



Financial Statements
December 31, 2013 and 2012

**Mountain Regional Water Special
Service District**
A Component Unit of Summit County, Utah

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

Table of Contents
December 31, 2013 and 2012

Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	3
Financial Statements	
Statements of Net Position.....	21
Statements of Revenues, Expenses and Changes in Net Position.....	23
Statements of Cash Flows.....	24
Notes to Financial Statements.....	26
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 <i>Government Auditing Standards</i>	39
Independent Auditor's Report on Compliance in Accordance with the <i>State of Utah Legal Compliance Audit Guide</i>	41
Schedule of Findings and Responses.....	43



CPAs & BUSINESS ADVISORS

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Mountain Regional Water Special Service District (a component unit of Summit County) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of Mountain Regional Water Special Service District as of December 31, 2013 and 2012, and the respective changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Effect of Adopting New Accounting Standard

As described in Note 1 to the financial statements, Mountain Regional Water Special Service District adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As discussed in Note 9 to the financial statements, Mountain Regional Water Special Service District presented a retroactive restatement of previously reported net positions to write-off bond issuance costs. Our opinion is not modified with respect to this matter.

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 3 - 20 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 our report dated May 27, 2014 on our consideration of Mountain Regional Water Special Service 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 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 Mountain Regional Water Special Service District's internal control over financial reporting and compliance.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in dark ink and is positioned above the typed name and date.

Ogden, Utah
May 27, 2014

Overview of Basic Financial Statements

This section of the Mountain Regional Water Special Service District, a component unit of Summit County, (District) report serves as an introduction to its basic financial statements for the years ended December 31, 2013 and 2012 and presents management's discussion and analysis of its financial condition.

Please read this in conjunction with the District's basic financial statements, which follow this section. The financial statements comprise two components: 1) its enterprise fund financial statements, and 2) notes to the basic financial statements. These statements include all District activities.

Component Unit Financial Statements

The District operates as an enterprise fund and is a component unit of Summit County, Utah. Enterprise funds account for operations that are financed and operated in a manner similar to a private business where the intent of the governing body is that the costs of providing goods and services be financed or recovered primarily through user charges. The District is financed primarily through water sales, service fees, and impact fees. It does not impose any taxes.

Notes to Financial Statements

The notes provide additional information essential to a full understanding of the data provided in the financial statements. The notes are a part of the basic financial statements.

Relevant Financial Policies

Financial Planning

The District updates its five year financial plan annually in order to address financial issues before they become problems. This, along with the creation of rate stabilization reserves, helps the District stabilize rates and charges; despite potential revenue fluctuations in building related revenue and the impact of weather on water sales.

The District periodically reviews its capital facilities plan and impact fee structure. A detail review is currently underway.

Budgeting

The District utilizes zero-based budgeting, allowing the District to fund programs based upon current needs and priorities. All District budgets are approved annually by the Summit County Council and may be amended during the fiscal year. These budgets are prepared in accordance with state law for service districts. These include operating, capital, and debt service budgets.

District management and the Control Board review budgets and revenue projections on a monthly basis; and more often the last two months of the year.

The District continues to demonstrate the ability to make expenditure cuts, when appropriate, during the year.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2013 and 2012

Debt Coverage

To meet bond covenants, the District budgets to provide a minimum debt coverage ratio of 1.25 once all other financial obligations are paid; and before including any balances in the rate stabilization fund. The only two exceptions to this relate to the Treatment Plant Sub Fund and Prepaid Assessments Sub Fund. These two sub funds are described in more detail under Rate Stabilization Fund below.

The 1.25 debt coverage helps ensure bond holders will be paid if unanticipated expenditures are paid or revenue falls short of projections.

Rate Stabilization Fund

The District has established a rate stabilization fund to better deal with cyclical development related revenue, prepayment of assessments, treatment plant costs that vary dramatically from year to year, and the impact of weather on water sales. This allows the District to include the balance in the Rate Stabilization Fund in its debt coverage calculation.

The rate stabilization fund has the following three components, with the associated 2013 year-end balances:

Debt Service Sub Fund	\$ 1,053,425
Prepaid Assessment Sub Fund	82,635
Treatment Plant Sub Fund	65,988

Debt Service Sub Fund

It is District policy to maintain at least \$1.0 million in the Debt Service Sub Fund. The balance can only be used to make parity debt payments in the unlikely case insufficient cash is generated from operations in any given year. If the balance drops below \$1.0 million to make such debt payments, the District has three years to replenish it back to its minimum level.

When establishing budgets, District policy prohibits the use of the Debt Service Sub Fund balance to meet the 1.25 debt coverage requirement. The balance can only be applied to the actual year-end debt coverage calculation in the unlikely case insufficient funds were generated from operations.

Prepaid Assessment Sub Fund

The District collects property assessments from two developments that are applied to related debt payments. Occasionally these assessments are paid ahead of schedule and the prepayments are deposited in the Prepaid Assessment Sub Fund.

In future years, when lower assessments are expected to be collected due to the prepayments, the balance in the Prepaid Assessment Sub Fund may be used calculating both the budgeted and year-end actual debt coverage ratios.

Treatment Plant Sub Fund

Each year the District budgets the same annual amount for high cost carbon and membrane filters whether it plans to acquire any or not. The annual budget is one-tenth the amount the District anticipates it will spend over the

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2013 and 2012

next ten years on these two high cost items.

In most years little or no funds will be spent on these items and the unused budget amount will be deposited into the Treatment Plant Sub Fund.

In years when the actual amount expended is expected to exceed the annual budget amount, the District will include in its budgeted and actual year-end debt coverage calculations the portion of Treatment Plant Sub Fund needed to pay for the amount spent on carbon and membrane filters beyond the annual budget amount.

Other Cash Reserves

District policy requires it to maintain a minimum 120 days unrestricted operating cash & reserves based upon that year's annual cash operating budget. This cash balance varies significantly during the year so the 120 days requirement is based upon the month with the lowest cash balance – usually April or May. The 175 day balance at year-end 2013 should be sufficient to maintain the 120 day requirement through the entire year.

The District has a goal to finish each fiscal year with a minimum \$500,000 balance in capital facility repair & replacement funds. The year-end 2013 balance is \$570,038.

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

Procurement Policies

The District has established purchasing policies and controls, in compliance with state law, to ensure proper procedures are followed and that District purchases represent best value.

Human Resource Policies

The District has established human resource policies and controls, in compliance with state and federal laws, to ensure proper procedures are followed and well documented when dealing with employees.

Internal Controls

The District has established detail internal controls for all financial functions to ensure the proper checks and balances are in place to prevent fraud and that all accounting transactions are entered correctly.

Economic Trends

General

The District was created in 2000 by the Summit County Commission (now Council) to regionalize water service in Snyderville Basin by consolidating several water companies, both public and private, that were failing both operationally and financially.

The District covers an area of 39.3 square miles within in the unincorporated areas of the Snyderville Basin area surrounding Park City, the Promontory development and the Colony mountain development near Park City.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2013 and 2012

The District maintains a centralized, regional water system that currently serves 3,129 customers. Based upon actual water usage however, the District provides water for 7,838 equivalent residential connections (ERCs), as it provides water for two golf courses and wheels wholesale water through its water system to other water companies. In addition, 1,865 undeveloped lots exist within the District's boundaries that have a water system installed in a ready-to-serve state for which a standby fee is assessed.

The area served by the District has three world-renowned ski resorts within five miles of each other: Park City Mountain, Deer Valley, and The Canyons. The Sundance Film Festival is held in the area each winter.

Summer activity is growing in the area, including arts festivals, concerts, sporting events, along with a variety of other activities. There are several upscale gated communities served by the District, two of which have golf courses.

Major employer data is not available for the District, although a variety of employers exist. This includes accommodation and food service, recreation, retail trade, technical service, industrial, and government. The unemployment rate in the area is generally lower than for the rest of Utah and the nation.

Population and Income Trends

The District experienced fast population growth from 2000 to 2008, when it slowed due to the Great Recession. However, income levels within the District remain strong, and are well above national averages.

Mountain Regional Water Special Service District's Population & Income Trends

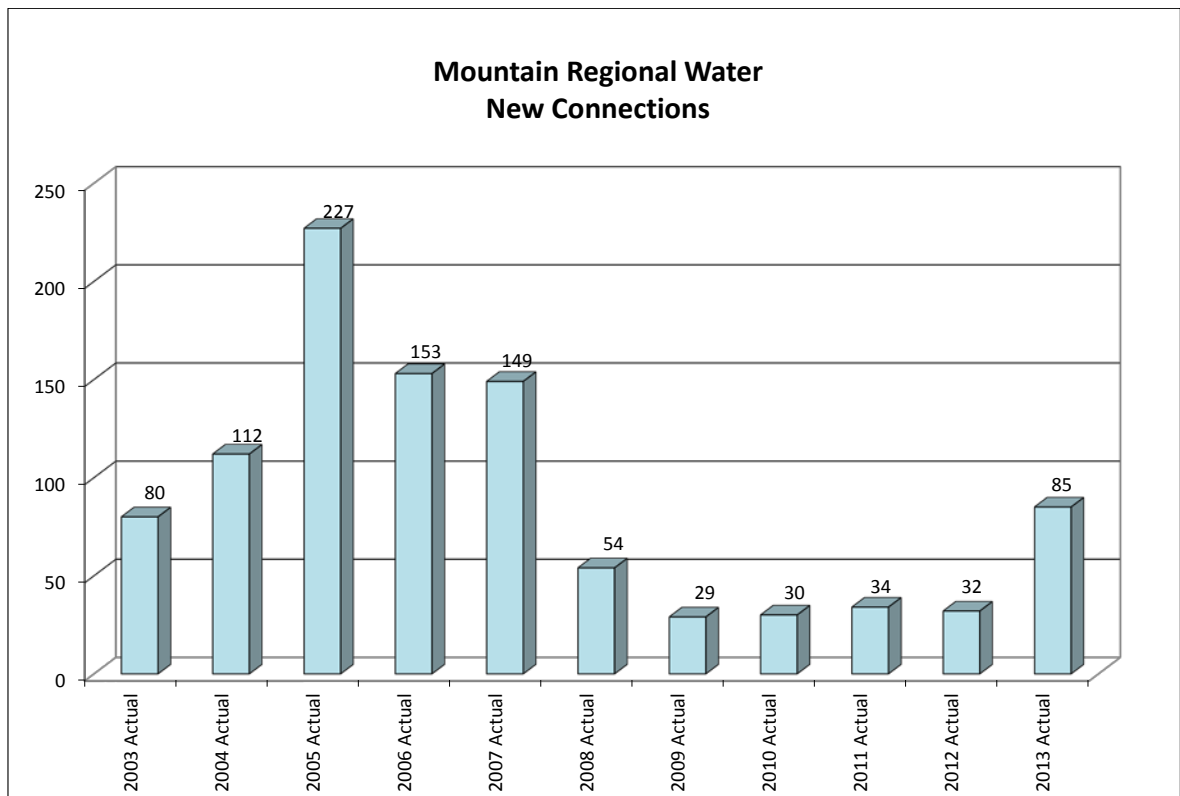
	2000	2010	2012 (estimated)	2015 (estimated)
Population	4,334	6,273	6,598	7,086
Households	1,563	2,260	2,382	2,564
Median Household Income	\$ 79,524	\$ 98,068	\$ 104,192	113,378
Average Household Income	\$ 105,893	\$ 123,253	\$ 132,676	146,811

