



Financial Statements
December 31, 2014 and 2013

**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

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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, 2014 and 2013, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of Mountain Regional Water Special Service District as of December 31, 2014 and 2013, 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.

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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 1, 2015 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Ogden, Utah
May 1, 2015

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, 2014 and 2013 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.

Financial Summary

2014 Highlights

The change in net position for 2014 was \$2.32 million. This was \$1.30 million more than projected. However, after adjusting for one-time unusual items, the positive budget variance would have been \$513,329 - as discussed later in this document. This better represents the District's 2014 financial performance.

After excluding the \$8.66 million in remaining Series 2014 Bond proceeds that will fund capital projects, total cash remained relatively flat between 2013 and 2014, with a 2014 year-end balance of \$6.00 million compared to \$6.13 million for 2013.

Operating cash and reserves increased \$209,025 (9.1%) in 2014 – to \$2.51 million as a result of power and repair costs finishing under budget. The \$2.51 million equates to 180 days reserves.

Relevant Financial Policies

Financial Planning

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

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New Impact Fees Adopted in 2014

The District periodically reviews its capital facilities plan and impact fee structure. A new plan was completed in 2013 and new fees adopted in 2014. The new fee per Equivalent Residential Connection (ERC) – which equates to 0.60 acre feet - is \$10,513. The fee is also now based upon the size of the home and amount of watered landscaping. In most cases homes up to 3,000 square feet will now see lower impact fees, while homes over 8,000 square feet will see a significant increase.

Water Rate and Fee Increases Adopted in 2014

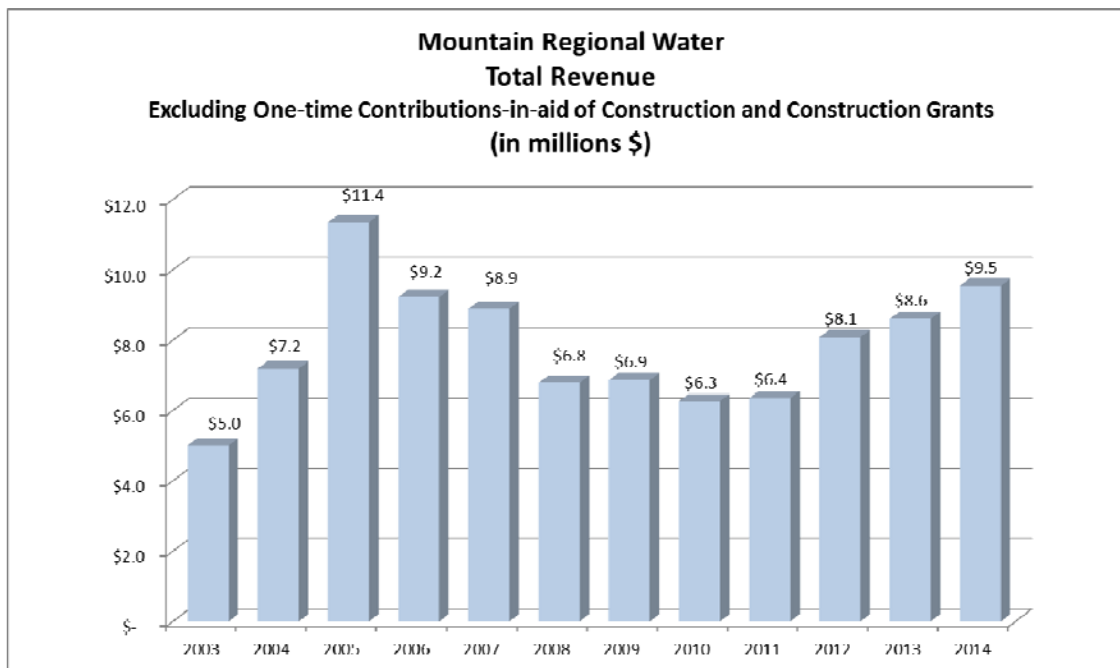
The Summit County Council adopted a two-tier rate increase in 2014. Part was effective August 2014 with the remainder effective August 2015. The total average water rate increase will be 7.5% while fees (excluding impact fees) were increased a weighted average of 20.0%.

Budgeting

The District utilizes zero-based budgeting that allows it to fund programs based upon current needs and priorities. District management and its Control Board review budgets and revenue projections on a monthly basis; and more often in November and December. The District continues to demonstrate the ability to make expenditure cuts when appropriate.

