

Summit County Service Area #3
Summit County, Utah

ANNUAL FINANCIAL REPORT

For the Year Ended December 31, 2017

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Summit County Service Area #3

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December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Summit County Service Area #3
Park City, Utah

We have audited the accompanying financial statements of the governmental activities and the business-type activities of Summit County Service Area #3 (the Service Area), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Service Area'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 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. 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental and business-type activities of Summit County Service Area #3, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-11 and the schedule of revenues, expenditures, and changes in fund balances – budget and actual – general fund on pages 41-42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 4, 2018 on our consideration of Summit County Service Area #3's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Summit County Service Area #3's internal control over financial reporting and compliance.


Larson & Company, PC

Spanish Fork, Utah
June 4, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Summit County Service Area #3
Management's Discussion and Analysis
December 31, 2017

As management of Summit County Service Area #3 (the Service Area), we offer readers of the Service Area's financial statements this narrative overview and analysis of financial activities of the Service Area for the fiscal year ended December 31, 2017

FINANCIAL HIGHLIGHTS

- *Total net position for the Service Area as a whole decreased by \$180,354
- *Total unrestricted net position for the Service Area as a whole decreased by \$37,426
- *Total net position for governmental activities decreased by \$121,753
- *Total net position for business-type activities decreased by \$58,601

BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements of the Service Area. The basic financial statements comprise three components: (1) government wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Service Area's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Service Area's assets, deferred outflows, liabilities, and deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Service Area is improving or deteriorating.

The statement of activities presents information showing how the Service Area's net position changed during the fiscal year reported. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Service Area that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The statement of activities is presented on two pages. The first page reports the extent to which each function or program is self-supporting through fees and intergovernmental aid. The second page identifies the general revenues of the Service Area available to cover any remaining costs of the functions or programs.

Summit County Service Area #3
Management's Discussion and Analysis
December 31, 2017

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Service Area also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Service Area can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the government fund balance sheet and the government fund statement of the revenues, expenditures, and changes in fund balances provide reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Service Area maintains one major governmental fund, the general fund.

The Service Area adopts an annual appropriated budget for all its funds. A budgetary comparison schedule has been provided to demonstrate legal compliance with the adopted budget for the general fund.

The basic governmental fund financial statements can be found later in this report; see Table of Contents.

Proprietary funds. The Service Area's proprietary funds are all of the enterprise type. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Service Area uses one enterprise fund to account for the operations of the water utilities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds are considered major funds of the Service Area.

The proprietary fund financial statements can be found later in this report; see Table of Contents.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are reported later in this report; see Table of Contents.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Service Area.

Summit County Service Area #3
Management's Discussion and Analysis
December 31, 2017

FINANCIAL ANALYSIS

Summit County Service Area #3's Net Position

	Governmental Activities		Business-type Activities		Total Current Year	Total Previous Year
	Current Year	Previous Year	Current Year	Previous Year		
Current and other assets	\$ 854,412	830,761	877,883	848,156	1,732,295	1,678,917
Non-current assets	2,082,400	2,166,055	1,520,916	1,584,189	3,603,317	3,750,244
Total assets	\$ 2,936,812	2,996,816	2,398,799	2,432,345	5,335,611	5,429,161
Long-term liabilities outstanding	\$ -	-	195,000	199,000	195,000	199,000
Other liabilities	144,517	99,675	86,517	56,488	231,035	156,163
Deferred inflows of resources	287,593	270,687	-	-	287,593	270,687
Total liabilities and deferred inflows	432,110	370,362	281,517	255,488	713,628	625,850
Net position:						
Net investment in capital assets	2,082,400	2,166,055	1,177,206	1,238,536	3,259,606	3,404,591
Restricted	-	-	148,711	146,653	148,711	146,653
Unrestricted	422,301	460,399	791,366	790,694	1,213,667	1,251,093
Total net position	\$ 2,504,702	2,626,454	2,117,282	2,175,883	4,621,984	4,802,337

As noted earlier, net position may serve over time as a useful indicator of financial position. Total assets and deferred outflows of resources exceeded total liabilities and deferred inflow of resources at the close of the year by \$4,621,984 a decrease of \$180,354 from the previous year. This change is equivalent to the net loss for the year, in private sector terms.

Total unrestricted net position at the end of the year is \$1,213,667, which represents a decrease of \$37,426 from the previous year. Unrestricted net position are those resources available to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

The amount of current and other assets represent the amounts of cash and receivables on hand at the end of each year. Other liabilities are the amounts of current and other liabilities due, at year end, for goods and services acquired.

Changes in capital assets are the result of the difference, in the current year, of the cost of acquisition of capital assets and any depreciation charges on capital assets. Change in long-term debt is the difference in the amount of debt issued and that which has been paid during the year.