Source: esri Demographic and Income Profile for Mountain Regional Water Special SSD

The population and income amounts shown above exclude the owners of second homes. These second homeowners tend to have much higher income levels than individuals living within the District on a full-time basis.

Building Activity

Building activity increased significantly in 2013, with 85 new connections, compared with an average of 31 between 2009 and 2012, as shown below.



In addition, the District entered into a water operating agreement with a new subdivision with a projected 60 new lots; and another large development annexed into the District with approximately 100 new lots. Several other developers are in discussions with the District regarding water service as well.

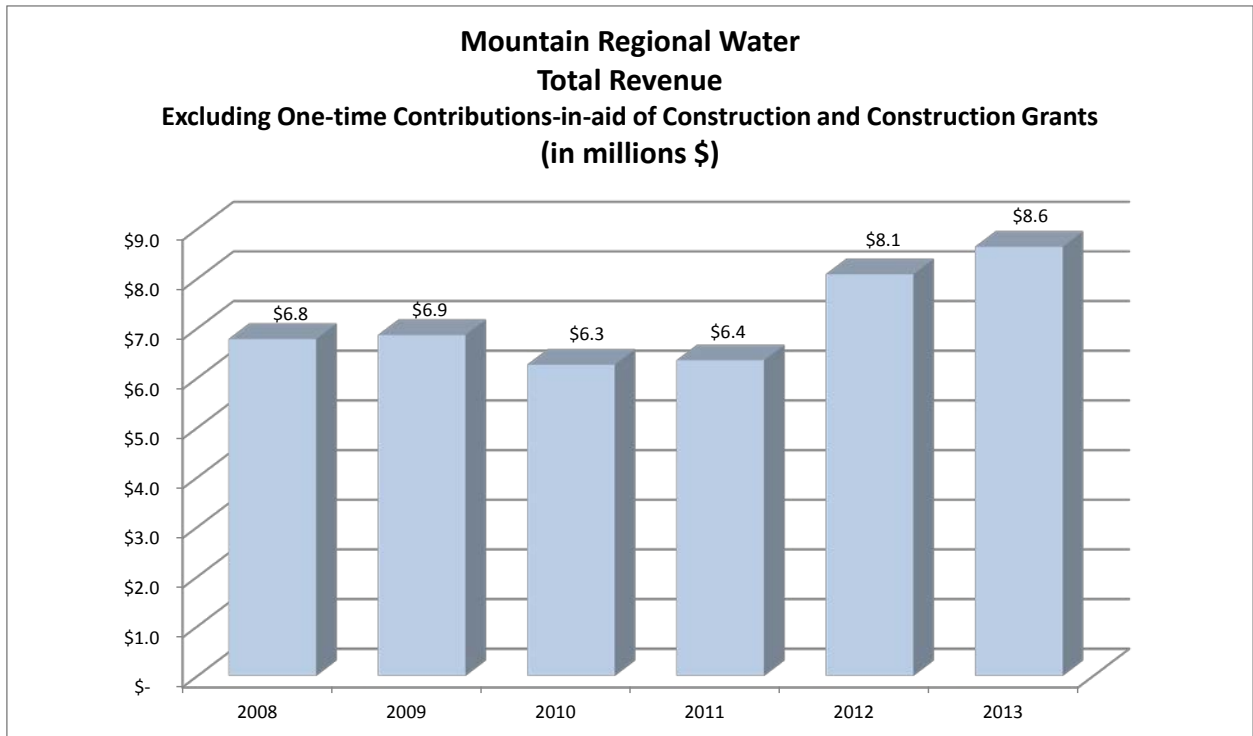
Revenue Trends

As shown below, District revenue remained flat between 2008 and 2011 as the economic downturn and cool wet weather dampened collections.

In 2012, water rate increases and more normal summer weather led to a \$1.58 million increase in water sales. Other small increases led to an overall \$1.73 million improvement in total revenue.

Then in 2013, building activity accelerated, resulting in a \$768,342 increase in development related revenue. This was offset by a \$75,887 reduction in interest earnings, and a \$166,892 decrease in other operating revenue. Other operating revenue declined in 2013 due to a one-time \$190,676 insurance payment received in 2012.

The 2013 decline in interest earnings is the direct result of the Series 2012 bond refunding that was used to pay off the Series 2003 bonds. The Series 2003 bonds included a \$2.95 million debt reserve that earned 4.6% annual interest. There is no debt reserve for the Series 2012 bonds, so the \$2.95 million Series 2003 debt reserve was used to reduce the par amount of the Series 2012 bonds.



The increase in development related revenue corresponds directly with the growth in new connections and building activity discussed above. This includes a \$367,318 or 187.3% increase in impact fee collections; a \$294,978 or 59.1% increase in SID assessment collections related to lot sales in the Promontory development; and a \$106,046 or 68.9% increase in operating fee collections (which includes new meter connection fees).

Water sales between 2012 and 2013 were nearly the same, with a token \$11,798 or 0.2% increase in 2013.

Water sales should increase as new developments currently underway start using water. In addition, the District has the potential to sell wholesale water to Weber Basin as part of the water regionalization agreement signed in 2013. Weber Basin would then sell this wholesale water to other water entities in the Snyderville Basin.

Financial Highlights

Summary of 2013 Activity

In 2013, the District's change in net position (net income) was positive \$1.46 million, with a corresponding \$898,313 increase in total cash.

This improvement in net position was driven by the \$768,342 increase in development related revenue, lower interest expense due to the Series 2012 bond refunding, and \$288,413 in contributions-in-aid of construction from developers.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2013 and 2012

Debt Coverage Ratio

Bond covenants require the District to set rates, fees, and ongoing expenditures such that once all other operational costs are paid each year, the amount left to pay debt service is 1.25 times the scheduled parity debt payments.

As shown below, the District's 2013 debt coverage ratio from current year operations remained very healthy at 1.80 compared to 2.06 in 2012. In 2011, the District's ratio from current year operations was 1.26 – just above the minimum level. The improvement since then is the result of rate increases, a return to more normal summer weather, improved building activity, and refinancing old debt with new debt that has lower interest rates.

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

	2013	2012	2011
Water sales	\$ 6,884,945	\$ 6,873,147	\$ 5,297,520
Operating fees	259,851	153,805	151,616
Impact fees	563,385	196,067	242,285
SID assessments	794,375	499,397	453,020
Interest available for debt service	26,491	101,983	152,710
Other non-restricted cash revenue	108,307	258,787	53,402
Total cash available for debt service from current year operations	<u>8,637,354</u>	<u>8,083,186</u>	<u>6,350,553</u>
Current year cash operating expenses	<u>(4,494,215)</u>	<u>(4,506,355)</u>	<u>(3,713,304)</u>
Net cash available for debt service payments from current year operations	<u>4,143,139</u>	<u>3,576,831</u>	<u>2,637,249</u>
Current year parity debt service payments	<u>2,300,899</u>	<u>1,738,225</u>	<u>2,092,888</u>
Debt service coverage from current year operations	<u>1.80</u>	<u>2.06</u>	<u>1.26</u>
Net cash available for debt service payments from current year operations	4,143,139	3,576,831	2,637,249
Rate Stabilization Fund balance	1,202,048	1,022,262	416,874
Total cash available for debt service payments	<u>5,345,187</u>	<u>4,599,093</u>	<u>3,054,123</u>
Debt service coverage with Rate Stabilization fund	<u>2.32</u>	<u>2.65</u>	<u>1.46</u>

This ratio should decline to a projected 1.30 over the next two years as debt service payments and power costs increase. A larger increase in non-SID funded debt payments is scheduled to take place in 2016 – meaning a rate increase at that time is likely.

As a note, when the \$1.20 million rate stabilization fund balance is included, the 2013 coverage ratio improves to 2.32 - as shown above. For 2012, the coverage ratio improves to 2.65 when the rate stabilization fund is included.

Cash Flow

After falling to what a bond rating agency referred to in 2010 as “barely adequate” unrestricted cash and reserves; total District cash and reserves increased by \$1.79 million in 2012, and \$898,313 or 17.2% in 2013.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2013 and 2012

This combined \$2.69 million increase over two years is due to water rate increases, increased building related activity, and the lower interest payments that resulted from the Series 2012 bond refunding. This refunding also provided \$747,000 in a one-time cash infusion.