Rate Stabilization Fund

The rate stabilization fund was established to address the cyclical nature of the District's revenue due to weather and the building economy, as well as large one-time operating expenses. A ten-year history of District revenue collections is shown below to demonstrate this:



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The stabilization fund has three components, with the associated 2014 year-end balances

Debt Service Sub Fund	\$ 1,058,615
Prepaid Assessment Sub Fund	37,573
Treatment Plant Sub Fund	131,443

Debt Service Sub Fund

A minimum \$1.0 million balance is required for this fund that can only be used to make parity debt payments in the unlikely case insufficient cash is generated from operations. If this fund is drawn below \$1.0 million, it must be restored within three years. Policy prohibits the use of these funds to meet 1.25 debt coverage for budget purposes.

Prepaid Assessment Sub Fund

When property assessments are paid sooner than is needed to make debt payments, the proceeds are deposited into this fund. These funds can be used to meet debt coverage for budgeting purposes since the related prepayments reduce future assessment collections.

Treatment Plant Sub Fund

Very costly treatment carbon and membrane purchases are made every few years, creating dramatic operating cost swings. To address this, the District budgets for these items each year and deposits the unused balance in this fund. This fund is used to meet 1.25 coverage for budget purposes in years when treatment carbon and/or membranes are purchased.

Other Cash Reserves

District policy requires it to maintain at least 120 days operating cash & reserves, based upon that year's cash operating budget, as discussed later in more detail. At year end 2014, it was 180 days.

The District attempts to finish each year with a minimum \$500,000 balance in capital facility repair & replacement funds. The year-end 2014 balance was \$550,327.

The District maintains all required bond 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.

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Internal Controls

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

Economic Trends

General

The District covers 39.3 miles and maintains a centralized, regional water system currently serving 3,202 customers using water. Based upon actual usage; however, the District provides water for 7,441 ERCs when two golf courses and wholesale sales to other water companies are included. In addition 1,882 undeveloped lots exist within the District that have a water system installed in a ready-to-serve state for which a standby fee is assessed.

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 - including arts festivals, concerts, sporting events, and a variety of other activities. There are several upscale gated communities served by the District, two of which have golf courses.

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

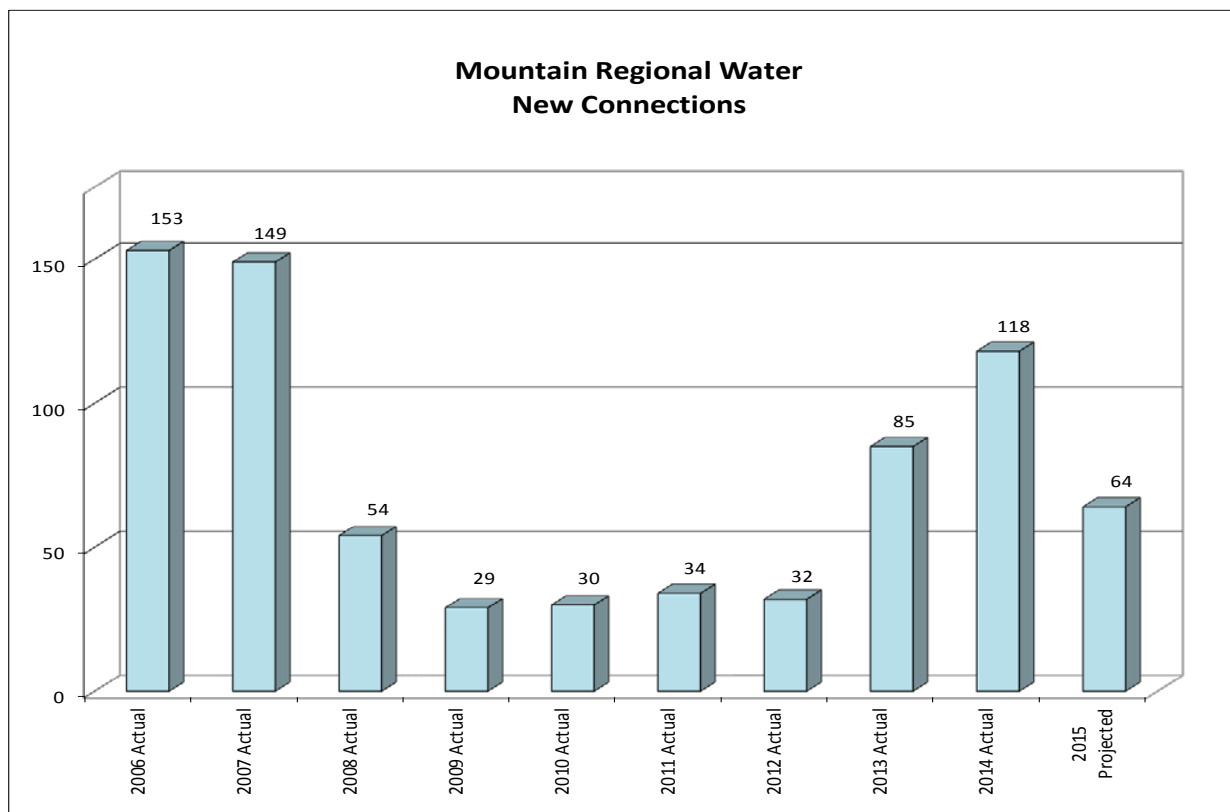
	2011 Actual	2016 Projected	2011 to 2016 Increase Projected	%
Population	6,343	6,841	498	7.9%
Households	2,249	2,427	178	7.9%
Median Household Income	\$ 86,474	\$ 100,352	\$ 13,878	16.0%
Average Household Income	105,724	125,252	19,528	18.5%

