at \$9,712,500, while actual expenditures were \$9,503,453, an under budget variance of \$209,047. The District was experimenting with various pumping levels and techniques in its wells, trying to improve efficiency and cost-effectiveness. Also, in the latter part of 2017, Jordan Valley Water Conservancy District (JVWCD), our primary wholesale supplier

**GRANGER-HUNTER IMPROVEMENT DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

of culinary water, had to shut down their main supply line to the District for a period in order to perform maintenance, so we were unable to receive our usual allocation during that period. The combined result of our pumping experiments and JVWCD's temporary shut down was a reduction in water purchase expenditures.

- Central Valley Expense, for processing of wastewater and related facility construction, was budgeted at \$5,495,835 while actual was \$3,902,469, or \$1,593,366 under budget. The District participates with six other entities in funding the operations of the Central Valley Water Reclamation Facility (CVW). Each entity pays a proportionate share of the CVW operating and capital expenditures. Construction-related expenditures, budgeted at \$1,699,094, were delayed somewhat due to the bonding process and design/bid functions, resulting in actual expenditures being only \$283,832 or \$1,415,262 under budget. Since the new facilities were not completed as initially planned, related maintenance expenditures were also less than budgeted.
- Infrastructure purchases were budgeted at \$11,809,000, and actual expenditures totaled \$8,943,652, a difference of \$2,865,348 under budget. Planned work was delayed on five projects (PRV station/ large meter vault upgrades/meter 60 piping modifications, 3835 South water service connections, two housing area waterline replacements, Warner lift station electrical, and our water innovation center), totaling \$1,493,000 in unspent budget. Another \$500,000 of anticipated fire protection improvements was deemed to not be necessary. We completed several projects for approximately \$367,000 less than budgeted, and two other projects were in process but not completed, resulting in another \$505,000 not being expended.

Overview of the Financial Statements

The District's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States as promulgated by the Governmental Accounting Standards Board ("GASB"). The District reports as a single enterprise fund. Revenues are recognized when earned and expenses are recognized in the period in which they are incurred. See the notes to the financial statements for a summary of the District's significant accounting policies.

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *total net position*. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the District is improving or deteriorating.

**GRANGER-HUNTER IMPROVEMENT DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 47,337,844	\$ 45,811,007	\$ 49,110,795
Capital assets, net	<u>107,203,411</u>	<u>104,025,420</u>	<u>98,917,281</u>
Total Assets	<u>154,541,255</u>	<u>149,836,427</u>	<u>148,028,076</u>
Deferred outflows of resources	<u>1,737,908</u>	<u>1,584,893</u>	<u>808,573</u>
Current liabilities	3,723,663	3,930,683	3,818,661
Long-term liabilities	<u>8,451,017</u>	<u>8,648,939</u>	<u>9,164,388</u>
Total Liabilities	<u>12,174,680</u>	<u>12,579,622</u>	<u>12,983,049</u>
Deferered inflows of resources	<u>452,150</u>	<u>268,006</u>	<u>242,863</u>
Net investment in capital assets	102,275,411	98,069,420	91,945,281
Restricted	4,491,159	4,664,200	4,535,319
Unrestricted	<u>36,885,763</u>	<u>35,840,072</u>	<u>39,130,137</u>
Total Net Position	<u>\$ 143,652,333</u>	<u>\$ 138,573,692</u>	<u>\$ 135,610,737</u>

The statement of net position includes all of the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position which are categorized as investment in capital assets, restricted, or unrestricted. As can be seen from the preceding schedule, net position changed from \$138,573,692 to 143,652,333, an increase of \$5,078,641 at the end of the current year, approximately 3.7% of prior year's total net position. The largest portion of the District's net position, \$107,203,411 (74.6%), reflects its investment in capital assets (e.g., land, buildings, water and sewer system facilities, and equipment). The District uses these capital assets in its daily operations; consequently, they are not available for future spending. An additional portion of the District's net position, \$4,491,159 (3.1%), represents "Restricted" resources that are subject to external restrictions on how they may be used.

While the statement of net position shows the change in financial position, the summary of the District's statement of revenues, expenses, and changes in net position provides information regarding the nature and source of these changes, as seen in the following schedule.

**GRANGER-HUNTER IMPROVEMENT DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 30,226,735	\$ 28,014,418	\$ 25,026,191
Operating expenses	<u>(31,395,950)</u>	<u>(30,092,700)</u>	<u>(28,976,771)</u>
Operating income (loss)	(1,169,215)	(2,078,282)	(3,950,580)
Non-operating revenues, net	5,807,381	5,447,436	5,492,185
Non-operating expenses	<u>(946,656)</u>	<u>(1,761,605)</u>	<u>(1,793,877)</u>
Change in net position before capital contributions	3,691,510	1,607,549	(252,272)
Capital contributions	<u>1,387,131</u>	<u>1,355,406</u>	<u>1,379,683</u>
Change in net position	5,078,641	2,962,955	1,127,411
Total Net Position:			
Net position at beginning of year	138,573,692	135,610,737	134,483,326
Adjustments to net position	<u>-</u>	<u>-</u>	<u>-</u>
Total Net Position, End of Year	<u>\$ 143,652,333</u>	<u>\$ 138,573,692</u>	<u>\$ 135,610,737</u>

Capital Asset Activity

The District's investment in capital assets as of December 31, 2017, amounts to \$107,203,411 (net of accumulated depreciation). The investment in capital assets includes land, buildings, water and sewer system facilities, and machinery and equipment. The District's investment in capital assets for the current fiscal year increased by 3.06% overall.