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

	2013	2012	2011	\$ Change 2013 to 2012	% Change 2013 to 2012
Unrestricted cash and reserves held by district					
Operating cash & reserves	\$ 2,303,217	\$ 2,020,186	\$ 1,393,539	\$ 283,031	14.0 %
Rate stabilization fund					
Subfund for debt service	1,053,425	854,906	416,874	198,519	23.2
Subfund for prepaid assessments	82,635	166,311	-	(83,676)	(50.3)
Subfund for treatment plant	65,988	1,045	-	64,943	6,214.6
Other unrestricted reserves	6,320	6,245	35,229	75	1.2
Total unrestricted cash and reserves held by the District	<u>3,511,585</u>	<u>3,048,693</u>	<u>1,845,642</u>	<u>462,892</u>	<u>15.2</u>
Cash restricted for debt payments					
Held by trustee	228,275	370,445	323,197	(142,170)	(38.4)
Held by district	316,063	346,013	269,513	(29,950)	(8.7)
Total cash restricted for debt payments	<u>544,338</u>	<u>716,458</u>	<u>592,710</u>	<u>(172,120)</u>	<u>(24.0)</u>
Other restricted cash					
Impact fees	834,066	700,442	729,904	133,624	19.1
Capital facilities construction, repair & replacement reserves	570,038	303,614	97,135	266,424	87.8
IRS rebate	403,741	275,307	-	128,434	46.7
Customer deposits	265,021	181,000	177,813	84,021	46.4
Bond construction funds	1,626	6,588	1,037	(4,962)	(75.3)
Total other restricted cash	<u>2,074,492</u>	<u>1,466,951</u>	<u>1,005,889</u>	<u>607,541</u>	<u>41.4</u>
Total cash	<u>\$ 6,130,415</u>	<u>\$ 5,232,102</u>	<u>\$ 3,444,241</u>	<u>\$ 898,313</u>	<u>17.2 %</u>

Unrestricted cash and reserves held by the District increased \$462,892 or 15.2% in 2013, to \$3.51 million. This includes a year-end 2013 balance for operating cash and reserves of \$2.30 million. This represents 175 days reserves – which is well above the policy of 120 days. Operating cash and reserves is generally lowest in April and May. The 2013 year-end balance of 175 days should be sufficient to maintain 120 days through the entire year.

The 175 days for 2013 compares to 158 days at year-end 2012 and 133 days at year-end 2011. The 2011 and 2012 year-end balances were not sufficient to provide 120 days reserves throughout the entire year.

Cash restricted for debt payments has been maintained at mandatory levels since the District's inception in 2000.

Other restricted cash increased by \$607,541 or 41.4% in 2013. Of note, the impact fee account increased \$133,624 or 19.1% and the customer deposits increased \$84,021 or 46.4%; both due to increased building activity. In addition, funds were deposited into the capital facilities construction, repair and replacement reserves per bond covenants. Finally, a preliminary IRS arbitrage rebate calculation led to additional deposits into that account.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2013 and 2012

District Financial Analysis

Net Position

An entity's net position (i.e. total assets plus deferred outflows, less total liabilities and deferred inflows) may serve over time as a useful indicator of a government's financial condition, as shown below.

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

	2013	2012 (restated)	2011 (restated)	\$ Change 2013 to 2012	% Change 2013 to 2012
Operating revenue	\$ 7,214,126	\$ 7,263,174	\$ 5,497,415	\$ (49,048)	(0.7) %
Operating expenses	(5,868,998)	(5,918,466)	(5,072,939)	49,468	(0.8)
Operating income (loss)	<u>1,345,128</u>	<u>1,344,708</u>	<u>424,476</u>	<u>420</u>	<u>0.0</u>
Non-operating revenue	1,435,193	832,371	865,259	602,822	72.4
Non-operating expense	(1,607,910)	(2,797,308)	(1,936,606)	1,189,398	(42.5)
Income (loss) before operating transfers	<u>1,172,411</u>	<u>(620,229)</u>	<u>(646,871)</u>	<u>1,792,640</u>	<u>(289.0)</u>
Transfers and contributions to (from) district	<u>288,413</u>	<u>369,677</u>	<u>2,075,743</u>	<u>(81,264)</u>	<u>(22.0)</u>
Change in net position	1,460,824	(250,552)	1,428,872	1,711,376	(683.0)
Net position - beginning	<u>38,139,978</u>	<u>38,390,530</u>	<u>36,961,658</u>	<u>(250,552)</u>	<u>(0.7)</u>
Net position - ending	<u>\$ 39,600,802</u>	<u>\$ 38,139,978</u>	<u>\$ 38,390,530</u>	<u>\$ 1,460,824</u>	<u>3.8 %</u>

In 2013, the District's net position increased \$1.46 million – to \$39.60 million. This increase was driven by the \$768,342 increase in development related revenue, lower interest expense due to the Series 2012 bond refunding, and \$288,413 in contributions-in-aid of construction from developers.

The District's net position decreased \$250,552 in 2012. Higher water sales and lower interest payments were more offset by the many accounting aspects of the Series 2012 bond refunding, including expensing \$680,015 in bond issuance costs.

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

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2013 and 2012

Mountain Regional Water Special Service District's Net Position

	2013	2012 (restated)	2011 (restated)	\$ Change 2013 to 2012	% Change 2013 to 2012
Unrestricted current assets	\$ 5,299,289	\$ 5,108,389	\$ 3,803,112	\$ 190,900	3.7 %
Capital assets	77,507,072	77,470,791	77,574,473	36,281	0.0
Other assets	2,618,830	2,183,409	1,598,599	435,421	19.9
Total assets	<u>85,425,191</u>	<u>84,762,589</u>	<u>82,976,184</u>	<u>662,602</u>	<u>0.8</u>
Deferred outflow of resources	1,709,441	1,795,270	-	(85,829)	(4.8)
Total deferred outflow	<u>1,709,441</u>	<u>1,795,270</u>	<u>-</u>	<u>(85,829)</u>	<u>(4.8)</u>
Unrestricted current liabilities	940,104	912,137	708,433	27,967	3.1
Long-term liabilities	43,325,010	44,956,095	43,505,635	(1,631,085)	(3.6)
Other liabilities	2,480,114	1,680,933	371,586	799,181	47.5
Total liabilities	<u>46,745,228</u>	<u>47,549,165</u>	<u>44,585,654</u>	<u>(803,937)</u>	<u>(1.7)</u>
Deferred inflow of resources	788,602	868,716	-	(80,114)	(9)
Total deferred inflow	<u>788,602</u>	<u>868,716</u>	<u>-</u>	<u>(80,114)</u>	<u>(9)</u>
Net position					
Net investment in capital assets	34,618,833	33,688,682	35,350,310	930,151	2.8
Restricted	1,467,991	1,321,878	1,228,675	146,113	11.1
Unrestricted	3,513,978	3,129,418	1,811,545	384,560	12.3
Total net position	<u>\$ 39,600,802</u>	<u>\$ 38,139,978</u>	<u>\$ 38,390,530</u>	<u>\$ 1,460,824</u>	<u>3.8 %</u>

This allocation of the District's net position reflects its aggressive capital projects program to address water shortage and quality problems in Snyderville Basin, and to address the rapid customer growth during the building boom. These capital assets were funded roughly two-thirds from the issuance of debt and one-third from contributions-in-aid of construction.

As such, District capital assets account for \$77.51 million or 90.7% of its total assets; long-term liabilities (debt) account for \$43.33 million or 92.7% of total liabilities; and net investment in capital assets account for \$34.62 million or 87.4% of total net position.

Net investment in capital assets measures the book value of an entity's fixed assets such as land, water system infrastructure, equipment, and water rights - less accumulated depreciation and the remaining debt outstanding used to acquire or construct those assets.

Net investment increased \$930,151 in 2013 – which is 2.8%. This increase is largely due to the completion of several small projects.

Net investment decreased \$1.66 million in 2012 as the result of the various aspects of the Series 2012 bond refunding.

Restricted net position includes restricted cash accounts less liabilities that will be paid from future restricted revenue collections. In 2013, restricted net position increased \$146,113 to \$1.47million – a change of 11.1%. Numerous small changes accounted for this. In 2012, restricted net position increased \$93,203 or 7.6%.

In 2013, unrestricted net position increased \$384,560 or 12.3% - to \$3.51 million due to an increase in unrestricted cash. This increase in cash is the result of improved revenue and lower interest expense. High building related collections and lower interest payments contributed to this positive change.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2013 and 2012

Dividing the District's unrestricted current assets by its unrestricted current liabilities demonstrates its ability to meet its following year's obligations. This ratio has ranged between 5.37 and 5.64 the past three years.

Summary of Revenue

Total revenue increased \$553,774 or 6.8% in 2013. This increase is attributable to improved building activity as impact fee collections increased \$367,318 or 187.3%; SID assessment collections on Promontory lot sales increased \$294,978 or 59.1%; and operating fees (which includes meter connection fees) increased \$106,046 or 68.9%.

Mountain Regional Water Special Service District's Revenue Summary

	2013	2012	2011	\$ Change 2013 to 2012	% Change 2013 to 2012
Operating					
Water sales	\$ 6,884,945	\$ 6,873,147	\$ 5,297,520	\$ 11,798	0.2 %
Operating fees	259,851	153,805	151,616	106,046	68.9
Other	69,330	236,222	48,279	(166,892)	(70.7)
Total operating	7,214,126	7,263,174	5,497,415	(49,048)	(0.7)
Non-operating					
State grants	47,648	11,667	11,667	35,981	308.4
Interest income	26,789	102,676	153,164	(75,887)	(73.9)
Impact fees	563,385	196,067	242,285	367,318	187.3
SID assessments	794,375	499,397	453,020	294,978	59.1
Gain on sale of assets	-	16,952	3,398	(16,952)	-
Other non-operating revenue	2,996	5,612	1,725	(2,616)	(46.6)
Total non-operating	1,435,193	832,371	865,259	602,822	72.4
Total revenue	\$ 8,649,319	\$ 8,095,545	\$ 6,362,674	\$ 553,774	6.8 %

These 2013 increases were partially offset by declines in other operating revenue and interest earnings. Other operating revenue declined due to a one-time \$190,676 insurance payment received in 2012.