Source: esri Demographic and Income Profile for Mountain Regional Water 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

As shown below, building activity increased significantly in 2014 with 118 new connections, one of which was a 60 unit condo.



This compares to 85 connections in 2013. Meanwhile, the average annual number of new connections between 2009 and 2012 was only 31.

The 2015 projection is based upon an eight year average, but actual connections are expected to exceed projections. A 1,300 unit multi-use development is scheduled to start construction in 2015, although it will be phased in over five to 10 years. A new 122 room hotel with a 70 table restaurant is also about to start construction. Other existing developments are adding new plats and selling lots as well.

Financial Highlights

Cash Flow

After falling to what a bond rating agency referred to in 2010 as “barely adequate” unrestricted cash and reserves, these cash and reserves have increased from \$1.56 million to nearly \$3.75 million since then. This is due to the rate increases adopted in August 2011, and lower interest payments that resulted from refinancing debt in 2012.

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As shown below, total cash increased \$8.53 million in 2014. The remaining proceeds from the Series 2014 bonds at year end were \$8.66 million cash. Without these proceeds, total cash would have dropped a nominal \$133,742 (2.2%) during 2014.

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

	2014	2013	2012	\$ Change 2014 to 2013	% Change 2014 to 2013
Unrestricted cash and reserves held by district					
Operating cash & reserves	\$ 2,512,242	\$ 2,303,217	\$ 2,020,186	\$ 209,025	9.1 %
Rate stabilization fund					
Subfund for debt service	1,058,615	1,053,425	854,906	5,190	0.5
Subfund for prepaid assessments	37,576	82,635	166,311	(45,059)	(54.5)
Subfund for treatment plant	131,443	65,988	1,045	65,455	99.2
Other unrestricted reserves	6,351	6,320	6,245	31	0.5
Total unrestricted cash and reserves held by the District	<u>3,746,227</u>	<u>3,511,585</u>	<u>3,048,693</u>	<u>234,642</u>	<u>6.7</u>
Cash restricted for debt payments					
Held by trustee	194,273	228,275	370,445	(34,002)	(14.9)
Held by district	319,367	316,063	346,013	3,304	1.0
Total cash restricted for debt payments	<u>513,640</u>	<u>544,338</u>	<u>716,458</u>	<u>(30,698)</u>	<u>(5.6)</u>
Other restricted cash					
Impact fees	859,655	834,066	700,442	25,589	3.1
Capital facilities construction, repair & replacement reserves	550,327	570,038	303,614	(19,711)	(3.5)
IRS rebate	6,228	403,741	275,307	(397,513)	(98.5)
Customer deposits	320,596	265,021	181,000	55,575	21.0
Bond construction funds	8,662,724	1,626	6,588	8,661,098	532,662.9
Total other restricted cash	<u>10,399,530</u>	<u>2,074,492</u>	<u>1,466,951</u>	<u>8,325,038</u>	<u>401.3</u>
Total cash	<u>\$ 14,659,397</u>	<u>\$ 6,130,415</u>	<u>\$ 5,232,102</u>	<u>\$ 8,528,982</u>	<u>139.1 %</u>

Unrestricted cash and reserves increased \$234,642 (6.7%) in 2014, to \$3.75 million. This includes a \$2.51 million year-end 2014 balance for operating cash and reserves - which represents 180 days reserves – well above the 120 day policy minimum.