Summit County Service Area #3
Management's Discussion and Analysis
December 31, 2017

FINANCIAL ANALYSIS (continued)

Summit County Service Area #3's Change in Net Position

	Governmental Activities		Business-type Activities		Total Current Year	Total Previous Year
	Current Year	Previous Year	Current Year	Previous Year		
Program revenues:						
Charges for services	\$ 16,775	22,100	346,254	356,849	363,029	378,949
Operating grants	108,312	103,822	-	-	108,312	103,822
Capital grants	-	-	-	-	-	-
General revenues:						
Property taxes	343,820	298,065	8,432	24,819	352,251	322,884
Other revenues	6,883	7,425	12,168	6,273	19,051	13,698
Total revenues	475,790	431,412	366,854	387,941	842,643	819,353
Expenses:						
Road maintenance and snow removal	597,542	294,383	-	-	597,542	294,383
Water	-	-	425,454	227,007	425,454	227,007
Total expenses	597,542	294,383	425,454	227,007	1,022,997	521,390
Transfers in (out)	-	(6,003)	-	6,003	-	-
Change in net position	\$ (121,753)	131,026	(58,601)	166,937	(180,354)	297,963

For the Service Area as a whole, total revenues increased by \$23,290 compared to the previous year, while total expenses increased by \$501,607. The total net change of \$180,354 is, in private sector terms, the net loss for the year which is \$478,317 less than the previous year's net change.

Governmental activities revenues of \$475,790 is an increase of \$44,378 from the previous year. This is primarily due to an increase in property taxes during the year. Governmental activities expenses of \$597,542 is an increase of \$303,159 from the previous year. This is primarily due to an increase in road maintenance, snow removal, professional fees, and capital outlay expenses during the year.

Business-type activities revenue of \$366,854 is a decrease of \$21,087 from the previous year. Service revenues decreased by \$10,595 and property taxes decreased by \$16,387. Business-type activities expenses of \$425,454 is an increase of \$198,447 from the previous year. This is due to an overall increase in operation expenses, with significant increases in engineering fees and meter relocation and replacement.

Summit County Service Area #3
Management's Discussion and Analysis
December 31, 2017

BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS

Some of the more significant changes in fund balances and fund net position, and any restrictions on those amounts, is described below:

General Fund

The fund balance of \$422,301 reflects a decrease of \$38,098 from the previous year. Total revenues increased by \$44,377. Property tax revenues increased by \$45,755. Intergovernmental revenues increased by \$4,490. Charges for services decreased by \$5,325. All other revenues had a net decrease by \$542.

Total expenditures, excluding transfers, increased by \$295,390. Significant increases occurred in road maintenance, snow removal, and professional fees.

The unassigned fund balance is \$422,301.

Water Fund

Net operating loss was \$75,837 compared to the previous year net operating loss of \$129,842. The change in net position was \$58,601 compared to the previous year's net income of \$166,936.

The amounts restricted for debt service and construction are \$55,716 and \$92,995 respectively. The unrestricted net position amounts to \$791,366.

GENERAL FUND BUDGETARY HIGHLIGHTS

Revenues for the current year, exclusive of transfers and fund balance appropriations, were originally budgeted in the amount of \$399,500, This amount was amended during the year to \$441,257. Actual revenues amounted to \$475,790, which was \$34,533 more than budgeted.

Expenditures for the current year, excluding transfers and budgeted increases in fund balance, were originally budgeted in the amount of \$372,701. This amount was amended during the year to \$573,647. Actual expenditures amounted to \$513,888, which was \$59,760 less than budgeted.

Summit County Service Area #3
Management's Discussion and Analysis
December 31, 2017

CAPITAL ASSETS AND DEBT ADMINISTRATION

Summit County Service Area #3's Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total Current Year	Total Previous Year
	Current Year	Previous Year	Current Year	Previous Year		
Net Capital Assets:						
Land and water rights	\$ 1,120,000	1,120,000	64,735	64,735	1,184,735	1,184,735
Buildings and improvements	84,309	84,309	40,734	40,734	125,043	125,043
Infrastructure	2,032,988	2,032,988	-	-	2,032,988	2,032,988
Machinery and equipment	-	-	7,951	7,951	7,951	7,951
Water system	-	-	2,453,133	2,453,133	2,453,133	2,453,133
Total	3,237,297	3,237,297	2,566,553	2,566,553	5,803,849	5,803,849
Less accumulated depreciation	(1,154,896)	(1,071,241)	(1,194,347)	(1,129,017)	(2,349,243)	(2,200,258)
Net Capital Assets:	\$ 2,082,400	2,166,055	1,372,206	1,437,536	3,454,606	3,603,591

The total amount of capital assets, net of depreciation, of \$3,454,606 is a decrease of \$148,985 from the previous year.

Governmental activities capital assets, net of depreciation, of \$2,082,400 is a decrease of \$83,655 from the previous year.

Business-type activities capital assets, net of depreciation, of \$1,372,206 is a decrease of \$65,330 from the previous year.

Additional information regarding capital assets may be found in the notes to financial statements.