The decline in interest earnings is the direct result of the Series 2012 bond refunding that was used to pay off the Series 2003 bonds. The Series 2003 bonds included a \$2.95 million debt reserve that earned 4.6% annual interest. There was no debt reserve requirement for the Series 2012 bonds; thus freeing up the \$2.95 million Series 2003 debt reserve to help pay Series 2012 bond closing costs, and to reduce the par amount of the Series 2012 bonds.

Total revenue increased \$1.73 million in 2012, largely due to a \$1.58 million increase in water sales that resulted from water rate increases, and a \$229,389 increase in wheeling charges to Park City.

Summary of Expenses

District expenses decreased \$1.24 million in 2013. Excluding the one-time \$1.1 million decline in bond issuance

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2013 and 2012

and insurance costs related to the Series 2012 bond refunding; the decrease in expenses for 2013 was \$148,508 – which is a better indicator of the measurement of ongoing expenses.

For 2013, interest expense declined by \$117,516 as the result of the Series 2012 bond refunding that refinanced older debt that had higher interest rates.

Water production costs declined \$201,074 in 2013, as the District made a large treatment plant membrane purchase of \$302,759 in 2012. The membranes need to be replaced every five to ten years. This purchase also explains a portion of the increase in 2012 expenses over 2011.

Mountain Regional Water Special Service District's Expenditure Summary

	2013	2012 (restated)	2011 (restated)	\$ Change 2013 to 2012	% Change 2013 to 2012
Operating					
Operations, maintenance and repairs	\$ 1,870,797	\$ 1,788,964	\$ 1,536,954	\$ 81,833	4.6
Water production	1,527,502	1,728,576	1,163,162	(201,074)	(11.6)
Engineering and energy & technology management	423,200	415,846	380,717	7,354	1.8
Management and finance	642,462	568,164	614,292	74,298	13.1
Legal services	30,254	4,805	18,180	25,449	529.6
Depreciation	1,374,783	1,412,111	1,359,634	(37,328)	(2.6)
Total operating	<u>5,868,998</u>	<u>5,918,466</u>	<u>5,072,939</u>	<u>(49,468)</u>	<u>(0.8)</u>
Non-Operating					
Interest expense	1,527,500	1,645,016	1,840,764	(117,516)	(7.1)
Loss on sale of assets	16,776	-	-	16,776	-
Bonding insurance expense	17,414	11,957	27,523	5,457	45.6
Bond issuance expense	-	1,095,815	18,743	(1,095,815)	(100.0)
Trustee and bank fees	46,220	44,520	49,576	1,700	3.8
Total non-operating	<u>1,607,910</u>	<u>2,797,308</u>	<u>1,936,606</u>	<u>(1,189,398)</u>	<u>(42.5)</u>
Total expenses	<u>\$ 7,476,908</u>	<u>\$ 8,715,774</u>	<u>\$ 7,009,545</u>	<u>\$ (1,238,866)</u>	<u>(14.2)</u>

In total, expenses increased \$1.71 million in 2012; although \$1.10 million resulted from one-time bond issuance and insurance costs.

In addition to the large purchase of membranes in 2012, water production costs also increased in 2012 since the District sold more retail water in 2012 than it has the past few years; and Park City wheeled more of its water through the District's Lost Canyon system. The higher costs associated with Park City wheeling in 2012 were offset by increased wheeling fee collections.

Additional staff members were also added in 2012, as the District needed more resources to operate and maintain new District infrastructure.

Budgetary Information

For 2013, the District's change in net position of \$1.46 million was \$1.16 million better than projected, as shown below.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2013 and 2012

Mountain Regional Water Special Service District's Budget Comparison

	2013 Actual	2013 Budget	Favorable (Unfavorable)	
Operating revenues:				
Water sales	\$ 6,884,945	\$ 6,940,500		
Operating fees	259,851	144,500		
Other	69,330	35,000		
Total operating revenue	<u>7,214,126</u>	<u>7,120,000</u>	<u>94,126</u>	1.3 %
Operating expenses:				
Operations				
Energy & Resource Management	327,724	346,900		
Lost Canyon Water Transmission	1,157,603	1,325,400		
Treatment Plant	369,899	452,600		
Distribution	1,837,025	1,865,900		
Safety	33,772	25,600		
Subtotal	<u>3,726,023</u>	<u>4,016,400</u>	<u>290,377</u>	
Management & Finance				
Engineering & Development	95,476	93,600		
Human Resources	76,198	75,800		
Legal	30,254	50,000		
Subtotal	<u>201,928</u>	<u>219,400</u>	<u>17,472</u>	
Public Services				
Public Services	348,267	348,800		
Subtotal	<u>348,267</u>	<u>348,800</u>	<u>533</u>	
Financial Management				
Financial Management	217,997	231,300		
Subtotal	<u>217,997</u>	<u>231,300</u>	<u>13,303</u>	
Depreciation				
Depreciation	1,374,783	1,470,300		
	<u>1,374,783</u>	<u>1,470,300</u>	<u>95,517</u>	
Total operating expenses	<u>5,868,998</u>	<u>6,286,200</u>	<u>417,202</u>	6.6 %
Operating income	<u>1,345,128</u>	<u>833,800</u>	<u>511,328</u>	
Non-operating revenue				
State grants	47,648	11,700		
Interest income	26,789	31,100		
Impact fees	563,385	230,000		
SID assessments	794,375	790,000		
Other non-operating revenue	2,996	10,000		
Total Non-operating revenue	<u>1,435,193</u>	<u>1,072,800</u>	<u>362,393</u>	33.8 %
Non-operating expenses				
Interest expense	1,527,500	1,487,900		
Loss on sale of assets	16,776	-		
Bond insurance expense	17,414	72,000		
Bond issuance expense	-	-		
Trustee and bank fees	46,220	43,900		
Total non-operating expenses	<u>1,607,910</u>	<u>1,603,800</u>	<u>(4,110)</u>	(0.3) %
Total non-operating income	<u>(172,717)</u>	<u>(531,000)</u>	<u>358,283</u>	
Income (loss) before operating transfers	<u>1,172,411</u>	<u>302,800</u>	<u>869,611</u>	
Contributions-in-aid of construction	288,413	-	288,413	
Change in net position	<u>\$ 1,460,824</u>	<u>\$ 302,800</u>	<u>\$ 1,158,024</u>	

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2013 and 2012

Operating revenue exceeded projections by \$94,126 or 1.3% in 2013 due to higher operating fees that reflect the improved building economy.

Operating expenses were \$417,202 or 6.6% under budget in 2013, as all budget line items came in under budget. Operations was \$290,377 under budget, largely due to \$200,704 in power cost savings that resulted from avoiding pumping water through Lost Canyon during peak power rate periods. Treatment plant chemicals and carbon finished \$79,605 under budget as well, as the District did not need to purchase any carbon in 2013.

Non-operating revenue was \$362,393 ahead of projections due to higher impact fee collections that resulted from the improved building economy.

Non-operating expenses were a nominal \$4,110 or 0.3% over budget.

Capital Assets

The District operates as an enterprise fund which includes the capitalization and depreciation of all assets. Asset categories include land and water rights; infrastructure not buildings (water system infrastructure); construction in progress; and buildings, equipment and furnishings.

**Mountain Regional Water Special Service District's Capital Assets
(net of depreciation)**

	2013	2012	2011	\$ Change 2013 to 2012	% Change 2013 to 2012
Land and water rights	\$ 19,821,463	\$ 19,577,263	\$ 19,591,043	\$ 244,200	1.2 %
Construction in progress	380,270	984,355	40,981	(604,085)	(61.4)
Infrastructure not buildings	50,837,962	50,407,563	51,251,761	430,399	0.9
Buildings, equipment and furnishings	6,467,377	6,501,610	6,690,688	(34,233)	(0.5)
Total capital assets (net)	<u>\$ 77,507,072</u>	<u>\$ 77,470,791</u>	<u>\$ 77,574,473</u>	<u>\$ 36,281</u>	<u>0.0 %</u>

As shown above, the District's capital assets (net of depreciation) totaled \$77.51 million at year-end 2013. There is virtually no change in 2013, as the completion of capital projects and contributions in-aid of construction was offset by annual depreciation.

As shown above, the District's capital assets (net of depreciation) as of December 31, 2012 amounted to \$77.47 million, a minimal 0.1% reduction from 2011. The completion of small capital projects and contributions-in-aid of construction was offset by depreciation expense.

The changes in capital assets for both 2013 and 2012 were reduced by depreciation expense. Because the amounts shown above are net of depreciation and the District received contributions-in-aid of construction, the amount of cash expended for capital projects as shown in other areas of these financial statements is different.

Outstanding Debt

The District maintains a schedule to pay off all its debt by 2038. The District's debt level resulted from the need to acquire additional water rights, sources, and infrastructure to provide water to struggling service areas acquired or annexed into the District that were experiencing water shortages and quality problems.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2013 and 2012

Mountain Regional Water Special Service District's Net Debt Outstanding

	2013	2012	2011	\$ Change 2013 to 2012	% Change 2013 to 2012
Revenue and refunding bonds	\$ 39,478,000	\$ 39,854,000	\$ 41,839,000	\$ (376,000)	(0.9) %
Special assessment bonds	-	-	-	-	-
Government notes and bonds	1,792,276	2,169,022	2,631,489	(376,746)	(17.4)
Debt reserves funded from bond proceeds	-	-	(2,955,000)	-	-
Unamortized Grant	233,336	245,002	256,668	(11,666)	(4.8)
Unamortized premiums	2,305,466	2,440,639	452,007	(135,173)	(5.5)
Total debt outstanding	<u>\$ 43,809,078</u>	<u>\$ 44,708,663</u>	<u>\$ 42,224,164</u>	<u>\$ (899,585)</u>	<u>(2.0) %</u>

Total debt outstanding decreased \$899,585 in 2013, as principal payments exceeded \$488,000 in draws from the Series 2011B bond.