Cash restricted for debt payments has been maintained at mandatory levels since the District's inception and finished at \$513,640 for 2014 compared to \$544,338 for 2013.

Other restricted cash increased \$8.33 million in 2014 - as \$8.66 million in Series 2014 bond proceeds remained at year-end. Funds restricted to pay IRS arbitrage rebate on the District's tax exempt bonds declined \$397,513 (98.5%) in 2014 due to an arbitrage payment. Customer deposits made when lots owner are issued a building permit increased 21.0% as the building economy continued to improve.

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 scheduled parity debt payments.

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As shown below, the 2014 debt coverage ratio from current year operations remained very healthy at 1.5 compared to 1.80 in 2013 and 2.06 in 2012. The decline since 2012 is due to higher debt payments. When the rate increases were adopted in 2011, the intent was to raise rates enough by 2012 to meet increasing debt payments through 2014.

Since debt payments for 2012 and 2013 were less than scheduled 2014 payments, the District was able to, by design, significantly increase its cash reserves as discussed above.

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

	2014	2013	2012
Water sales	\$ 6,812,829	\$ 6,884,945	\$ 6,873,147
Operating fees	350,920	259,851	153,805
Impact fees	625,850	563,385	196,067
SID assessments	1,575,816	794,375	499,397
Interest available for debt service	29,670	26,491	101,983
Other non-restricted cash revenue	<u>148,208</u>	<u>108,307</u>	<u>258,787</u>
Total cash available for debt service from current year operations	9,543,293	8,637,354	8,083,186
Current year cash operating expenses	<u>(4,740,832)</u>	<u>(4,494,215)</u>	<u>(4,506,355)</u>
Net cash available for debt service payments from current year operations	<u>4,802,461</u>	<u>4,143,139</u>	<u>3,576,831</u>
Current year parity debt service payments	<u>3,203,382</u>	<u>2,300,899</u>	<u>1,738,225</u>
Debt service coverage from current year operations	<u>1.50</u>	<u>1.80</u>	<u>2.06</u>
Net cash available for debt service payments from current year operations	4,802,461	4,143,139	3,576,831
Rate Stabilization Fund balance	1,227,634	1,202,048	1,022,262
Total cash available for debt service payments	<u>6,030,095</u>	<u>5,345,187</u>	<u>4,599,093</u>
Debt service coverage with Rate Stabilization fund	<u>1.88</u>	<u>2.32</u>	<u>2.65</u>

The coverage ratio should decline to a projected 1.35 to 1.45 over the next four years as debt service payments and power costs are projected to increase faster than revenue collections.

As a note, when the \$1.23 million rate stabilization fund balance is included, the 2014 coverage ratio improves to 1.88.

As discussed above, rate and fee increases were adopted again in August 2014 to address increasing debt payments through 2017.

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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

	2014	2013	2012	\$ Change 2014 to 2013	% Change 2014 to 2013
Operating revenue	\$ 7,216,662	\$ 7,214,126	\$ 7,263,174	\$ 2,536	0.0 %
Operating expenses	<u>(6,170,387)</u>	<u>(5,868,998)</u>	<u>(5,918,466)</u>	<u>(301,389)</u>	<u>5.1</u>
Operating income (loss)	1,046,275	1,345,128	1,344,708	(298,853)	(22.2)
Non-operating revenue	2,338,710	1,435,193	832,371	903,517	63.0
Non-operating expense	<u>(1,680,523)</u>	<u>(1,607,910)</u>	<u>(2,797,308)</u>	<u>(72,613)</u>	<u>4.5</u>
Income (loss) before operating transfers	1,704,462	1,172,411	(620,229)	532,051	45.4
Transfers and contributions to (from) district	<u>618,390</u>	<u>288,413</u>	<u>369,677</u>	<u>329,977</u>	<u>114.4</u>
Change in net position	2,322,852	1,460,824	(250,552)	862,028	59.0
Net position - beginning	<u>39,600,802</u>	<u>38,139,978</u>	<u>38,390,530</u>	<u>1,460,824</u>	<u>3.8</u>
Net position - ending	<u>\$ 41,923,654</u>	<u>\$ 39,600,802</u>	<u>\$ 38,139,978</u>	<u>\$ 2,322,852</u>	<u>5.9 %</u>