Major capital asset events during the current fiscal year included the following:

- Construction of new and replacement water lines in multiple locations.
- Continued replacement of old meters with new units which will facilitate remote reading and eventual real-time monitoring.
- Continuation of sewer main lining project and reconstruction/rehabilitation of other sewer lines.
- Water and sewer lines contributed to the District by developers.
- Well 17 wellhouse construction and rehabilitation of Wells 8 and 15.
- Improvements at Decker Main and Valley Downs wastewater pump stations.
- Replacement of the 3100 South bypass sewer line.
- Base station AMI tower construction at Well 12 site.

**GRANGER-HUNTER IMPROVEMENT DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Land	\$ 2,921,736	\$ 2,921,736	\$ 2,921,736
Buildings and improvement	3,573,201	3,879,228	4,180,074
Water system	48,843,710	42,614,527	39,854,225
Sewage pumping plant	13,657,177	13,557,139	12,329,210
Sewage collection lines	33,113,352	31,529,292	32,297,165
Transportation equipment	595,120	759,808	695,823
Engineering and other equipment and tools	3,463,834	2,519,033	1,916,563
Office furniture and equipment	11,074	22,261	52,235
Construction in progress	1,024,207	6,222,396	4,670,250
	<u>\$ 107,203,411</u>	<u>\$ 104,025,420</u>	<u>\$ 98,917,281</u>

Debt Administration

At the end of the current fiscal year, the District had total long-term debt of \$6,130,046. The debt represents bonds, secured solely by specified revenue sources, and post-employment liabilities. The liability relating to the District's outstanding bond debt decreased by \$1,028,000. The liability for termination benefits decreased by \$66,115. The combined total of all long-term debt decreased from \$7,224,161 at December 31, 2016 to \$6,130,046 at December 31, 2017, a change of \$1,094,115. The District has no outstanding general obligation debt.

Additional information on the District's long-term debt can be found in Note 4.

Requests for information

This financial report is designed to give its readers a general overview of the District's finances. Questions regarding any information contained in this report or requests for additional information should be addressed to the Controller of the Granger-Hunter Improvement District, 2888 South 3600 West, West Valley City, Utah 84119 or by telephone (801) 968-3551.

BASIC FINANCIAL STATEMENTS

GRANGER-HUNTER IMPROVEMENT DISTRICT
STATEMENT OF NET POSITION
December 31, 2017

Assets

Current Assets:

Unrestricted Cash and cash equivalents	\$	5,748,292
Marketable Securities		14,730,983
Receivables:		
Property taxes		79,026
Accounts receivable, net		2,598,687
Inventory		974,544
Restricted cash and cash equivalents		385,689
Restricted marketable securities		4,105,470
		4,105,470
Total Current Assets		28,622,691

Non-current Assets:

Capital Assets - net of depreciation		107,203,411
Net pension asset		-
		-
Total Non-current Assets		107,203,411

Other Assets:

Investment in Central Valley Water Reclamation Facility		18,715,153
		18,715,153
Total Other Assets		18,715,153
Total Assets	\$	154,541,255

Deferred Outflows of Resources

Deferred loss on early retirement of debt		-
Deferred outflows relating to pensions		1,737,908
		1,737,908
Total Deferred Outflows of Resources		1,737,908

Total Assets and Deferred Outflows of Resources	\$	156,279,163
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The accompanying notes are an integral part of this statement.

GRANGER-HUNTER IMPROVEMENT DISTRICT
STATEMENT OF NET POSITION (Continued)
December 31, 2017

Liabilities

Current Liabilities:

Accounts payable	\$	2,636,541
Accrued liabilities		691,431
Accrued interest		102,667
Customer water deposits		19,024
Long-term debt due within one year		274,000
		274,000
Total Current Liabilities		3,723,663

Non-Current Liabilities:

Long-term debt due in more than one year		4,654,000
Post employment termination liabilities		1,202,046
Net pension liability		2,594,971
		2,594,971
Total Non-Current Liabilities		8,451,017

Deferred Inflows of Resources

Deferred inflows relating to pensions		452,150
		452,150
Total Liabilities and Deferred Inflows of Resources		12,626,830

Net Position

Net investment in capital assets		102,275,411
Restricted for capital projects		4,491,159
Unrestricted		36,885,763
		36,885,763
Total Net Position		143,652,333
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$	156,279,163

The accompanying notes are an integral part of this statement.

**GRANGER-HUNTER IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
For The Year Ended December 31, 2017**

Operating Revenues	
Metered water sales	\$ 16,651,122
Sewer service charges	13,202,641
Other	<u>372,972</u>
Total Operating Revenues	<u>30,226,735</u>
Operating Expenses	
Direct operation and maintenance	14,947,144
General and administrative	9,309,485
Depreciation	<u>7,139,321</u>
Total Operating Expenses	<u>31,395,950</u>
Operating Income (Loss)	<u>(1,169,215)</u>
Non-Operating Revenues (Expenses)	
Property tax revenue	4,034,885
Impact fees	1,105,989
Interest income	547,253
Interest expense	(134,648)
Donation to other governmental entities	(204,232)
Gain (loss) on disposal of assets	119,254
Unrealized loss on marketable securities	(9,199)
Equity in net loss of Central Valley Water Reclamation Facility	<u>(598,577)</u>
Total Non-Operating Revenues (Expenses)	<u>4,860,725</u>
Change In Net Position Before Contributed Capital	3,691,510
Contributed Capital	<u>1,387,131</u>
Change In Net Position	5,078,641
Net Position at Beginning of Year	<u>138,573,692</u>
Net Position at End of Year	<u><u>\$ 143,652,333</u></u>

The accompanying notes are an integral part of this statement.