In 2012, District long-term debt outstanding decreased \$470,501. Although the District drew down \$745,000 of a new \$1.28 million state loan, that was offset by the net effect of the Series 2012 bond refunding.

Revenue and refunding bonds outstanding dropped \$1.99 million in 2012 as the District refinanced its Series 2003 revenue bonds. This was done in order to take advantage of historic low interest rates and the District's improved bond rating of "A+/AA-". This compares to a "BBB" rating when the Series 2003 bonds were issued. The 2012 bonds have a true interest cost of 3.55%; while the remaining Series 2003 bonds had annual interest rates between 4.5% and 5.0%.

The District only needed to issue \$27.27 million in new Series 2012 bonds to refund the existing \$29.89 million in Series 2003 bonds because the Series 2003 debt reserve of \$2.95 million was available to reduce the par amount of the new bonds and help offset closing costs for the Series 2012 bonds. The new Series 2012 bonds did not require a debt reserve due to the District's improved bond rating and the establishment of the rate stabilization fund.

This 2012 refinancing resulted in a \$193,100 reduction in interest expense for 2012. However, lost 2012 interest earnings on the Series 2003 debt reserve resulted in total net savings of about \$130,000.

The refinancing will provide the District with \$250,000 in net annual savings the next few years. This includes roughly \$385,000 in annual interest expense savings over the next five years that will be partially offset by a \$135,000 reduction in interest earned on the Series 2003 debt reserve. This reduction in interest earnings is the result of not establishing a new debt reserve for the Series 2012 bonds.

The Series 2012 refunding bonds also generated a one-time \$747,000 cash infusion that was used to prepay \$200,000 of the \$500,000 Summit County loan in 2012; and the remaining \$300,000 was prepaid in 2013. The remaining \$247,000 cash infusion was deposited in the rate stabilization fund.

The District is required by several bond covenants to budget for a debt service coverage ratio of at least 1.25 times. The District continued to meet or exceed this coverage requirement again in 2013.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2013 and 2012

The history of the District's underlying bond ratings is shown below.

**Mountain Regional Water Special Service District
Bond Rating History**

	2003	2009	2010	2011	2012	2013
Series 2003 Revenue Bond						
Standard & Poor's	BBB	A+	A+	A+	n/a	n/a
Fitch	BBB	A	AA-	AA-	n/a	n/a
Series 2009B Revenue Bond						
Standard & Poor's	n/a	A+	A+	A+	A+	A+
Fitch	n/a	A	AA-	AA-	AA-	A+
Series 2012 Revenue Bond						
Standard & Poor's	n/a	n/a	n/a	n/a	A+	A+
Fitch	n/a	n/a	n/a	n/a	AA-	A+

Impact Fees

The District's governing board adopted impact fees in 2003 to recover the proportionate share of infrastructure costs serving new development. The District completed a new impact fee facilities plan in 2013 and should adopt new impact fees in 2014.

Since a significant portion of the District's infrastructure was funded with long-term debt, most impact fees collected are applied to debt service, as shown in the table below.

During the period 2003 to 2013, the District collected \$7.56 million in impact fees and related interest earnings. Of this, \$1.32 million was used to pay for projects in the capital facilities plan. The remaining \$6.24 million has been or will be applied to debt service on impact fee eligible debt.

During this same eleven year period, total debt payments of \$11.93 million were eligible to be paid from impact fees. This means only 53.3% of the impact fees needed to pay off the impact fee eligible debt was provided from impact fee collections. The remaining 46.7% came from water rates.

Over the long run, the amount of impact fee collections should equal the eligible debt payments.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2013 and 2012

Mountain Regional Water Impact Fees Collections & Expenditures
(Cash Basis)

	2008	2009	2010	2011	2012	2013	Total
Cash Collections							
Impact Fees	\$ 61,313	\$ 72,974	\$ 232,210	\$ 228,948	\$ 196,067	\$ 563,385	\$ 7,175,062
Interest Earnings	50,546	12,484	4,028	3,538	4,471	239	388,159
Total cash collections	<u>111,859</u>	<u>85,458</u>	<u>236,238</u>	<u>232,486</u>	<u>200,538</u>	<u>563,624</u>	<u>7,563,221</u>
Cumulative cash collections	6,244,877	6,330,335	6,566,573	6,799,059	6,999,597	7,563,221	
Cash Expenditures							
Debt Service ⁽¹⁾	600,000	400,000	673,266	200,000	230,000	430,000	5,406,929
Basin Pipeline	-	-	-	-	-	-	1,322,226
Total cash expenditures	<u>600,000</u>	<u>400,000</u>	<u>673,266</u>	<u>200,000</u>	<u>230,000</u>	<u>430,000</u>	<u>6,729,155</u>
Cumulative cash expenditures	4,795,889	5,195,889	5,869,155	6,069,155	6,299,155	6,729,155	
Net Cash Flow to Date	<u>\$ (488,141)</u>	<u>\$ (314,542)</u>	<u>\$ (437,028)</u>	<u>\$ 32,486</u>	<u>\$ (29,462)</u>	<u>\$ 133,624</u>	<u>\$ 834,066</u>
Cumulative Cash Flow	1,448,988	1,134,446	697,418	729,904	700,442	834,066	
Projected Future Uses							
Debt Service ⁽¹⁾	\$ 400,000	\$ 400,000	\$ 34,066	\$ -	\$ -	\$ -	\$ 834,066
Other Projects	-	-	-	-	-	-	-
Total Future Cash Expenditures	<u>\$ 400,000</u>	<u>\$ 400,000</u>	<u>\$ 34,066</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 834,066</u>
Total Projected Cumulative Cash Flow							<u>\$ -</u>

(1) The following projects are shown at the pro-rata cost, including financing, for the project capacity that will serve new development. These projects were funded with a portion of the proceeds from revenue bonds and state loans.

	Total Project Cost	Cost Allocated to Impact Fees
Funded Projects Completed		
Water Rights & Shares	\$ 30,293,504	\$ 15,307,333
Lost Canyon Water Importation Project	50,523,749	8,022,662
Basin Transmission Line	15,294,678	9,215,241
Total Projects	<u>96,111,931</u>	<u>32,545,236</u>
Years Financed		30
Annual Debt Service		<u>\$ 1,084,841</u>

Between 2003 and 2006, collections far exceeded amounts applied to debt service, allowing the District to deposit significant collections in reserve. These reserves were used during 2007 through 2010 to help make debt payments.

In 2011, the District started to budget less each year for impact fee collections than in previous years. Since then, impact fee collections have been close to budgeted projections. However, starting in 2014 the impact fee projections have been increased due to the improved building economy.

Requests for Information

This financial report is designed to provide a general overview of Mountain Regional Water Special Service District's finances for all those interested. Questions concerning this or other financial information should be addressed to the Chief Financial Officer, Mountain Regional Water Special Service District, 6421 N. Business Park Loop Road – Suite A, P.O. Box 982320, Park City, Utah 84098.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Statements of Net Position
December 31, 2013 and 2012

	2013	2012 (Restated)
Assets		
Current Assets		
Cash	\$ 3,511,585	\$ 3,048,693
Restricted cash	2,074,492	1,466,951
Accounts receivable	562,990	445,390
Due from other governmental entities	28,000	70,996
Other receivables	65,562	297,545
Prepaid expenses	1,033,890	1,129,927
Inventories	97,262	115,838
Total current assets	7,373,781	6,575,340
Cash Restricted for Debt Repayment	544,338	716,458
Capital Assets		
Depreciable assets, net	57,305,339	56,909,173
Land and water rights	19,821,463	19,577,263
Construction-in-progress	380,270	984,355
Total assets	85,425,191	84,762,589
Deferred Outflow of Resources		
Loss on bond refunding	1,709,441	1,795,270
	\$ 87,134,632	\$ 86,557,859

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Statements of Net Position
December 31, 2013 and 2012

	2013	2012 (Restated)
Liabilities		
Current Liabilities		
Accounts payable	\$ 260,912	\$ 296,516
Accrued liabilities	679,192	615,621
Due to other government entities	420,480	374,110
Current portion, accrued liability - developer	179,198	50,000
Current portion of long-term debt	1,880,436	1,256,823
Total current liabilities	3,420,218	2,593,070
Accrued Liability - Developer, Less Current Portion	1,396,368	1,504,255
Long-Term Debt, Net of Current Portion	41,928,642	43,451,840
Total liabilities	46,745,228	47,549,165
Deferred Inflow of Resources		
Unamortized gain on invested debt reserves applied	788,602	868,716
Total deferred inflow of resources	788,602	868,716
Net Position		
Net Investment in Capital Assets	34,618,833	33,688,682
Restricted	1,467,991	1,321,878
Unrestricted	3,513,978	3,129,418
Total net position	\$ 39,600,802	\$ 38,139,978

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2013 and 2012

	2013	2012 (Restated)
Operating Revenues		
Water sales	\$ 6,884,945	\$ 6,873,147
Operation fees	259,851	153,805
Other	69,330	236,222
Total operating revenues	<u>7,214,126</u>	<u>7,263,174</u>
Operating Expenses		
Operations, maintenance and repairs	1,870,797	1,788,964
Water production	1,527,502	1,728,576
Engineering and energy and technology management	423,200	415,846
Management and finance	642,462	568,164
Legal services	30,254	4,805
Depreciation	1,374,783	1,412,111
Total operating expenses	<u>5,868,998</u>	<u>5,918,466</u>
Operating Income	<u>1,345,128</u>	<u>1,344,708</u>
Non-Operating Revenues (Expenses)		
Grants	47,648	11,667
Interest income	26,789	102,676
Impact fees	563,385	196,067
Special Improvement District assessments	794,375	499,397
Gain (loss) on sale of capital assets	(16,776)	16,952
Other non-operating revenue	2,996	5,612
Interest expense	(1,527,500)	(1,645,016)
Trustee and bank fees	(46,220)	(44,520)
Bond insurance cost amortization	(17,414)	(11,957)
Bond issuance and bond insurance costs	-	(1,095,815)
Total non-operating revenues (expenses), net	<u>(172,717)</u>	<u>(1,964,937)</u>
Income (Loss) Before Transfers	<u>1,172,411</u>	<u>(620,229)</u>
Contributions-in-aid of Construction	<u>288,413</u>	<u>369,677</u>
Change in net position	<u>1,460,824</u>	<u>(250,552)</u>
Net Position, Beginning of Year	<u>38,139,978</u>	<u>38,390,530</u>
Net Position, End of Year	<u>\$ 39,600,802</u>	<u>\$ 38,139,978</u>