During 2014, net position increased from \$39.60 million to \$41.92 million – a 5.9% increase. This was due to strong development related revenue (see non-operating revenue in the table above), lower power and repair costs than anticipated, and \$618,390 in contributions-in-aid of construction, whereby a developer pays to construct water infrastructure for their developments and then donates it to the District.

In 2013, net position increased \$1.46 million (3.8%) to \$39.60 million. This was driven by a \$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.

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The District's net position is segregated into three categories below in order to provide additional insight into its financial condition.

Mountain Regional Water Special Service District's Net Position

	2014	2013	2012	\$ Change 2014 to 2013	% Change 2014 to 2013
Unrestricted current assets	\$ 4,371,261	\$ 4,199,837	\$ 3,864,374	\$ 171,424	4.1 %
Capital assets	78,353,774	77,507,072	77,470,791	\$ 846,702	1.1
Other assets	11,950,575	3,718,282	3,427,424	\$ 8,232,293	221.4
Total assets	<u>94,675,610</u>	<u>85,425,191</u>	<u>84,762,589</u>	<u>9,250,419</u>	10.8
Deferred outflow of resources	<u>1,623,612</u>	<u>1,709,441</u>	<u>1,795,270</u>	<u>\$ (85,829)</u>	(5.0)
Total deferred outflow	<u>1,623,612</u>	<u>1,709,441</u>	<u>1,795,270</u>	<u>(85,829)</u>	(5.0)
Unrestricted current liabilities	605,330	685,859	734,955	\$ (80,529)	(11.7)
Long-term liabilities	50,418,825	43,325,009	44,956,095	\$ 7,093,816	16.4
Other liabilities	2,604,887	2,734,360	1,858,115	\$ (129,473)	(4.7)
Total liabilities	<u>53,629,042</u>	<u>46,745,228</u>	<u>47,549,165</u>	<u>6,883,814</u>	14.7
Deferred inflow of resources	<u>746,526</u>	<u>788,602</u>	<u>868,716</u>	<u>\$ (42,076)</u>	(5.3)
Total deferred inflow	<u>746,526</u>	<u>788,602</u>	<u>868,716</u>	<u>(42,076)</u>	(5.3)
Net position					
Net investment in capital assets	36,310,285	34,618,833	33,688,682	\$ 1,691,452	4.9
Restricted	1,847,438	1,467,991	1,321,878	\$ 379,447	25.8
Unrestricted	<u>3,765,931</u>	<u>3,513,978</u>	<u>3,129,418</u>	<u>\$ 251,953</u>	7.2
Total net position	<u>\$ 41,923,654</u>	<u>\$ 39,600,802</u>	<u>\$ 38,139,978</u>	<u>\$ 2,322,852</u>	5.9 %

This allocation of District net position reflects its aggressive capital projects program to address water shortage and quality problems in the Snyderville Basin, and rapid customer growth from 2000 to 2008. Capital assets were funded 58.1% from debt, 6.8% from impact fees and other cash sources, and 35.1% from contributions-in-aid of construction.

Net Investment in Capital Assets

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.

As shown above, net investment increased \$1.69 million (4.9%) in 2014 to \$36.31 million, as the completion of small projects was partially offset by depreciation.

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Net investment increased \$930,151 million (2.8%) in 2013 due to the completion of small projects.

In 2014, capital assets accounted for \$78.35 million (82.8%) of total assets, compared to 90.7% in 2013. Long-term liabilities (mostly bonds) accounted for \$50.42 million (94.0%) of total liabilities in 2014 - similar to 92.7% for 2013. Finally, net investment in capital assets accounted for \$36.31 million (86.6%) of total net position in 2014 compared to 87.4% in 2013.

Restricted Net Position

Restricted net position includes restricted cash accounts less liabilities that will be paid from future restricted revenue collections.