Summit County Service Area #3
Management's Discussion and Analysis
 December 31, 2017

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Summit County Service Area #3's Outstanding Debt - Revenue Bonds

	Current Year	Previous Year
Business-type activities:		
2011 Water Revenue Bonds	\$ 195,000	199,000
Total business-type	\$ 195,000	199,000
Total outstanding debt	\$ 195,000	199,000

Additional information regarding the long-term liabilities may be found in the notes to financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

No significant economic changes that would affect the City are expected for the next year. Budgets have been set on essentially the same factors as the current year being reported.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Summit County Service Area's finances for all those with an interest in the Service Area's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to The Board of Trustees for Summit County Service Area #3, 7215 North Silver Creek Road, Park City, Utah, 84098.

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BASIC FINANCIAL STATEMENTS

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Summit County Service Area #3
STATEMENT OF NET POSITION
December 31, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:			
Assets:			
Current assets:			
Cash and cash equivalents	\$ 442,344	874,883	1,317,227
Accounts receivable, net	312,067	103,000	415,067
Interfund balances	100,000	(100,000)	-
Total current assets	<u>854,412</u>	<u>877,883</u>	<u>1,732,295</u>
Non-current assets:			
Restricted cash and cash equivalents	-	148,711	148,711
Capital assets:			
Not being depreciated	1,120,000	64,735	1,184,735
Net of accumulated depreciation	962,400	1,307,471	2,269,871
Total non-current assets	<u>2,082,400</u>	<u>1,520,916</u>	<u>3,603,317</u>
Total assets	<u>\$ 2,936,812</u>	<u>2,398,799</u>	<u>5,335,611</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES:			
Liabilities:			
Current liabilities:			
Accounts payable	\$ 27,517	3,147	30,665
Customer deposits	117,000	83,370	200,370
Bonds payable, current portion	-	5,000	5,000
Total current liabilities	<u>144,517</u>	<u>91,517</u>	<u>236,035</u>
Non-current liabilities:			
Bonds payable, non-current portion	-	190,000	190,000
Total non-current liabilities	<u>-</u>	<u>190,000</u>	<u>190,000</u>
Total liabilities	<u>144,517</u>	<u>281,517</u>	<u>426,035</u>
Deferred inflows of resources - property taxes	287,593	-	287,593
Total liabilities and deferred inflows of resources	<u>432,110</u>	<u>281,517</u>	<u>713,628</u>
NET POSITION:			
Net investment in capital assets	2,082,400	1,177,206	3,259,606
Restricted			
Debt service	-	55,716	55,716
Construction	-	92,995	92,995
Unrestricted	422,301	791,366	1,213,667
Total net position	<u>2,504,702</u>	<u>2,117,282</u>	<u>4,621,984</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 2,936,812</u>	<u>2,398,799</u>	<u>5,335,611</u>

The notes to the financial statements are an integral part of this statement.

Summit County Service Area #3
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017

<u>FUNCTIONS/PROGRAMS:</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue (To Next Page)</u>
Primary government:				
Governmental activities:				
Road maintenance and snow removal	\$ 597,542	16,775	108,312	(472,455)
Total governmental activities	<u>597,542</u>	<u>16,775</u>	<u>108,312</u>	<u>(472,455)</u>
Business-type activities:				
Water	425,454	346,254	-	(79,200)
Total business-type activities	<u>425,454</u>	<u>346,254</u>	<u>-</u>	<u>(79,200)</u>
Total primary government	<u>\$ 1,022,997</u>	<u>363,029</u>	<u>108,312</u>	<u>(551,656)</u>

(The statement of activities continues
on the following page)

The notes to the financial statements are an integral part of this statement.

Summit County Service Area #3
STATEMENT OF ACTIVITIES (continued)
For the Year Ended December 31, 2017

	Governmental Activities	Business-type Activities	Total
CHANGES IN NET POSITION:			
Net (expense) revenue (from previous page)	\$ (472,455)	(79,200)	(551,656)
General revenues:			
Property taxes	343,820	8,432	352,251
Unrestricted investment earnings	5,773	12,168	17,940
Miscellaneous	1,110	-	1,110
Total general revenues	350,702	20,600	371,302
Change in net position	(121,753)	(58,601)	(180,354)
Net position - beginning	2,626,455	2,175,883	4,802,338
Net position - ending	\$ 2,504,702	2,117,282	4,621,984

The notes to the financial statements are an integral part of this statement.

Summit County Service Area #3
BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2017

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 442,344
Accounts receivable, net of allowances	312,067
Due from water fund	100,000
TOTAL ASSETS	<u><u>\$ 854,412</u></u>
 LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	
Liabilities:	
Accounts payable	\$ 27,517
Customer deposits - roads	117,000
Total liabilities	<u>144,517</u>
 Deferred inflows of resources - property taxes	<u>287,593</u>
 TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	 <u>432,110</u>
 FUND BALANCES:	
Unassigned	<u>422,301</u>
 TOTAL FUND BALANCES	 <u>422,301</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	 <u><u>\$ 854,412</u></u>

The notes to the financial statements are an integral part of this statement.