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012 (Restated)
Operating Activities		
Cash received from customers	\$ 7,371,505	\$ 6,980,773
Cash paid to suppliers	(2,261,559)	(2,335,403)
Cash paid to employees	(2,098,629)	(1,930,877)
Net Cash from Operating Activities	3,011,317	2,714,493
Capital and Related Financing Activities		
Grants received	35,981	-
Interest and bank fees paid	(1,665,668)	(1,775,837)
Purchase of property and equipment	(1,139,427)	(805,005)
Proceeds from sale of capital assets	-	56,355
Long-term debt payments	(1,240,746)	(27,507,466)
Proceeds from long-term debt	488,000	28,981,585
Bond issuance costs	-	(680,015)
Proceeds on accrued liability - developer	125,509	-
Payments on accrued liability - developer	(104,198)	-
Special Improvement District assessment	794,375	499,397
Impact fees	563,385	196,067
Other revenue received	2,996	5,612
Net Cash used for Capital and Related Financing Activities	(2,139,793)	(1,029,307)
Investing Activities		
Investment income	26,789	102,676
Investment in restricted cash	(435,421)	(584,810)
Net Cash from (used for) Investing Activities	(408,632)	(482,134)
Net Change in Cash	462,892	1,203,052
Cash, Beginning of Period	3,048,693	1,845,641
Cash, End of Period	\$ 3,511,585	\$ 3,048,693

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Statements of Cash Flows
Years ended December 31, 2013 and 2012

	2013	2012 (Restated)
Reconciliation of Operating Income to Net Cash from		
Operating Activities		
Operating income	\$ 1,345,128	\$ 1,344,708
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	1,374,783	1,412,111
Changes in operating assets and liabilities:		
Accounts receivable	(117,600)	(27,948)
Due from other government entities	42,996	(70,996)
Other receivables	231,983	(183,457)
Prepaid expenses	78,623	(205,996)
Inventory	18,576	(41,585)
Accounts payable	(35,604)	167,692
Accrued liabilities	70,529	44,657
Due to other government entities	1,903	275,307
Total adjustments	1,666,189	1,369,785
Net cash from operating activities	\$ 3,011,317	\$ 2,714,493
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Capital asset contributions-in-aid of construction	\$ 288,413	\$ 369,677
Reduction of note payable through transfer of water leases	-	173,149

Note 1 - Summary of Significant Accounting Policies

This summary of significant accounting policies of Mountain Regional Water Special Service District is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management, who are responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Beginning in fiscal year 2013, the District implemented the following statement issued by GASB:

GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities* clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred inflows of resources, deferred outflows of resources and as revenues or expenditures. As a result of this statement, the District changed the classification of certain liabilities to deferred inflows/outflows. The District also restated beginning net position to write-off bond issuance costs as required by this Statement (see Note 9).

The following summary of significant accounting policies is presented to assist the reader in evaluating the District's financial statements.

Operations

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

Reporting Entity

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

Budgetary Policy

Budgetary procedures for the District have been established by Utah State Code Annotated in Title 17B, Chapter 1(629) – Local Districts – Operating and Capital Budgets. The District uses the same accounting method for preparing the budget as is used for financial reporting.

Annual proprietary fund operating, capital and debt service budgets are prepared in accordance with state law. On or before the first regularly scheduled meeting of the Summit County Council in November, the Council must adopt a tentative budget for the following fiscal year for public review. At least thirty days after the tentative budget is adopted, but no later than December 31, the Council must hold a public hearing on the tentative budget. A final budget must be adopted by the Council no later than December 31.

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

Fund Accounting

The accounts of the District are organized into a single enterprise fund.

Enterprise Fund – The Enterprise Fund is used to account for operations financed and operated in a manner similar to private business enterprises – (a) where the intent of the governing body is that the costs (expense, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for public policy, management control, accountability, or other purposes.

Measurement Focus

The accounting and reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds (which include enterprise funds) are accounted for on an economic resources measurement focus and the accrual basis of accounting. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net position.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

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

Estimates

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

Cash and Cash Equivalents

The District considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures, permanent endowment, or other long-term purposes of the District are excluded from this definition.

Accounts Receivable

Accounts receivables due from customers are customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. Each July, the Summit County Council places a lien on past due accounts that are equivalent and on parity with the property tax liens. During the remainder of the year, the District places a contractor’s lien on the properties with past due accounts. The District also turns off the water for past due accounts.

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

The District estimates an allowance for doubtful accounts based upon an evaluation of the current status of receivables, historical experience, and other factors as necessary. It is reasonably possible that the District’s estimate of the allowance for doubtful accounts will change. As long as the District has the ability to utilize the two lien processes and to shut off water, it rarely has to write off bad debt, and currently makes no allowance for bad debt.

Inventories

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

Proprietary Fund Capital Assets

Capital additions, improvements and major renewals are classified as property, plant and equipment and are recorded at cost. The District capitalized all fixed asset purchases with costs in excess of \$5,000. Major maintenance projects in excess of \$5,000 are examined to determine whether they should be capitalized or expensed. Depreciation is recorded by use of the straight-line method. The book value of each asset is reduced by equal amounts over its estimated useful life as follows:

	Estimated Useful Life (Years)
Improvements Not Buildings	17 - 60
Buildings	60
Equipment, Furnishings & Fixtures	5 - 7

Maintenance, repairs and minor renewals are charged to operations as incurred. When an asset is disposed of, accumulated depreciation is deducted from the original cost, and any gain or loss arising from the disposal is credited or charged to operations. Interest costs incurred during construction are capitalized net of earnings when they are material.

Deferred Outflow and Inflows of Resources

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

Restricted Net Position

The District has several situations where net position must be classified as restricted.

The largest component is funds set aside for debt service. This includes debt reserves held by a trustee as required by bond covenants; as well as the required monthly deposits into trustee accounts to make annual principal and interest payments. Bond covenants require monthly deposits into trustee accounts roughly equal to 1/12th of annual debt payments.

Utah State Law also requires certain funds to be held in restricted accounts. This includes impact fee collections, and state bond proceeds. In addition, the state requires the District to maintain capital facility repair and replacement funds as part of the bond covenants for state loans.

The federal government requires funds to be held in restricted trustee accounts for estimated future bond arbitrage tax payments to the IRS.

The District also has contractual restrictions including repair reserves and liabilities owed to developers. The District has contracts with two developers that require the District to reimburse them for prepaid impact fees and special assessments. However, the District is only required to reimburse these developers after it collects the related impact fees and special assessments from lot owners when they apply for a building permit.

Subsequent Events

The District has evaluated subsequent events through May 27, 2014, the date the financial statements were available to be issued.

Note 2 - Deposits and Investments

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

Custodial Credit Risk

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

As of December 31, 2013, \$849,990 of the District's \$1,099,990 bank balance was uninsured and uncollateralized. As of December 31, 2012, \$224,954, of the District's \$474,954 bank balance was uninsured and uncollateralized.

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

Notes to Financial Statements
December 31, 2013 and 2012

Credit Risk

Investments – Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The District’s policy for limiting the credit risk is to comply with the Act.

The District is authorized to invest in the Utah Public Treasurer’s Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized basis. The income, gains, and losses, net of administrative fees, of the PTIF are allocated based upon the participant’s average daily balances.

As of December 31, 2013 and 2012, the District had \$4,005,508 and \$3,957,336, respectively, invested directly with the PTIF. In addition, the District had, as of December 31, 2013 and 2012, respectively, \$1,135,333 and \$911,222 of debt service reserve, bond sinking fund, and bond proceeds invested with the PTIF through Wells Fargo Corporate Trust, who acts as trustee for these funds. The amounts invested with the PTIF are reported at fair value. The entire balance had a maturity of less than one year. The PTIF pool has not been rated.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by investing mainly in the PTIF and by adhering to the Act. The Act requires that the remaining term to maturity of the investment may not exceed the period of availability of the funds to be invested.

Note 3 - Capital Assets

A summary of activity in the Capital Assets for the year ended December 31, 2013 is as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets not being depreciated					
Land and water rights	\$ 19,577,263	\$ 244,200	\$ -	\$ -	\$ 19,821,463
Construction-in-progress	984,355	1,104,699	-	(1,708,784)	380,270
	<u>20,561,618</u>	<u>1,348,899</u>	<u>-</u>	<u>(1,708,784)</u>	<u>20,201,733</u>
Depreciable assets					
Buildings	7,436,771	-	-	175,844	7,612,615
Improvements other than buildings	61,956,914	-	-	1,532,940	63,489,854
Furniture and fixtures	183,161	24,210	(25,520)	-	181,851
Machinery and equipment	948,048	-	(59,325)	-	888,723
Vehicles	680,691	54,732	-	-	735,423
Engineering library	105,000	-	-	-	105,000
	<u>71,310,585</u>	<u>78,942</u>	<u>(84,845)</u>	<u>1,708,784</u>	<u>73,013,466</u>
Accumulated depreciation	(14,401,412)	(1,374,783)	68,068	-	(15,708,127)
	<u>56,909,173</u>	<u>(1,295,841)</u>	<u>(16,777)</u>	<u>1,708,784</u>	<u>57,305,339</u>
	<u>\$ 77,470,791</u>	<u>\$ 53,058</u>	<u>\$ (16,777)</u>	<u>\$ -</u>	<u>\$ 77,507,072</u>

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Notes to Financial Statements
December 31, 2013 and 2012