In 2014, restricted net position increased \$379,447 (25.8%) to nearly \$1.85 million. One major contributor to this is the selling of the Series 2014 bonds at a large premium, resulting in 2014 year-end balances of \$8.66 million in construction cash, but only \$8.14 million in related debt.

In 2013, restricted net position increased \$146,113 (11.1%). This was caused by an \$435,241 increase in restricted cash due to higher impact fee collections, more customer deposits from increased building activity, and an increase in funds set aside for future IRS arbitrage rebate payments. The increase in restricted cash was partially offset by higher accrued liabilities.

Unrestricted Net Position

Unrestricted net position includes assets not restricted for specific uses and can be used for any legitimate purpose. It also includes liabilities that can only be paid with unrestricted assets.

In 2014, unrestricted net position increased \$251,953 (7.2%) to \$3.77 million. Higher unrestricted cash and reserves resulted from power and repair costs finishing under budget.

In 2013, unrestricted net position increased \$384,560 (12.3%) due to an increase in unrestricted cash. Higher building related collections allowed the District to apply \$200,000 more impact fee reserves to make debt payments, which had the net effect of increasing unrestricted cash by \$200,000. Lower interest payments also contributed to this positive change.

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 5.26 and 7.22 the past three years.

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Summary of Revenue

Total revenue increased \$906,053 (10.5%) in 2014 to \$9.56 million, after increasing \$553,774 in 2013, as shown below. These increases are largely attributable to improved building activity, as water sales have been flat for the past three years at around \$6.85 million.

Mountain Regional Water Special Service District's Revenue Summary

	2014	2013	2012	\$ Change 2014 to 2013	% Change 2014 to 2013
Operating					
Water sales	\$ 6,812,829	\$ 6,884,945	\$ 6,873,147	\$ (72,116)	(1.0) %
Operating fees	350,920	259,851	153,805	91,069	35.0
Other	52,913	69,330	236,222	(16,417)	(23.7)
Total operating	<u>7,216,662</u>	<u>7,214,126</u>	<u>7,263,174</u>	<u>2,536</u>	<u>0.0</u>
Non-operating					
State grants	11,667	47,648	11,667	(35,981)	(75.5)
Interest income	30,082	26,789	102,676	3,293	12.3
Impact fees	625,850	563,385	196,067	62,465	11.1
SID assessments	1,575,816	794,375	499,397	781,441	98.4
Gain on sale of assets	9,138	-	16,952	9,138	-
Other non-operating revenue	86,157	2,996	5,612	83,161	2,775.7
Total non-operating	<u>2,338,710</u>	<u>1,435,193</u>	<u>832,371</u>	<u>903,517</u>	<u>63.0</u>
Total revenue	<u>\$ 9,555,372</u>	<u>\$ 8,649,319</u>	<u>\$ 8,095,545</u>	<u>\$ 906,053</u>	<u>10.5 %</u>

Impacts fees increased \$62,465 (11.1%) to \$625,850 in 2014 following a \$367,318 increase for 2013. Operating fees (which include meter connection fees) increased \$91,069 (35.0%) in 2014 after increasing \$106,046 in 2013.

SID assessment collections nearly doubled in 2014 to \$1.58 million. However, this does not reflect more lot sales. Instead, the contractually required assessment payments from the Promontory developer doubled in order to make higher assessment related debt payments.

The decline in interest earnings starting in 2013 resulted from the Series 2012 bond refunding 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. No debt reserve was required for the Series 2012 bonds; thus freeing up the \$2.95 million Series 2003 debt reserves to help pay Series 2012 bond closing costs, and to reduce the par amount of the Series 2012 bonds.

Other operating revenue in 2012 included a one-time insurance receipt of \$196,676.

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Summary of Expenses

District expenses increased \$374,002 (5.0%) in 2014. This increase is inflated due to one-time payments of \$180,067 for bond issuance costs. If the issuance costs are excluded, the increase in total expenses would have been \$193,935 (2.6%).