GRANGER-HUNTER IMPROVEMENT DISTRICT
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2017

Cash Flows From Operating Activities	
Receipts from customers and users	\$ 30,014,505
Payments to suppliers	(18,071,219)
Payments to employees	<u>(5,673,840)</u>
Net Cash From Operating Activities	<u>6,269,446</u>
Cash Flows From Noncapital Financing Activities	
Property tax receipts	<u>3,778,562</u>
Net Cash From Noncapital Financing Activities	<u>3,778,562</u>
Cash Flows From Capital and Related Financing Activities	
Impact fees received	1,105,989
Purchase of property and equipment	(8,943,653)
Proceeds from sale of property and equipment	132,726
Principal paid on bonds	(1,028,000)
Interest paid on bonds	<u>(133,320)</u>
Net Cash From Capital and Related Financing Activities	<u>(8,866,258)</u>
Cash Flows From Investing Activity	
Cash from sale of investments	12,119,262
Cash paid for purchase of investments	(12,906,468)
Cash paid for investment in Central Valley Water Reclamation Facility	(728,968)
Interest income	<u>547,253</u>
Net Cash From Investing Activity	<u>(968,921)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	212,829
Cash and Cash Equivalents, Beginning of Year	<u>5,921,152</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 6,133,981</u></u>
Cash and Cash Equivalents recorded in the Statement of Net Position	
Unrestricted	\$ 5,748,292
Restricted	<u>385,689</u>
	<u><u>\$ 6,133,981</u></u>

The accompanying notes are an integral part of this statement.

GRANGER-HUNTER IMPROVEMENT DISTRICT
STATEMENT OF CASH FLOWS (Continued)
For The Year Ended December 31, 2017

Reconciliation of Operating Loss to Net Cash From Operating Activities:

Operating Loss	\$ (1,169,215)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation expense	7,139,321
(Increase) Decrease in assets	
Receivables	
Accounts receivable, net	(209,830)
Inventory	(143,829)
Net pension asset	140
Deferred outflows	(162,206)
Increase (Decrease) in liabilities	
Accounts payable	582,418
Accrued liabilities	(25,175)
Customer water deposits	(2,400)
Post-employment termination liabilities	(66,115)
Net pension liability	142,193
Deferred inflows	184,144
Net Cash From Operating Activities	<u><u>\$ 6,269,446</u></u>

Noncash Investing, Capital, and Financing Activities

Loss in Central Valley Water Reclamation Facility equity	\$ 598,577
Contributed capital sewer lines received valued at	\$ 1,387,131
Deferred charges were amortized in the amount of	\$ 9,191

The accompanying notes are an integral part of this statement.

GRANGER-HUNTER IMPROVEMENT DISTRICT NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES

Reporting Entity

Granger-Hunter Improvement District (the District) was established by resolution of the Board of County Commissioners of Salt Lake County in 1950. Salt Lake County has no oversight responsibility over the District. The District is not a component unit of another government as defined by Governmental Accounting Standards Board (GASB) Statement 61, *The Financial Reporting Entity: Omnibus*, since the District is a special district governed by a Board of Trustees which are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units as defined in GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*, which are included in the District's reporting entity.

Summary of Significant Accounting Policies

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to government entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing accounting and financial reporting principles. Financial reporting is based upon accounting guidance codified by GASB.

The following is a summary of the more significant policies.

Financial Statement Presentation and Basis of Accounting

The District prepares its financial statements on an enterprise fund basis, which is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private businesses, where the intent is that all costs of providing certain goods and services to the general public be financed or recovered primarily through user charges, or where it has been deemed that periodic determination of net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Revenues from operations, investments, and other sources are recorded when earned and expenses are recorded when liabilities are incurred. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property tax revenue and contributed water and sewer lines.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods and services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers of the system. Operating expenses for the District include the costs of treatment, personnel, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**GRANGER-HUNTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (Continued)

Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. All non-restricted amounts are considered to be cash and cash equivalents for cash flow statement purposes.

The Public Treasurers' Investment Fund (PTIF) accounts of the District are stated at amortized cost, which approximates fair value in accordance with GASB No. 72, *Fair Value Measurement and Application*.

Investments

Investments are reported at fair value as prescribed in GASB No. 31.

Restricted Assets

The District maintains accounts which are restricted by state law for use in capital projects. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Inventories

The District's inventories include various items consisting of water meters, replacement parts, and other maintenance related equipment and supplies used in the construction and repair of water and sewer systems. Inventories are valued at the lower of cost or market using the first-in, first-out (FIFO) method. Inventory items are expensed as used.

Capital Assets

Capital Assets are stated at cost and are defined by the District as assets with a cost of \$5,000 or more. Normal maintenance and repair expenses that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The net book value of property sold or otherwise disposed of is removed from the property and accumulated depreciation accounts and the resulting gain or loss is included as non-operating revenues or expenses.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. No interest was capitalized during the current fiscal year.

Depreciation of property and equipment was computed using the straight-line method over the following estimated useful lives:

Sewer and Water Lines	10-60 years
Office Building	10-40 years
Furniture and Fixtures	5-10 years
Automobiles and Trucks	5-10 years
Tools and Equipment	5-10 years

**GRANGER-HUNTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (Continued)

Summary of Significant Accounting Policies (Continued)

Contributed Capital

The District receives title to various water and sewer lines that have been constructed by developers after the District certifies that these lines meet all the required specifications. The District records water and sewer lines at the estimated fair market value at the date of donation, provided by the District's engineers, which are then depreciated under the methods and lives set forth above.

Joint Venture

The District accounts for its interest in a joint venture using the equity method of accounting.

Vacation, Sick Leave and Other Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. All full-time employees may carry a maximum of 312 hours accrued vacation time from year to year. They may accrue more during the year based on their regular earned vacation time, but only 312 hours can be carried over. All vested vacation benefits shall be paid upon termination of employment by resignation or termination.