Summit County Service Area #3
**STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**
 For the Year Ended December 31, 2017

	<u>General Fund</u>
Revenues:	
Property taxes	\$ 343,820
Intergovernmental revenues	108,312
Charges for services	16,775
Interest	5,773
Miscellaneous revenue	1,110
Total revenues	<u><u>475,790</u></u>
Expenditures:	
Current:	
Road maintenance and snow removal	398,597
Professional services	75,690
Legal fees	31,366
Insurance	4,040
General administration	4,196
Total expenditures	<u><u>513,888</u></u>
Net change in fund balances	(38,098)
Fund balances - beginning of year	<u>460,399</u>
Fund balance - end of year	<u><u>\$ 422,301</u></u>

The notes to the financial statements are an integral part of this statement.

Summit County Service Area #3
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION**
 December 31, 2017

Total Fund Balance for Governmental Funds	<u>\$ 422,301</u>
<p>Total net position reported for governmental activities in the statement of net position is different because:</p> <p style="padding-left: 40px;">Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds:</p>	
Capital assets, at cost	3,237,297
Less accumulated depreciation	<u>(1,154,896)</u>
Net capital assets	<u>2,082,400</u>
Total Net Position of Governmental Activities	<u><u>\$ 2,504,702</u></u>

The notes to the financial statements are an integral part of this statement.

Summit County Service Area #3
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**
For the Year Ended December 31, 17

Net Change in Fund Balances - Total Governmental Funds	<u>\$ (38,098)</u>
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with a material cost are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expenses.</p>	
Depreciation expense	<u>(83,655)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (121,753)</u></u>

The notes to the financial statements are an integral part of this statement.

Summit County Service Area #3
STATEMENT OF NET POSITION - PROPRIETARY FUND
December 31, 2017

	Water Fund
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 874,883
Accounts receivable, net	103,000
Total current assets	977,883
Non-current assets:	
Restricted cash and cash equivalents	148,711
Capital assets:	
Not being depreciated	64,735
Net of accumulated depreciation	1,307,471
Total non-current assets	1,520,916
Total assets	\$ 2,498,799
LIABILITIES:	
Current liabilities:	
Accounts payable	\$ 3,147
Customer deposits	83,370
Due to general fund	100,000
Bonds payable, current portion	5,000
Total current liabilities	191,517
Non-current liabilities:	
Bonds payable, non-current portion	190,000
Total non-current liabilities	190,000
Total liabilities	381,517
NET POSITION:	
Net investment in capital assets	1,177,206
Restricted for:	
Debt service	55,716
Capital projects	92,995
Unrestricted	791,366
Total net position	2,117,282
Total liabilities and net position	\$ 2,498,799

The notes to the financial statements are an integral part of this statement.

Summit County Service Area #3
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
 IN NET POSITION - PROPRIETARY FUND**
 For the year ended December 31, 2017

	Water Fund
Operating income:	
Charges for sales and service	\$ 313,014
Connection fees	33,240
Total operating income	346,254
Operating expenses:	
Water master services	41,903
Repairs and maintenance	126,626
Professional services	108,876
Legal fees	50,816
Utilities	17,081
Insurance	4,040
Other supplies and expenses	7,420
Depreciation expense	65,330
Total operating expense	422,091
Net operating income (loss)	(75,837)
Non-operating income (expense):	
Property taxes	8,432
Interest income	12,168
Bond interest expense	(3,363)
Total non-operating income (expense)	17,237
Change in net position	(58,601)
Net position - beginning	2,175,883
Net position - ending	\$ 2,117,282

The notes to the financial statements are an integral part of this statement.

Summit County Service Area #3
STATEMENT OF CASH FLOWS
For the year ended December 31, 2017

	Water Fund
Cash flows from operating activities:	
Cash received from customers - service	\$ 321,640
Cash paid for goods and services	(354,588)
Net cash provided (used) in operating activities	(32,949)
Cash flows from noncapital financing activities:	
Interfund activity	147,999
Customer deposits	26,882
Net cash provided (used) in noncapital financing activities	174,881
Cash flows from capital and related financing activities:	
Cash received from property tax	8,432
Cash paid for bond principal	(4,000)
Cash paid for bond interest	(3,363)
Net cash provided (used) in capital and related financing activities	1,069
Cash flows from investing activities:	
Cash received from interest earned	12,168
Net cash provided (used) in investing activities	12,168
Net increase (decrease) in cash	155,169
Cash balance, beginning	868,424
Cash balance, ending	\$ 1,023,594
Cash reported on the statement of net position:	
Cash and cash equivalents	\$ 874,883
Non-current restricted cash	148,711
Total cash and cash equivalents	\$ 1,023,594

(The Statement of Cash Flows continues on the following page)

Summit County Service Area #3
STATEMENT OF CASH FLOWS (continued)
For the year ended December 31, 2017

Reconciliation of Operating Income to Net Cash Provided (Used) in Operating Activities:	<u>Water Fund</u>
Net operating income (expense)	\$ (75,837)
Adjustments to reconcile operating income or (loss) to net cash provided (used) in operating activities:	
Depreciation and amortization	65,330
Changes in assets and liabilities:	
(Increase) decrease in receivables	(24,614)
Increase (decrease) in payables	<u>2,173</u>
Net cash provided (used) in operating activities	<u>\$ (32,949)</u>

The notes to the financial statements are an integral part of this statement.