A summary of activity in the Capital Assets for the year ended December 31, 2012 was as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets not being depreciated					
Land and water rights	\$ 19,591,043	\$ -	\$ (13,780)	\$ -	\$ 19,577,263
Construction-in-progress	40,981	1,220,606	(36,883)	(240,349)	984,355
	<u>19,632,024</u>	<u>1,220,606</u>	<u>(50,663)</u>	<u>(240,349)</u>	<u>20,561,618</u>
Depreciable assets					
Buildings	7,412,669	24,102	-	-	7,436,771
Improvements other than buildings	61,699,017	17,548	-	240,349	61,956,914
Furniture and fixtures	218,131	-	(34,970)	-	183,161
Machinery and equipment	947,080	24,500	(28,432)	4,900	948,048
Vehicles	662,153	97,960	(74,522)	(4,900)	680,691
Engineering library	105,000	-	-	-	105,000
	<u>71,044,050</u>	<u>164,110</u>	<u>(137,924)</u>	<u>240,349</u>	<u>71,310,585</u>
Accumulated depreciation	(13,101,601)	(1,412,111)	112,300	-	(14,401,412)
	<u>57,942,449</u>	<u>(1,248,001)</u>	<u>(25,624)</u>	<u>240,349</u>	<u>56,909,173</u>
	<u>\$ 77,574,473</u>	<u>\$ (27,395)</u>	<u>\$ (76,287)</u>	<u>\$ -</u>	<u>\$ 77,470,791</u>

Depreciation expense for 2013 and 2012 was \$1,374,783 and \$1,412,111, respectively.

Contributions-in-aid of construction in the amounts of \$288,413 and \$369,677 were contributed to the District in 2013 and 2012, respectively.

Note 4 - Accrued Liabilities

Accrued liabilities consist of accrued wages and benefits, customer deposits, and interest on outstanding debt. As of December 31, 2013 and 2012, accrued liabilities were \$679,192 and \$615,621, respectively. Accrued payroll accounted for \$326,144 of accrued liabilities as of December 31, 2013 and \$339,636 as of December 31, 2012.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Notes to Financial Statements
December 31, 2013 and 2012

Note 5 - Long-term Debt

A summary of long-term debt activity for the years ended December 31, 2013 and 2012 is as follows:

	Balance January 1, 2013	Additions	Reductions	Balance December 31, 2013	Due Within One Year
Notes payable	\$ 2,169,022	\$ -	\$ (376,746)	\$ 1,792,276	\$ 97,436
Bonds payable	39,854,000	488,000	(864,000)	39,478,000	1,783,000
Unamortized grants	245,002	-	(11,666)	233,336	-
Unamortized premium	2,440,639	-	(135,173)	2,305,466	-
	<u>\$ 44,708,663</u>	<u>\$ 488,000</u>	<u>\$ (1,387,585)</u>	<u>\$ 43,809,078</u>	<u>\$ 1,880,436</u>
	Balance January 1, 2012	Additions	Reductions	Balance December 31, 2012	Due Within One Year
Notes payable	\$ 2,631,489	\$ -	\$ (462,467)	\$ 2,169,022	\$ 864,000
Bonds payable	41,839,000	28,015,000	(30,000,000)	39,854,000	392,823
Debt reserves fund with bond proceeds	(2,955,000)	-	2,955,000	-	-
Unamortized grants	256,668	-	(11,666)	245,002	-
Unamortized premium	452,007	2,319,155	(330,523)	2,440,639	-
	<u>\$ 42,224,164</u>	<u>\$ 30,334,155</u>	<u>\$ (27,849,656)</u>	<u>\$ 44,708,663</u>	<u>\$ 1,256,823</u>

The District has one outstanding note payable to the State of Utah, Department of Natural Resources – Division of Water Resources. The note was assumed as part of acquisitions of water companies by the District. The note is secured by property and requires annual payments.

The District’s remaining bonds and notes are secured by the revenues of the District. As part of a 2009 refunding, the District’s revenue bonds are also now secured by special assessments on property within special improvement districts.

Principal and interest payments are due annually and semi-annually.

2012 Bond Refunding

The District refinanced its Series 2003 revenue bonds in 2012 to take advantage of historic low interest rates, and its improved bond rating of “A+/AA-“. This compares to a “BBB” rating when the Series 2003 bonds were issued.

To facilitate this refinancing, the District issued \$27.27 million in new Series 2012 revenue refunding bonds with a true interest cost of 3.55%. The bond proceeds, combined with a portion of the Series 2003 debt reserve of \$2.95 million, were used to pay off \$29.89 million in Series 2003 bonds that had remaining annual interest rates between 4.5% and 5.0%. The Series 2012 bonds did not require a debt reserve due to the District's improved bond rating and establishment of a \$1.0 million rate stabilization fund.

The 2012 refunding will result in \$7.32 million in savings over the next twenty years. However, \$2.97 million in earnings on the Series 2003 debt reserve will also be lost, as these reserves were used to reduce the par amount of the Series 2012 bonds. This results in net savings of \$4.35 million, which had a net present value of \$3.41 million at the time of refunding.

This refinancing resulted in a \$193,100 reduction in 2012 interest expense. However, lost 2012 interest earnings on the Series 2003 debt reserve resulted in net savings of about \$130,000.

The 2012 refinancing will provide the District with \$250,000 in net annual savings the next few years. This includes roughly \$385,000 in annual interest expense savings over the next five years that will be partially offset by a \$135,000 reduction in interest earned on the Series 2003 debt reserves.

Series 2011B Bond

In 2011, the Summit County Council authorized \$1.28 million in Series 2011B bonds that were not issued until 2012. This state loan funded by the Environmental Protection Agency (EPA), with no interest, may only be used on "Green Projects". The District projects the energy cost savings will exceed the debt service costs.

2012 Weber Basin Note Adjustment

The District has a note payable due to Weber Basin. This is a subordinated debt secured by revenue. The twenty year note is to reimburse Weber Basin for infrastructure it constructed for Phase II of the Lost Canyon project.

In 2012, the amount of this note was reduced from \$2,206,585 to \$2,033,436; as the District transferred 400 acre feet of its Lost Canyon water leases and capacity to Park City. Since a portion of the note payable is based upon the proportionate share of capacity the District and Park City own in certain Lost Canyon Phase II components; the transfer reduced the percentage of these component costs allocated to the District.

2012 Summit County Note Prepayment

In 2011, the District issued a \$500,000 subordinated note to Summit County due in 2014. These funds were earmarked to prepay state loans to help meet debt coverage in 2011 and 2012, until rate increases effective in August 2011 and August 2012 were in full effect. The District's rate increases included funds to pay off this note in 2014. However, the Series 2012 bonds generated a one-time cash infusion, a portion of which was used to prepay \$200,000 of the \$500,000 Summit County subordinated note in 2012; and the remaining amount in 2013.

Debt Coverage

The District continues to comply with its 1.25 debt corporate requirement for its bonding. The debt coverage ratios for 2013 and 2012 were 1.80 and 2.06, respectively.

The District's bond covenant allows it to include the balance in a rate stabilization fund in its coverage

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

Notes to Financial Statements
December 31, 2013 and 2012

calculations. With these funds, the 2013 and 2012 coverage ratios increase to 2.32 and 2.65, respectively.

Debt Schedule

The District has issued the following notes and bonds payable as of December 31, 2013 and 2012:

Series	Original Issue	Interest Rate	Maturity Date	Principal Outstanding	
				2013	2012
Notes payable					
State of Utah, Dept. of Natural Resources - Div. of Water Resources Note	\$ 324,000	None	2016	\$ 29,993	\$ 43,094
Summit County Note	500,000	1.5%	2014	-	300,000
Weber Basin Water Conservancy District Note	2,033,436	4.6%	2028	1,762,283	1,825,928
				<u>1,792,276</u>	<u>2,169,022</u>
Bonds payable					
Water revenue					
2002B	433,000	None	2015	63,000	100,000
2006	278,000	None	2018	110,000	131,000
2008	3,026,000	2.0%	2029	2,512,000	2,644,000
2009B	9,045,000	2.0% - 3.5%	2018	7,685,000	8,295,000
2011A	679,000	1.52%	2031	659,000	669,000
2011B	1,278,000	None	2032	1,179,000	745,000
2012	27,270,000	2.0% - 5.0%	2033	27,270,000	27,270,000
				<u>39,478,000</u>	<u>39,854,000</u>
Unamortized grants					
2012	350,000	N/A	2033	233,336	245,002
				<u>233,336</u>	<u>245,002</u>
Unamortized premiums					
2009B	202,474	N/A	2018	97,187	121,484
2012	2,383,832	N/A	2033	2,208,279	2,319,155
				<u>2,305,466</u>	<u>2,440,639</u>
				43,809,078	44,708,663
Less current portion				<u>(1,880,436)</u>	<u>(1,256,823)</u>
				<u>\$ 41,928,642</u>	<u>\$ 43,451,840</u>

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Notes to Financial Statements
December 31, 2013 and 2012

As of December 31, 2013, the aggregate maturities of notes and bonds payable, including interest, are as follows:

Years Ending December 31,	Promissory Notes		Bonds Payable		Total Debt Service Requirement
	Principal	Interest	Principal	Interest	
2014	\$ 97,436	\$ 84,774	\$ 1,783,000	\$ 1,420,382	\$ 3,385,592
2015	101,315	81,065	1,824,000	1,375,593	3,381,973
2016	96,067	77,186	1,887,000	1,322,836	3,383,089
2017	96,518	73,128	2,141,000	1,266,706	3,577,352
2018	100,958	68,883	1,579,000	1,197,689	2,946,530
2019-23	578,872	273,590	8,623,000	5,157,003	14,632,465
2024-28	721,110	134,043	10,291,000	3,474,083	14,620,236
2029-33	-	7,110	11,350,000	1,493,421	12,850,531
	<u>\$ 1,792,276</u>	<u>\$ 799,779</u>	<u>\$ 39,478,000</u>	<u>\$ 16,707,712</u>	<u>\$ 58,777,767</u>

Note 6 - Accrued Liability – Developer

The District entered into an agreement with a developer during 2000 regarding the prepayment of municipal and industrial use impact fees. Under the terms of this agreement, the developer agreed to prepay the District \$6,300 per Equivalent Residential Connection (ERC) for 240 ERC's. These prepaid impact fees were recorded by the District as an accrued liability to the developer. During 2004, the developer prepaid an additional \$1,201,612 for the irrigation impact fee or an additional \$9,129 per lot, on the lots still owned by the developer. The developer also prepaid the total impact fee for two other lots at \$16,650 each. These prepaid impact fees were recorded by the District as an accrued liability to the developer.