Unused sick leave may be carried over from one year to the next. Upon retirement, an employee may elect to apply unused sick leave in one of the following two ways:

1. Receive payment in cash equal to one hundred percent of the value of the employee's accrued and unused sick leave; or
2. Exchange twelve hours of unused sick leave for one month's coverage under the District's group health and dental plan. This benefit is available to the employee and the employee's spouse until they become eligible for Medicare benefits.

In the event of termination other than retirement, unused sick leave will be lost.

Property Tax Revenues

Property tax rates are approved in June of each year by the Board of Trustees for the District. County Assessors assess a value (an approximation of market value) as of January 1 of each year for all real property, to which the property tax rates will apply for assessing property taxes. The property taxes assessed become delinquent after November 30. The District's certified tax rate in Salt Lake County for 2017 was .000562 for operations and maintenance. The District appropriates the entire amount to operations and maintenance. The statutory maximum set by the State for operations and maintenance is .000800.

Budgetary Accounting

The District adopts an annual budget, which is maintained on an accrual basis except for certain capitalizable projects. All annual appropriations lapse at fiscal year-end.

GRANGER-HUNTER IMPROVEMENT DISTRICT NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (Continued)

Summary of Significant Accounting Policies (Continued)

Allowance for Doubtful Accounts

Accounts receivable are stated net of allowance for doubtful accounts of \$50,237. The allowance for doubtful accounts is based on the District's prior collection experience. Uncollected fees are certified to the county and attached as liens on the related real estate where allowable.

Cash Bonds from Developers

The District requires developers to post a bond of 110% of the cost of the project. After the District accepts the completed project, the District releases all of the bonds except 10%. The remaining 10% of the posted bond is not released until the warranty period required by the District is met. The District records the total cost of each completed project after it has been satisfactorily completed and accepted. Warranty work done during the warranty period will be performed by the developer or collected from the bond posted by the developer.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

Pensions

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

Deferred Outflows/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, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) 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, deferred inflows of resources, 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.

NOTE 2 DEPOSITS AND INVESTMENTS

The District's deposit and investment policy is to follow the Utah Money Management Act. The District does not have a separate deposit or investment policy that addresses specific types of deposit and investment risks to which the District is exposed.

GRANGER-HUNTER IMPROVEMENT DISTRICT NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 DEPOSITS AND INVESTMENTS (Continued)

The District follows the requirements of the Utah Money Management Act (Act) (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and investment transactions. This law requires the depositing of District funds in a "qualified depository". The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the state commissioner of financial institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

Cash includes amounts in demand deposits including the portion of the PTIF that is considered as a demand deposit.

Custodial credit risk – deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2017, \$5,544,668 of the District's deposit bank balances of \$6,044,985 was uninsured and uncollateralized.

Investments

The Money Management Act also governs the scope of securities allowed as appropriate investments for the District and conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

The District's investments are exposed to certain risks as outlined below:

Custodial credit risk – investments is the risk that in the event of the failure of a counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk beyond the provisions of the Act. As of December 31, 2017, the District's sweep account balance was uninsured.

Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The District's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Act. Title 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years. The fair value of the District's investment in the PTIF is \$3,573,365 with a carrying value of \$3,558,531.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's policy for reducing its exposure to credit risk is to comply with the Act as previously discussed. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories, repurchase agreements, commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors, bankers' acceptances, obligations of the U.S. Treasury and U.S.

GRANGER-HUNTER IMPROVEMENT DISTRICT NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 DEPOSITS AND INVESTMENTS (Continued)

government sponsored enterprises, bonds and notes of political subdivisions of the State of Utah, fixed rate corporate obligations and variable rate securities rated “A” or higher by two nationally recognized statistical rating organizations, and shares in a money market fund as defined in the Act.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The District’s policy for reducing the risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5%-10% depending upon total dollar amount held in the portfolio. The District does not have any corporate obligations from a single issuer that are over 5% of the portfolio.

The District invests in the PTIF, which is a voluntary external Local Governmental Investment Pool managed by the Utah State Treasurer’s Office and is audited by the Utah State Auditor. No separate report as an external investment pool has been issued for the PTIF. The PTIF is not registered with the SEC as an investment company, and is not rated. The PTIF is authorized and regulated by the Utah Money Management Act, (Utah Code Title 51, Chapter 7). The PTIF invests in high-grade securities which are delivered to the custody of the Utah State Treasurer, assuring a perfected interest in the securities, and therefore, there is very little credit risk except in the most unusual and unforeseen circumstances. The maximum weighted average life of the portfolio does not exceed 90 days.

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 operates and reports to participants on an amortized costs basis. The income, gains, losses, net of administration fees, of the PTIF are allocated to participants on the ratio of the participants’ share to the total funds in the PTIF based on the participants’ average daily balance. The PTIF allocates income and issues statements on a monthly basis. Twice a year, at June 30 and December 31, which are the accounting periods for public entities, the investments are valued at fair value and participants are informed of the fair value valuation factor. Additional information is available from the Utah State Treasurer’s Office. As of December 31, 2017, the Utah Public Treasurer’s Investment Fund was unrated.

Fair Value of Investments

The District measures its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and
- Level 3: Unobservable inputs

**GRANGER-HUNTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 2 DEPOSITS AND INVESTMENTS (Continued)

	12/31/2017	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level				
Utah State Treasurer's investment pool	\$ 3,558,531	\$ -	\$ 3,573,365	\$ -
Corporate Notes	9,330,244	\$ 9,330,244	\$ -	-
Governmental Notes	9,506,209	\$ 9,506,209	\$ -	-
Total investments by fair value level	\$ 22,394,984	\$ 18,836,453	\$ 3,573,365	\$ -

The fair value of the PTIF investments is measured using the Level 2 inputs as noted above.