Summit County Service Area #3
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A. Reporting entity

The Summit County Service Area #3 (the Service Area) was organized in September 7, 1964 by the original developer of the Silver Creek Estates Subdivision. Its boundaries and services were expanded by a resolution in November of 1982 and approved by the Summit County Commissioners. The Service Area operates under the direction of the Board of Trustees. The Service Area provided snow removal, road maintenance and culinary water services.

Although the Service Area operates with the approval of the Summit County Commission, The Summit County Auditor chooses not to include the Service Area as a component unit of Summit County in its financial statements. The Service Area has not identified any entities which should be included as component units of the Service Area.

1-B. Government-wide and fund financial statements

Government-wide Financial Statements

The government-wide financial statements, consisting of the statement of net position and the statement of activities report information on all the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Indirect expenses are not allocated. All expenses are included in the applicable function. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privilege provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, if any, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statement.

Summit County Service Area #3
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

1-C. Measurement focus, basis of accounting and financial statement presentation

The financial statements of the Service Area are prepared in accordance with generally accepted accounting principles (GAAP).

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification of internal activity (between or within funds). However, internal eliminations do not include utility services provided to Service Area departments or payments to the general fund by other funds for providing administrative and billing services for such funds. Reimbursements are reported as reductions to expenses. Proprietary and any fiduciary fund financial statements are also reported using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when the grantor eligibility requirements are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Service Area considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments, if any, receivable within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating income and expense reported in proprietary fund financial statements include those revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services, including administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Policy regarding use of restricted resources

When both restricted and unrestricted resources are available for use, it is the Service Area's policy to use restricted resources first, then unrestricted resources as needed. Restricted assets and liabilities payable from restricted assets current in nature are reported with current assets and current liabilities. *Restricted assets, non-current* reports assets restricted for acquisition or construction of non-current assets, or are restricted for liquidation of long-term debt.

Summit County Service Area #3
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

1-D. Fund types and major funds

The Service Area reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Service Area reports the following major proprietary funds:

The *Water Fund* is used to account for the activities of the Service Area's water production, treatment and distribution operations.

1-E. Assets, Liabilities, and Net Position or Equity

1-E-1. Deposit and Investments

Investments are reported at fair value. Deposits are reported at cost, which approximates fair value. Investments of the Service Area are accounts at the Utah Public Treasurers Investments Fund. Additional information is contained in Note 3.

1-E-2. Cash and Cash Equivalents

The Service Area's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

1-E-3. Receivables and Payables

Accounts receivable other than property taxes and intergovernmental receivables are from customers primarily for utility services. Property tax and intergovernmental receivables are considered collectible. Customer accounts are reported net of allowance for uncollectable accounts. The allowance amount is estimated using accounts receivable past due more than 90 days.

During the course of operations, there may be transactions that occur between funds that are representative of lending/borrowing arrangements outstanding at year-end. These are reported as either due to or due from other funds.

Property taxes are assessed and collected for the Service Area by Summit County and remitted to the Service Area shortly after collection. Property taxes become a lien on January 1 and are levied on the first Monday in August. Taxes are due and payable on November 1, and are delinquent after November 30. All dates are in the year of levy.

Summit County Service Area #3
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

1-E. Assets, Liabilities, and Net Position or Equity (continued)

1-E-4. *Restricted Assets*

In accordance with certain revenue bond covenants, resources may be required to be set aside for the repayment of such bonds, and, on occasion, for the repair and maintenance of the assets acquired with the bond proceeds. These resources are classified as restricted assets on the balance sheet because of their limited use. Most capital grant agreements mandate that grant proceeds be spent only on capital assets. Unspent resources of this nature are also classified as restricted. The limited use resources described above involve a reported restriction of both cash and net assets.

Unspent proceeds of bonds issued to finance capital assets are also reported as restricted cash.

1-E-5. *Inventories and Prepaid items*

Inventories in governmental funds are not reported. These consist of immaterial amounts of expendable supplies for consumption. Such supplies are acquired as needed. Proprietary fund inventories, where material, are stated at the lower of cost or market, using the first-in, first-out basis.

Prepaid items record payments to vendors that benefit future reporting and are reported on the consumption basis. Both inventories and prepayments are similarly reported in government-wide and fund financial statements.