The District is to repay this liability to the developer through the collection of impact fees from individuals who purchase the building lots from the developer. The outstanding accrued liability to this developer for prepaid impact fees as of December 31, 2013 and 2012 was \$1,471,368 and \$1,554,255, respectively.

Other developers had prepaid amounts as of December 31, 2013 and 2012 of \$104,198 and \$0, respectively.

Note 7 - Employee Retirement Systems and Pension Plans

Plan Description

The District contributes to both the Local Governmental Noncontributory Retirement System (Noncontributory System) and the Local Governmental Contributory Retirement System (Contributory System), both of which are cost-sharing, multiple-employer pension plans administered by the Utah Retirement Systems (Systems). The Systems provide refunds, retirement benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953, as amended. The *Utah State Retirement and Insurance Benefit Act* in Chapter 49 provides for the

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

Notes to Financial Statements
December 31, 2013 and 2012

administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (“Board”) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the various systems and plans it administers. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy

For the Noncontributory System Tier 1 Plan, the District was required to contribute 16.04% of covered salary and wages through June 30, 2013 and 17.29% for the remainder of 2013. The District’s contributions to this system for the years ending December 31, 2013 and 2012 were \$226,929, and \$186,370, respectively. These contributions were equal to the required contributions for each year.

For the Contributory System Tier 2 Plan, the District was required to contribute 14.05% of covered salary and wages through June 30, 2013 and 13.99% for the remainder of 2013. The District’s contributions to this system for the years ending December 31, 2013 and 2012 were \$7,640 and \$2,869, respectively. These contributions were equal to the required contributions for each year.

In addition, plan members in the Contributory System Tier 2 Plan were required to contribute 1.59% percent of their covered salaries to a 401(k) plan in 2013. However, employers are allowed to make this contribution on behalf of its employees, which the District did in 2013. Contributions to this plan for the years ending December 31, 2013 and 2012 were \$1,426, and \$662, respectively. These contributions were equal to the required contributions for each year.

All these contribution rates are actuarially determined. The contribution requirements are authorized by statute and specified by the Board.

Note 8 - Related Party Transactions

Summit County, a related party, made loans for working capital to the District from 2000 until 2003 and shared services of an employee from 2002 to 2007. As of December 31, 2013 and 2012, the amount payable to Summit County for these services was \$98,803.

In 2011, Summit County loaned the District \$500,000 in order to prepay debt to help the District meets its coverage ratios in 2011 and 2012; until the rate increases effective in August 2011 and August 2012 were in full effect. The loan was due in full in 2014. However, the District prepaid \$200,000 of this loan in November 2012, and the remaining \$300,000 was prepaid in January 2013.

In 2012, the District entered into an agreement with Snyderville Basin Recreation District (SBRD), which is also a component unit of Summit County created as a service district. The terms of this agreement include the sale of property by the District to SBRD for \$28,000. This \$28,000 is currently held in an escrow account; but should be released in 2014.

The contract stipulates that if construction of a certain freeway underpass could be funded by multiple governmental entities, the \$28,000 would be applied towards the construction cost of the underpass. In addition, the District has the option to install an underground waterline casing through the underpass during construction if it contributed an additional \$100,000 towards the underpass construction costs.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Notes to Financial Statements
December 31, 2013 and 2012

In 2013, the necessary multi-agency funding was obtained. As such, the cost of the waterline casing, estimated at \$25,000, will likely be paid by the District in 2014, in addition to the total \$128,000 contribution towards the underpass construction costs.

Note 9 - Change in Accounting Principle

The District implemented GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities*. As a result, costs of issuance previously amortized in the Statement of Net Position and the Statement of Activities were written off as those costs are now expensed in the year of the debt issuance.

The following is a summary of the effects of the restatement in the District's December 31, 2012 Statement of Net Position:

	As Previously Reported	Adjustment	As Restated
As of December 31, 2012			
Assets			
Prepaid expenses	\$ 948,759	\$ 181,168	\$ 1,129,927
Total current assets	6,394,172	181,168	6,575,340
Deferred outflow of resources			
Loss on bond refunding	-	1,795,270	1,795,270
Total assets and deferred outflow of resources	84,581,421	1,976,438	86,557,859
Liabilities			
Long-term debt, net of current portion	40,580,407	2,871,433	43,451,840
Total current liabilities	44,677,732	2,871,433	47,549,165
Deferred inflow of resources			
Unamortized gain on invested debt reserves applied	-	868,716	868,716
Total deferred inflow of resources	-	868,716	868,716
Net position			
Net investment in capital assets	35,633,561	(1,944,879)	33,688,682
Restricted	1,140,710	181,168	1,321,878
Total net position	39,903,689	(1,763,711)	38,139,978

The following is a summary of the effects of the restatement in the District's December 31, 2012 Statements of Revenues, Expenses and Changes in Net Position:

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

Notes to Financial Statements
December 31, 2013 and 2012

	As Previously Reported	Adjustment	As Restated
As of December 31, 2012			
Non-operating revenues (expenses)			
Interest expense	\$ (1,670,592)	\$ 25,576	\$ (1,645,016)
Bond insurance cost amortization	(72,623)	60,666	(11,957)
Bond issuance and bond insurance costs	-	(1,095,815)	(1,095,815)
Total non-operating revenues (expenses), net	(955,364)	(1,009,573)	(1,964,937)
Income (loss) before transfers	389,344	(1,009,573)	(620,229)
Change in net position	759,021	(1,009,573)	(250,552)
Net position, beginning of year	39,144,668	(754,138)	38,390,530

The following is a summary of the effects of the restatement in the District's December 31, 2012 Statement of Cash Flows:

	As Previously Reported	Adjustment	As Restated
As of December 31, 2012			
Operating activities			
Cash paid to suppliers	\$ (2,208,402)	\$ (127,001)	\$ (2,335,403)
Net cash from operating activities	2,841,494	(127,001)	2,714,493
Capital and related financing activities			
Interest and bank fees paid	(1,767,115)	(8,722)	(1,775,837)
Bond issuance costs	(815,738)	135,723	(680,015)
Net cash used for capital and related financing activities	(1,156,308)	127,001	(1,029,307)

Note 10 - Contingencies

The District records liabilities resulting from claims and legal actions when they become fixed or determinable in amount. The District is currently the defendant in one pending lawsuit. Legal counsel is of the opinion that potential claims against the District resulting from such litigation not covered by insurance do not pose a threat of significant liability to the District.

Note 11 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The District is a member of the Utah Local Governments Trust (ULGT), a public entity risk pool currently operating as a common risk management and insurance program for Utah local governments. The District pays an annual premium to ULGT for its general insurance coverage. During 2013 and 2012, the District did not increase any level of insurance coverage, but did add coverage for new infrastructure and equipment. Settlement amounts have not exceeded insurance coverage for the current year or prior years.



CPAs & BUSINESS ADVISORS

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*

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

We have audited, 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, the financial statements of Mountain Regional Water Special Service District which comprise the statement of net position as of December 31, 2013 and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 27, 2014.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting 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 financial reporting 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 yet been identified.

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Ogden, Utah
May 27, 2014



Independent Auditor's Report on Compliance in Accordance with the *State of Utah Legal Compliance Audit Guide*

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

Report on Compliance

We have audited the compliance with general Mountain Regional Water Special Service District's compliance requirements described in the *State of Utah Legal Compliance Audit Guide* for the year ended December 31, 2013.

The general compliance requirements applicable to the District are identified as follows:

- Cash Management
- Budgetary Compliance
- Impact Fees
- Utah Retirement Systems Compliance
- Government Records Access Management Act
- Conflicts of Interest
- Nepotism
- Utah Public Finance Website
- Open and Public Meetings Act
- Special and Local Service Board District Members

The District did not receive any major or nonmajor State grants during the year ended December 31, 2013.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the District's management.

Auditor's Responsibility

Our responsibility is to express an opinion on the District's compliance based upon our audit.

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 of Utah Legal Compliance Audit Guide*. Those standards and the *State of Utah Legal 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 could have a material effect on the District and its major programs occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

Opinion

In our opinion, the Mountain Regional Water Special Service District, complied, in all material respects, with the general compliance requirements identified above and the compliance requirements that are applicable to each of its major state programs for the year ended December 31, 2013.

Other Matters

The results of our auditing procedures disclosed an immaterial instance of noncompliance, which is required to be reported in accordance with the *State of Utah Legal Compliance Audit Guide* and which is described in the accompanying *Schedule of Findings and Responses* as item 2013-1

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the District's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

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 that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

The District's Response to Finding

The District's response to the finding identified in our audit is described on page 43. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Ogden, Utah
May 27, 2014

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Schedule of Findings and Responses
December 31, 2013 and 2012

2013-1 State Annual Online Training not completed

Condition: The District did not complete the annual online training provided by the State of Utah.

Criteria: According to Section 63G-2-108 of the Utah Code, each records officer of the District shall, on an annual basis, successfully complete online training and obtain certification from state archives in accordance with Section 63A-12-110.

Cause of Condition: Miscommunication of the requirement to the records officer at the District.

Effect of Condition: Non-compliance with Utah State Law.

Recommendation: The District should ensure successful completion of the annual online training provided by the State every year.

Administrative response: We will comply with Utah State Code Section 63G-2-108 in making certain that the District's records officer successfully completes the online training provided by the State.