The following is a summary of the District's cash and investments as of December 31, 2017:

	Carrying Value	Fair Value Factor	Fair Value	Credit Rating (1)	Weighted Ave. Maturity (Years) (2)
Cash on hand and on deposit:					
Cash on deposit	\$ 2,189,761	1	\$ 2,189,761	N/A	N/A
Bond Reserves	385,689	1	385,689	N/A	N/A
Utah State Treasurer's investment pool accounts	3,558,531	1.00416858	3,573,365	N/A	N/A
Total cash on hand and deposit	\$ 6,133,981		\$ 6,148,815		
Investments					
Corporate Notes	\$ 9,330,244	1	9,330,244	A-	1.16
Governmental Notes	9,506,209	1	9,506,209	AAA	2.64
Total Investments	\$ 18,836,453		\$ 18,836,453		
Portfolio weighted average maturity					1.91

The following is a summary of the District's cash and investments as of December 31, 2017:

	Carrying Amount
As Reported on the Statement of Net Position:	
Unrestricted cash and cash equivalents	\$ 5,748,292
Restricted cash and cash equivalents	385,689
Marketable securities	14,730,983
Restricted marketable securities	4,105,470
Total Cash and Investments	\$ 24,970,434
Components of Cash and Investments:	
Bond Reserves	\$ 385,689
Utah Public Treasurers Fund	3,558,531
Sweep account	2,189,761
U.S. obligations and agencies	9,506,209
Corporate bonds	9,330,244
Total Cash and Investments	\$ 24,970,434

**GRANGER-HUNTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 3 CAPITAL ASSETS

The following summarizes the District's capital assets for the year ended December 31, 2017:

	<u>Beginning Balance</u>	<u>Additions / Transfers In</u>	<u>Deletions / Transfers Out</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land and water rights	\$ 2,921,736	\$ -	\$ -	\$ 2,921,736
Construction in progress	6,222,396	997,250	(6,195,439)	1,024,207
Total Capital Assets not being depreciated	9,144,132	997,250	(6,195,439)	3,945,943
Capital assets, being depreciated				
Buildings and improvements	8,701,664			8,701,664
Water System	82,715,035	9,594,582	(440,250)	91,869,367
Sewage pumping plant	22,918,906	442,810	(117,793)	23,243,923
Sewage collection lines	74,756,897	3,995,793	(604,801)	78,147,889
Transportation equipment	4,154,000	37,742	(359,972)	3,831,770
Engineering and other equipment	6,850,743	1,458,045	(100,347)	8,208,441
Furniture and fixtures	645,448		(38,085)	607,363
Total Capital Assets, being depreciated	200,742,693	15,528,972	(1,661,248)	214,610,417
Less accumulated depreciation				
Buildings and improvements	(4,822,436)	(306,027)		(5,128,463)
Water System	(40,100,508)	(3,365,399)	440,250	(43,025,657)
Sewage pumping plant	(9,361,767)	(224,979)	-	(9,586,746)
Sewage collection lines	(43,227,605)	(2,517,604)	710,672	(45,034,537)
Transportation equipment	(3,394,192)	(202,429)	359,971	(3,236,650)
Engineering and other equipment	(4,331,710)	(511,696)	98,799	(4,744,607)
Furniture and fixtures	(623,187)	(11,187)	38,085	(596,289)
Total accumulated depreciation	(105,861,405)	(7,139,321)	1,647,777	(111,352,949)
Capital Assets, being depreciated, net	94,881,288	8,389,651	(13,471)	103,257,468
Property and Equipment, Net	<u>\$ 104,025,420</u>	<u>\$ 9,386,901</u>	<u>\$ (6,208,910)</u>	<u>\$ 107,203,411</u>

Depreciation expense of \$7,139,321 was charged to Operations/Administrative/Office expense for the year ended December 31, 2017.

**GRANGER-HUNTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 4 LONG-TERM DEBT

The following is a summary of the changes in long-term debt obligations for the year ended December 31, 2017:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Long-Term Debt					
Revenue Bonds					
2012 Revenue bonds	\$ 5,196,000	\$ -	\$ (268,000)	\$ 4,928,000	\$ 274,000
2014 Revenue bonds	760,000	-	(760,000)	-	-
Total Revenue Bonds	5,956,000	-	(1,028,000)	4,928,000	274,000
Termination benefits payable	1,268,161	-	(66,115)	1,202,046	-
Total Long-Term Debt	\$ 7,224,161	\$ -	\$ (1,094,115)	\$ 6,130,046	\$ 274,000
Deferred Outflows of Resources					
Deferred loss on early retirement of debt	\$ (9,191)	\$ -	\$ 9,191	\$ -	\$ -

Total interest expense incurred on long-term debt for the year ended December 31, 2017 was \$134,648, of which none was capitalized.

Revenue bonds consist of the following:

Water and Sewer Revenue Bonds, Series 2012, issued in January 2012 with the State of Utah Department of Environmental Quality, the total of the approved \$6,202,000 bond amount has been drawn through December 31, 2015, interest payable due in annual installments on March 1st, and estimated annual principal installments ranging from \$274,000 to \$389,000, bearing interest at 2.5%, maturing in March 2032.

2017

\$ 4,928,000

**GRANGER-HUNTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 4 LONG-TERM DEBT (Continued)

The following summarizes the District's revenue bonds debt service requirements as of December 31, 2017.

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 274,000	\$ 123,200	\$ 397,200
2019	281,000	116,350	397,350
2020	288,000	109,325	397,325
2021	295,000	102,125	397,125
2022	303,000	94,750	397,750
2023-2027	1,636,000	356,125	1,992,125
2028-2032	1,851,000	141,125	1,992,125
	<u>\$ 4,928,000</u>	<u>\$ 1,043,000</u>	<u>\$ 5,971,000</u>

Advance Refunding

The District issued Water and Sewer Revenue Refunding Bonds, series 2014, in December 2014. The proceeds of the Water and Sewer Revenue Refunding Bonds, series 2014, have been used to refund the Water and Sewer Revenue Refunding Bonds, series 2005. The reacquisition price exceeded the net carrying amount of the old debt (series 2005) by \$27,572. This amount was being amortized over the remaining life of the new debt (series 2014), which is shorter than the life of the refunded debt. The balance of the unamortized portion at December 31, 2016 of \$9,191 was all amortized during 2017, when the debt was extinguished.