1-E-6. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of net position will sometimes include 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 so will not be recognized as an outflow of resources (expense/expenditure) until then. The Service Area does not currently have any reportable deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes include 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 so will not be recognized as an inflow of resources (revenue) until then. Property taxes to be collected in November were unavailable in the current fiscal year. Accordingly, these property taxes are deferred and will be recognized as an inflow of resources in the period that the amounts become available.

Summit County Service Area #3
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

1-E. Assets, Liabilities, and Net Position or Equity (continued)

1-E-7. Capital Assets

Capital assets includes property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or at estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Infrastructure is depreciated.

The cost of normal maintenance and repairs that does not add to the value of an asset or materially extend the assets' life is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Upon retirement or disposition of capital assets, the cost and related accumulated depreciation are removed from the respective accounts. Depreciation of capital assets is computed using the straight-line method over their estimated useful lives.

Property, plant, and equipment of the primary government, as well as the component unit, if any, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	10-40
Infrastructure	20
Machinery and equipment	10
Water distribution system	20-50

1-E-8. Long-term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are deferred and amortized over the terms of the respective bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Summit County Service Area #3
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

1-E. Assets, Liabilities, and Net Position or Equity (continued)

1-E-9. *Net position flow assumption*

Sometimes the Service Area will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Service Area’s policy to consider restricted - net position to have been depleted before unrestricted – net position is applied.

1-E-10. *Fund balance flow assumptions*

Sometimes the Service Area will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to reports as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Service Area’s policy to consider restricted fund balance to have been depleted before using the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

1-E-11. *Fund balance policies*

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Service Area itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). The committed fund balance classification includes amounts that can be used only for the specific purposes determined by formal action of the Service Area’s highest level of decision-making authority. The Service Area Board is the highest level of decision-making authority for the Service Area that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Board may also assign fund balance, as it does when appropriating fund balance, to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

1-E-12. *Estimates*

The preparation of financial statements, in accordance with generally accepted accounting principles (GAAP), requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Summit County Service Area #3
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2-A. Budgetary data

The Board of Trustees adopts an annual operating budget which can be amended by the Board throughout the year. Formal budgetary accounting is employed as a management control for all funds of the Service Area. For each of the funds for which a formal budget is adopted, the same basis of accounting is used to reflect actual revenues and expenditures recognized on the basis of general accepted account principles.

At the fund level actual expenditures cannot exceed budgeted appropriations; however, with proper approval of the Board of Trustees, budgetary transfers between line items can be made. The budgeted financial statements represented in this report reflect final budget authorization, including all amendments.

2-B. Deficit fund net assets

None of the Service Area's funds have deficit balances.

Summit County Service Area #3
NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

NOTE 3 - DETAILED NOTES

3-A. Deposits and investments

Cash and investments as of December 31, 2016 consist of the following:

	Fair Value
Demand deposits	\$ 102,001
Investments - PTIF	1,363,937
Total cash	\$ 1,465,938

Cash and investments listed above are classified in the accompanying government-wide statement of net position as follows:

Cash and cash equivalents (current)	\$ 1,317,227
Restricted cash and cash equivalents (non-current)	148,711
Total cash and cash equivalents	\$ 1,465,938

Cash equivalents and investments are carried at fair value in accordance with GASB Statement No 72.

The Utah Money Management Act (UMMA) establishes specific requirements regarding deposits of public funds by public treasurers. UMMA requires that Service Area funds be deposited with a qualified depository which includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements specified in UMMA Section 51, Chapter 7. UMMA provides the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and also defines capital requirements which an Institution must maintain to be eligible to accept public funds. UMMA lists the criteria for investments and specifies the assets which are eligible to be invested in, and for some investments, the amount of time to maturity.

UMMA enables the State Treasurer to operate the Public Treasurer's Investment Pool (PTIF). PTIF is managed by the Utah State Treasurer's investment staff and comes under the regulatory authority of the Utah Money Management Council. This council is comprised of a select group of financial professionals from units of local and state government and financial institutions doing business in the state. PTIF operations and portfolio composition is monitored at least semi-annually by the Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations. Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments which are recorded on an amortized cost basis. The balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares. The Weighted Average Maturity for the PTIF is 54.71 as of June 30, 2017. The Service Area maintains monies not immediately needed for expenditure in PTIF accounts. A copy of the financial statements for the PTIF funds can be obtained by contacting the Utah State Treasurer.

Summit County Service Area #3
NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

3-A. Deposits and investments (continued)

Fair value of investments

The Service Area measures and records 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. At June 30, 2017, the Service Area had \$1,363,937 invested in the PTIF, which uses a Level 2 fair value measurement.

Deposit and investment risk

The Service Area maintains no investment policy containing any specific provisions intended to limit the Service Area's exposure to interest rate risk, credit risk, and concentration of credit risk other than that imposed by UMMA. The Service Area's compliance with the provisions of UMMA addresses each of these risks.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. All deposits and investments of the Service Area are available immediately.

Credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits. At December 31, 2017, all of the Service Area's demand deposits are covered by FDIC insurance.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. This risk is addressed through the policy of investing excess monies only in PTIF.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. PTIF falls under the constraints of UMMA in limiting concentrations of investments.

3-B. Receivables

The allowance policy is described in Note 1-E-3. Receivables as of year-end for the Service Area's funds are shown below:

	General Fund	Water Fund	Total
Customers, net of allowances	\$ -	103,000	103,000
Property tax	292,489	-	292,489
Due from other governments	19,579	-	19,579
Total receivables	\$ 312,067	103,000	415,067

Summit County Service Area #3
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

3-C. Capital assets

Capital asset activity for governmental activities was as follows:

Governmental activities	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets, not being depreciated:				
Land and rights	\$ 1,120,000	-	-	1,120,000
Total capital assets, not being depreciated	1,120,000	-	-	1,120,000
Capital assets, being depreciated:				
Buildings and improvements	84,309	-	-	84,309
Infrastructure	2,032,988	-	-	2,032,988
Total capital assets, being depreciated	2,117,297	-	-	2,117,297
Less accumulated depreciation for:				
Buildings and improvements	28,089	3,408	-	31,497
Infrastructure	1,043,152	80,247	-	1,123,399
Total accumulated depreciation	1,071,241	83,655	-	1,154,896
Total capital assets being depreciated, net	1,046,055	(83,655)	-	962,400
Governmental activities capital assets, net	\$ 2,166,055	(83,655)	-	2,082,400

Depreciation expense was charged to functions/programs of the primary government governmental activities was as follows:

Governmental activities:	
Roads and snow removal	\$ 83,655
Total	\$ 83,655

Summit County Service Area #3
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

3-C. Capital assets (continued)

Capital asset activity for the business-type activities was as follows:

Business-type activities	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets, not being depreciated:				
Land and water shares	\$ 64,735	-	-	64,735
Total capital assets, not being depreciated	64,735	-	-	64,735
Capital assets, being depreciated:				
Water system	2,453,133	-	-	2,453,133
Buildings and improvements	40,734	-	-	40,734
Equipment	7,951	-	-	7,951
Total capital assets, being depreciated	2,501,818	-	-	2,501,818
Less accumulated depreciation for:				
Water system	1,089,542	64,904	-	1,154,446
Buildings and improvements	31,524	426	-	31,950
Equipment	7,951	-	-	7,951
Total accumulated depreciation	1,129,017	65,330	-	1,194,347
Total capital assets being depreciated, net	1,372,801	(65,330)	-	1,307,471
Business-type activities capital assets, net	\$ 1,437,536	(65,330)	-	1,372,206

Depreciation expense was charged to functions/programs of the primary government business-type activities was as follows:

Business-type activities:	
Water system	\$ 65,330
Total	\$ 65,330

Summit County Service Area #3
NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

3-D. Long-term liabilities

Long-term debt activity for the year ended December 31, 2016 was as follows:

Business-type activities:	Original Principal	% Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2011 Water Revenue Bonds							
Matures 12/31/2041	\$ 428,000	1.69	\$ 199,000	-	4,000	195,000	5,000
Total business-type activity long-term liabilities			\$ 199,000	-	4,000	195,000	5,000

In October 2010, the Service Area issued revenue bonds for \$428,000. Proceeds from the issuance were used to repair an existing booster pump station and constructing water lines and related improvements. The bonds are Build America Bonds and are federally taxable, but the Service Area receives a subsidy from the Internal Revenue Service for interest paid. The bonds have been sold to the Utah Department of Environmental Quality, Drinking Water Board bearing interest at the rate of 1.69% and mature on January 1, 2041. The Drinking Water Board has agreed to forgive the Service Area of the obligation to repay up to a maximum amount of \$214,000 so that the maximum principal amount of the series 2010 Bonds to be paid to the Drinking Water Board shall not exceed \$214,000.

Debt service requirements to maturity for business-type activities are as follows:

	Principal	Interest	Total
2018	\$ 5,000	3,296	8,296
2019	5,000	3,211	8,211
2020	5,000	3,127	8,127
2021	5,000	3,042	8,042
2022	6,000	2,958	8,958
2023-2027	36,000	13,097	49,097
2028-2032	45,000	9,718	54,718
2032-2037	48,000	5,864	53,864
2038-2041	40,000	1,690	41,690
Total	\$ 195,000	46,002	241,002

Summit County Service Area #3
NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

3-E. Interfund receivable, payables, and transfers

	Due to	Due from
General Fund	\$ 100,000	-
Water Fund	-	100,000
Total	\$ 100,000	100,000

NOTE 4 - OTHER INFORMATION

4-A. Risk management

The Service Area is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Service Area participates in the Utah Local Government Trust, a public agency insurance mutual, which provides coverage for property damage and general liability. The Service Area is subject to a minimal deductible for claims. There have been no significant reductions in insurance coverage from coverage in the prior year. Amounts of settlements have not exceeded insurance coverage in any of the past three fiscal years.