NOTE 5 POST-EMPLOYMENT TERMINATION LIABILITIES

Post-employment Health Care Benefits-Termination Benefits

During 2007, the District began to accrue a post-employment liability for health care benefits to be provided to retired employees who have elected to convert unused sick leave to coverage under the District's group health and accident plan as discussed in Note 1. The liability is determined by multiplying the total number of months of coverage remaining for all retirees by the current insurance rates for medical and dental benefits. As of December 31, 2017, the remaining liability is \$1,036,890, of which none is current.

Retirement Buyout

During 2007, the District also elected to begin accruing a liability for the potential purchase of future service credit from the Utah Retirement Systems (URS) for qualified employees. To qualify for retirement buyout from URS, an employee must have a minimum of 25 years of eligible service for a Tier 1 employee, or 30 years of service for a Tier 2 employee. The District will share in the cost of buyout from 50% to 80% based on an employee's age and years of service. A table found in the District's personnel Rules and Regulations Manual specifies the District's share. The District has 2 eligible employees as of December 31, 2017. Based on calculations obtained using URS's Service Purchase Estimate Calculator and the specified share from the table for each employee, the District has estimated the retirement buyout liability to be \$165,155.

**GRANGER-HUNTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 6 RETIREMENT AND BENEFIT PLANS

Utah Retirement Systems Pension Plan

Plan description: Eligible plan participants are provided with pensions through the Utah Retirement Systems. The Utah Retirement Systems are comprised of the following pension trust funds:

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

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

The Utah Retirement Systems (Systems) are established and governed by the respective sections of Title 49 of the Utah Code Annotated 1953, as amended. The Systems' defined benefit plans are amended statutorily by the State Legislature. The Utah State Retirement Office Act in Title 49 provides for the administration of the Systems under the 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:

Summary of Benefits by System

System	Final Average	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*

Contributions Rate Summary

As a condition of participation in the Systems, employers and/or employees are required to contribute certain percentages of salary and wages as authorized by statute and specified by the Utah State Retirement Board. Contributions are actuarially determined as an amount that, when

**GRANGER-HUNTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 6 RETIREMENT AND BENEFIT PLANS (Continued)

combined with employee contributions (where applicable), is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability. Contribution rates as of December 31, 2017 are as follows:

Utah Retirement Systems	Employee	Employer	Employer 401(k)
Contributory System			
111 - Local Governmental Division Tier 2	N/A	15.11	1.58
Noncontributory System			
15- Local Governmental Division Tier 1	N/A	18.47	N/A
Tier 2 DC Only			
211 - Local Governmental	N/A	6.69	10.00

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

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

System	Employer Contributions	Employee Contributions
Noncontributory System	\$ 585,239	N/A
Tier 2 Public Employees System	156,717	-
Tier 2 DC Only System	243	N/A
Total Contributions	<u>\$ 742,199</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.

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

At December 31, 2017, we reported a net pension asset of \$0 and a net pension liability of \$2,594,971.

	(Measurement Date): December 31, 2016				
	Net Pension Asset	Net Pension Liability	Proportionate Share	Proportionate Share December 31, 2015	Change (Decrease)
Noncontributory System	\$ -	\$ 2,586,178	0.4027547%	0.4334689%	(0.0307142)%
Tier 2 Public Employees System	-	8,793	0.0788265%	0.0639096%	0.0149169%
Total Net Pension Asset / Liability	<u>\$ -</u>	<u>\$ 2,594,971</u>			

The net pension asset and liability were measured as of December 31, 2016, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2016 and rolled-forward using generally accepted actuarial procedures. The proportion of the net pension asset and liability is equal to the ratio of the employer's actual contributions to the Systems during the plan year over the total of all employer contributions to the System during the plan year.

For the year ended December 31, 2017, we recognized pension expense of \$906,471.

**GRANGER-HUNTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 6 RETIREMENT AND BENEFIT PLANS (Continued)

At December 31, 2017, we reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 56,175	\$ 77,674
Changes in assumptions	355,012	84,975
Net difference between projected and actual earnings on pension plan investments	578,077	171,440
Changes in proportion and differences between contributions and proportionate share of contributions	6,444	118,061
Contributions subsequent to the measurement date	742,199	-
Total	\$ 1,737,907	\$ 452,150

The \$742,199 reported as deferred outflows of resources related to pensions results from contributions made by us prior to our fiscal year end, but subsequent to the measurement date of December 31, 2016.

These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Deferred Outflows (inflow) of Resources
2017	\$ 165,261
2018	167,502
2019	219,793
2020	(12,022)
2021	253
Thereafter	2,774

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

Inflation	2.60 Percent
Salary increases	3.35 – 10.35 percent, average, including inflation
Investment rate of return	7.20 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the January 1, 2016, valuation were based on the results of an actuarial experience study for the five year period ending December 31, 2013.

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

**GRANGER-HUNTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 6 RETIREMENT AND BENEFIT PLANS (Continued)

(expected returns, net of pension plan investment expense and inflation) are developed for each major asset class and are 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 by the following table:

Asset Class	Expected Return Arithmetic Basis		
	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return
Equity securities	40%	7.06%	2.82%
Debt securities	20%	0.80%	0.16%
Real assets	13%	5.10%	0.66%
Private equity	9%	11.30%	1.02%
Absolute return	18%	3.15%	0.57%
Cash and cash equivalents	0%	0.00%	0.00%
Total	100%		5.23%
	Inflation		2.60%
	Expected Arithmetic Nominal Return		7.83%

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

Discount rate: The discount rate used to measure the total pension liability was 7.20 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from all participating employers will be made at contractually required rates that are actuarially determined and certified by the URS Board. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate does not use the Municipal Bond Index Rate. The discount rate was reduced to 7.20 percent from 7.50 percent from the prior measurement period.

Sensitivity of the proportionate share of the net pension asset and liability to changes in the discount rate: The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.20 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

System	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
Noncontributory System	\$ 5,356,851	\$ 2,586,178	\$ 274,203
Tier 2 Public Employee Sestem	\$ 59,851	\$ 8,793	\$ (30,049)
Total	\$ 5,416,702	\$ 2,594,971	\$ 244,154

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

**GRANGER-HUNTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 6 RETIREMENT AND BENEFIT PLANS (Continued)

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.

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

- *401(k) Plan
- *457(b) Plan
- *Roth IRA Plan

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>2017</u>	<u>2016</u>	<u>2015</u>
Employer Contributions	\$ 17,734	\$ 11,507	\$ 7,442
Employee Contributions	-	-	-
457 Plan			
Employer Contributions	\$ 4,660	\$ 27,707	\$ 15,467
Employee Contributions	\$ 17,878	\$ 39,571	\$ 11,774
Roth IRA Plan			
Employer Contributions	N/A	N/A	N/A
Employee Contributions	\$ 4,175	\$ 225	\$ -

**The employer paid 401(k) contributions include the totals paid for employees enrolled in the Tier 2 Defined Contribution Plan.*

NOTE 7 CENTRAL VALLEY WATER RECLAMATION FACILITY

During 1978, the District entered into a joint venture with four other special districts and two cities. The joint venture was organized to construct and operate a regional sewage treatment facility for the benefit of the seven members. The seven members and their related ownership interest, as of December 31, 2017, are as follows:

**GRANGER-HUNTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 7 CENTRAL VALLEY WATER RECLAMATION FACILITY (Continued)

	Proportionate Share
Cottonwood Improvement District	17.03%
Mt. Olympus Improvement District	24.59%
Granger-Hunter Improvement District	22.11%
Kearns Improvement District	10.54%
Murray City	8.45%
South Salt Lake City	5.27%
Taylorsville-Bennion Improvement District	12.01%
	<u>100.00%</u>

The Joint venture is administered by a joint administration board. Each member entity appoints one member to the board, and voting power is not related to ownership. Therefore, each member is equal to another for voting privileges. The joint venture is responsible for adopting a budget and financing its operations, subject to approval by each of the seven members.

The District accounts for its investment in Central Valley Water Reclamation Facility (Central Valley) using the equity method of accounting. Summarized financial information of Central Valley as of December 31, 2017 and for the year then ended is as follows:

	<u>2017</u>	<u>Restated 2016</u>
Total assets	\$ 124,262,379	\$ 93,612,468
Total net position	84,645,648	83,501,059
Operating revenues	15,237,162	13,232,689
Change in net position	1,144,589	1,601
The District's interest in:		
Net position	18,715,153	18,395,283
Net gain	319,870	(59,326)

In prior years the District has recorded its previous proportionate share (22.03%) of the government grants received by Central Valley as an addition to the District's investments in Central Valley and to the District's contributions in aid to construction. All expenses (except depreciation) incurred by Central Valley are billed to its members. Accordingly, the District's equity in net losses of Central Valley annually is billed to the District. The District's equity in net losses of Central Valley annually approximates its share of Central Valley's depreciation expense. Audited statements are available at Central Valley Water Reclamation Facility, 800 West Central Valley Road, Salt Lake City, Utah 84119.

The District incurred the following costs from the joint venture for the year ended December 31, 2017:

**GRANGER-HUNTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 7 CENTRAL VALLEY WATER RECLAMATION FACILITY (Continued)

Administration	\$ 420,976
Operations and maintenance	<u>3,197,661</u>
Total	<u>\$ 3,618,637</u>

The District owed a balance of \$201,722 to Central Valley as of December 31, 2017 for wastewater treatment. This amount is included in accounts payable in the statement of net position.

NOTE 8 COMMITMENTS AND CONTINGENCIES

An agreement has been made with Jordan Valley Water Conservancy District (JVWCD), which provides, in general, that the District will purchase a minimum amount of water each year from the Conservancy District (18,201 acre feet in 2017). During 2017, the District purchased approximately 17,838 acre feet of water, 363 acre feet less than contracted, which cost \$9,503,453. JVWCD will allow the District to take the remaining 363 acre feet during the coming year.

During the year the District entered into contracts for construction of water and sewer facilities. As of December 31, 2017, there was approximately \$1,084,065 outstanding on these contracts.

The District's 2012 series bonds require net revenue of 125% of the current bond principal payments. The District met the net revenue requirement for the year ended December 31, 2017.

During 2017 the District entered into a pledge with Central Valley Water Reclamation Facility (CVWRF). The pledge commits the District to make monthly payments to CVWRF for its share of 2017A series sewer revenue bonds issued by CVWRF for infrastructure rehabilitation and construction. Three of the participants in the CVWRF joint venture pledged cash for their share of the infrastructure costs, while the District and three other entities pledged to service the bonds which were issued in the amount of \$28,600,000. This District's pledge at December 31, 2017 represents a 41.82% share of the outstanding bond principal, or a commitment of \$11,958,132. All seven entities which participate in the joint venture have pledged to cover any debt service shortfall should another entity fail to meet its commitment.