4-B. Rounding convention

A rounding convention to the nearest whole dollar has been applied throughout this report, therefore the precision displayed in any monetary amount is plus or minus \$1. These financial statements are computer generated and the rounding convention is applied to each amount displayed in a column, whether detail item or total. As a result, without the overhead cost of manually balancing each column, the sum of displayed amounts in a column may not equal the total displayed. The maximum difference between any displayed number or total and its actual value will not be more than \$1.

4-C. Subsequent events

In preparing these financial statements, the Service Area has evaluated events and transactions for potential recognition or disclosure through June 4, 2018, the date the financial statements were available to be issued

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

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Summit County Service Area #3
Notes to Required Supplementary Information
December 31, 2017

Budgetary Comparison Schedules

The Budgetary Comparison Schedule presented in this section of the report is for the Service Area's General Fund.

Budgeting and Budgetary Control

The budget for the General Fund is legally required and is prepared and adopted on the modified accrual basis of accounting.

Original budgets represent the revenue estimates and spending authority authorized by the Service Area Board prior to the beginning of the year. Final budgets represent the original budget amounts plus any amendments made to the budget during the year by the Board through formal resolution. Final budgets do not include unexpended balances from the prior year because such balances automatically lapse to unreserved fund balance at the end of each year.

Current Year Excess of Expenditures over Appropriations

For the year ended December 31, 2017, spending was under appropriations.

Summit County Service Area #3
**SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND**
 For the year ended December 31, 2017

	Budgeted Original	Budgeted Final	Actual	Variance with Final Budget
Revenues				
Taxes	\$ 300,000	317,000	343,820	26,820
Intergovernmental revenues	80,000	104,757	108,312	3,556
Charges for services	18,500	18,500	16,775	(1,725)
Interest	1,000	1,000	5,773	4,773
Miscellaneous revenue	-	-	1,110	1,110
Total revenues	399,500	441,257	475,790	34,533
Expenditures				
Road Maintenance and snow removal	304,501	414,075	398,597	15,479
Professional services	25,000	81,421	75,690	5,732
Legal fees	25,000	30,051	31,366	(1,315)
Insurance	4,500	4,500	4,040	460
General administration	3,700	5,800	4,196	1,604
Trails and parks	10,000	37,800	-	37,800
Total expenditures	372,701	573,647	513,888	59,760
Excess (deficiency) of revenues over (under) expenditures	26,799	(132,391)	(38,098)	94,293
Other financing sources and (uses)				
Transfers in (out)	(26,799)	(26,799)	-	26,799
Total other financing sources and (uses)	(26,799)	(26,799)	-	26,799
Net change in fund balances	-	(159,190)	(38,098)	121,092
Fund balances - beginning of year	460,399	460,399	460,399	-
Fund balances - end of year	\$ 460,399	301,209	422,301	121,092

Other Reports

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Summit County Service Area #3
Park City, Utah

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental and business-type activities of Summit County Service Area #3 (the Service Area), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Summit County Service Area #3's basic financial statements, and have issued our report thereon dated June 4, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Service Area's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Larson & Company, PC

Spanish Fork, Utah

June 4, 2018



**INDEPENDENT AUDITOR'S REPORT *AUDIT GUIDE* ON COMPLIANCE
AND ON INTERNAL CONTROL OVER COMPLIANCE
AS REQUIRED BY THE *STATE COMPLIANCE***

Board of Trustees
Summit County Service Area #3
Park City, Utah

Report on Compliance with General State Compliance Requirements

We have audited Summit County Service Area #3's, (the Service Area), compliance with the applicable general state compliance requirements described in the *State Compliance Audit Guide*, issued by the Office of the Utah State Auditor, that could have a direct and material effect on the Service Area for the year ended December 31, 2017.

General State Compliance requirements were tested for the year end December 31, 2017 in the following areas:

Budgetary Compliance
Fund Balance
Open and Public Meetings Act

Restricted Taxes and Related Revenues
Treasurer's Bond

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance with general state compliance requirements. However, our audit does not provide a legal determination of the Service Area's compliance.

Opinion on General State Compliance Requirements

In our opinion, Summit County Service Area #3 complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Service Area for the year ended December 31, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported to be reported in accordance with the *State Compliance Audit Guide* and which are described in our letter to management dated June 4, 2018 as items SC 2016.1 and 2. Our opinion on compliance is not modified with respect to these matters.

The Service Area's response to the noncompliance findings identified in our audit is described in our letter to management. The Service Area's response was not subjected to the auditing procedures in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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

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

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

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



Larson & Company, PC
Spanish Fork, Utah

June 4, 2018