NOTE 9 RISK MANAGEMENT

The District is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District has commercial insurance. The District also carries commercial workers' compensation insurance. There were no significant reductions in coverage from the prior year, and settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

GRANGER-HUNTER IMPROVEMENT DISTRICT
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
DECEMBER 31, 2016*
Last 10 Fiscal Years**

<u>For the year ended December 31,</u>	<u>Proportion of the net pension liability (asset)</u>	<u>Proportionate share of the net pension liability (asset)</u>	<u>Covered payroll</u>	<u>Proportionate share of the net pension liability (asset) as a percentage of its covered- employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability (asset)</u>
Noncontributory System					
2016	0.4027547%	\$ 2,586,178	\$ 3,491,188	74.08%	87.3%
2015	0.4334689%	2,452,778	3,712,393	66.07%	87.8%
2014	0.4357104%	1,891,957	3,741,284	50.60%	90.2%
Tier 2 Public Employees System					
2016	0.0788265%	\$ 8,793	\$ 646,440	1.36%	95.1%
2015	0.0639096%	(140)	412,991	-0.03%	100.2%
2014	0.0523450%	(1,586)	256,880	-0.60%	103.5%

**Pension figures for 2017 were not available at the time this report was written. The District has reported the most up-to-date information available.*

*** The 10-year schedule will be built prospectively.*

**GRANGER-HUNTER IMPROVEMENT DISTRICT
SCHEDULE OF CONTRIBUTIONS
DECEMBER 31, 2017
Last 10 Fiscal Years****

	As of fiscal year ended December 31,	Actuarial Determined Contributions	Contributions Related to the contractually required contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered employee payroll
Noncontributory System	2014	\$ 669,263	\$ 669,263	\$ -	\$ 3,743,874	17.88%
	2015	685,137	685,137	-	3,758,692	18.23%
	2016	644,822	644,822	-	3,648,277	17.67%
	2017	585,239	585,239	-	3,188,044	18.36%
Tier 2 Public Employees System*	2014	\$ 37,121	\$ 37,121	\$ -	\$ 255,873	14.51%
	2015	61,914	61,914	-	414,914	14.92%
	2016	96,384	96,384	-	647,946	14.88%
	2017	156,717	156,717	-	1,047,558	14.96%
Tier 2 Public Employees DC Only System [†]	2014	\$ 150	\$ 150	\$ -	\$ -	0.00%
	2015	38	38	-	562	6.72%
	2016	-	-	-	-	0.00%
	2017	243	243	-	3,663	6.62%

* 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.

** This schedule will be built out prospectively to show a 10-year history in RSI. Contributions as a percentage of covered payroll may be different than the board certified rate due to rounding and other administrative issues.

GRANGER-HUNTER IMPROVEMENT DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2017

Changes in assumptions:

The following actuarial assumption changes were adopted January 1, 2016. The assumed investment return assumption was decreased from 7.50% to 7.20% and the assumed inflation rate was decreased from 2.75% to 2.6%. With the decrease in the assumed rate of inflation, both the payroll growth and wage inflation assumptions were decreased by 0.15% from the prior year's assumption.

SUPPLEMENTARY INFORMATION

**GRANGER-HUNTER IMPROVEMENT DISTRICT
BUDGET TO ACTUAL COMPARISON
Year ended December 31, 2017**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Metered water sales	\$16,600,000	\$ 16,651,122	\$ 51,122
Sewer service charges	13,200,000	13,202,641	2,641
Interest income	400,000	547,253	147,253
Property taxes	4,104,000	4,034,885	(69,115)
Engineering	5,000	14,568	9,568
Impact fees	750,000	1,105,989	355,989
Connection and turn-off fees	73,000	87,699	14,699
Inspection	80,000	65,508	(14,492)
Other income	130,000	205,197	75,197
Total Revenues	<u>35,342,000</u>	<u>35,914,862</u>	<u>572,862</u>
Expenditures			
Salaries and wages	4,944,780	4,316,931	(627,849)
Employee benefits	3,074,795	2,957,472	(117,323)
Materials and supplies	694,202	447,979	(246,223)
Postage and mailing	176,000	156,348	(19,652)
Water purchased	9,712,500	9,503,453	(209,047)
Computer system	360,570	310,382	(50,188)
Building maintenance	85,180	71,877	(13,303)
Water quality expense	140,500	101,370	(39,130)
Bank expenses	210,150	336,778	126,628
Gas and diesel	226,500	194,107	(32,393)
Insurance	392,100	313,498	(78,602)
Utilities	1,028,440	982,337	(46,103)
Telephone	77,100	75,881	(1,219)
Professional fees	161,200	76,986	(84,214)
Seminars and training	118,225	92,289	(25,936)
Interest expense	142,520	134,648	(7,872)
Central Valley expense	5,495,835	3,902,469	(1,593,366)
Equipment and tools purchases	59,408	20,824	(38,584)
Contingency	180,000	-	(180,000)
Vehicle Lease	160,000	137,526	(22,474)
Safety expense	35,960	36,341	381
Pension adjustment	-	164,271	164,271
Miscellaneous	107,800	57,510	(50,290)
Total Expenditures	<u>27,583,765</u>	<u>24,391,277</u>	<u>(3,192,488)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 7,758,235</u>	<u>\$ 11,523,585</u>	<u>\$ 3,765,350</u>
Infrastructure purchases	11,809,000	8,943,652	(2,865,348)
Reconciliation of Excess (Deficiency) of Revenues Over Expenditures to Change in Net Position			
Capital contributions		\$ 1,387,131	
Depreciation		(7,139,321)	
Equity in net loss of Central Valley		(598,577)	
Gain/(Loss) on fixed asset retirement		119,254	
Change in unrealized loss on investments		(9,199)	
Donation to other entities		(204,232)	
Change in Net Position		<u>\$ 5,078,641</u>	