Mountain Regional Water Special Service District's Expense Summary

	2014	2013	2012	\$ Change 2014 to 2013	% Change 2014 to 2013
Operating					
Operations, maintenance and repairs	\$ 1,993,860	\$ 1,870,797	\$ 1,788,964	\$ 123,063	6.6 %
Water production	1,533,912	1,527,502	1,728,576	6,410	0.4
Engineering and energy & technology management	440,263	423,200	415,846	17,063	4.0
Management and finance	727,298	642,462	568,164	84,836	13.2
Legal services	45,499	30,254	4,805	15,245	50.4
Depreciation	1,429,555	1,374,783	1,412,111	54,772	4.0
Total operating	<u>6,170,387</u>	<u>5,868,998</u>	<u>5,918,466</u>	<u>301,389</u>	<u>5.1</u>
Non-Operating					
Interest expense	1,441,191	1,527,500	1,645,016	(86,309)	(5.7)
Loss on Sale of Assets	-	16,776	-	(16,776)	(100.0)
Bond Insurance Expense	14,965	17,414	11,957	(2,449)	(14.1)
Bond Issuance Costs	180,067	-	1,095,815	180,067	-
Trustee and bank fees	44,300	46,220	44,520	(1,920)	(4.2)
Bond issuance cost amortization	-	-	-	-	-
Total non-operating	<u>1,680,523</u>	<u>1,607,910</u>	<u>2,797,308</u>	<u>72,613</u>	<u>4.5</u>
Total expenses	<u>\$ 7,850,910</u>	<u>\$ 7,476,908</u>	<u>\$ 8,715,774</u>	<u>\$ 374,002</u>	<u>5.0 %</u>

Interest expense declined \$86,309 (5.7%) in 2014, while operating costs increased due to the addition of one full-time employee in 2014, plus two employees hired in mid-2013 worked all of 2014.

The full-time employee hired in 2014 is part of the District's management transition program, as most its senior managers intend to retire in three to five years. A part-time engineer was also hired in 2014 as part of the management transition program. This engineer will start working full-time in 2015. This management transition program will create a temporary increase in District payroll costs.

Legal fees were higher in 2014, and depreciation expense increased \$54,772 (4.0%) as several small projects were constructed and a new SCADA system was installed.

The \$1.24 million (14.2%) decrease in 2013 total expenses when compared to 2012 resulted mostly from \$1.1 million of one-time bond issuance costs for a bond refunding issued in 2012.

Interest expense declined \$117,516 (7.1%) in 2013 due to the Series 2012 bond refunding that refinanced older debt that had higher interest rates with lower interest rate debt. In 2014, interest expense declined as additional principal payments were made.

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Although interest expense has been declining, principal payments are increasing. As such, overall annual debt payments will increase through 2017.

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)**

	2014	2013	2012	\$	%
				Change 2014 to 2013	Change 2014 to 2013
Land and water rights	\$ 20,361,463	\$ 19,821,463	\$ 19,577,263	\$ 540,000	2.7 %
Construction in progress	42,567	380,270	984,355	(337,703)	(88.8)
Infrastructure not buildings	51,177,942	50,837,962	50,407,563	339,980	0.7
Buildings, equipment and furnishings	<u>6,771,802</u>	<u>6,467,377</u>	<u>6,501,610</u>	<u>304,425</u>	<u>4.7</u>
Total capital assets (net)	<u>\$ 78,353,774</u>	<u>\$ 77,507,072</u>	<u>\$ 77,470,791</u>	<u>\$ 846,702</u>	<u>1.1 %</u>

For the third straight year, capital assets (net of depreciation) increased minimally as the cost of small capital projects and contributions in-aid of construction were nearly offset by annual depreciation.

Capital assets increased \$846,702 (1.1%) to \$78.35 million in 2014, following a nominal \$36,281 increase in 2013.

Because above amounts are net of depreciation and the District received contributions-in-aid of construction, the amount of cash expended for capital projects shown in other areas of the financial statements is different.

The proceeds from the Series 2014 Bonds will increase total capital assets over the next two years. Since this \$8.14 million bond issued was sold at a premium, over \$9.0 million in gross proceeds were received. How these proceeds will be spent is outlined in the next section.

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Outstanding Debt

The District maintains a schedule to pay off all its debt by 2038. The 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's Net Debt Outstanding

	2014	2013	2012	\$ Change 2014 to 2013	% Change 2014 to 2013
Revenue and refunding bonds	\$ 45,766,000	\$ 39,478,000	\$ 39,854,000	\$ 6,288,000	15.9 %
Government notes and bonds	1,677,948	1,792,276	2,169,022	(114,328)	(6.4)
Unamortized grant	221,667	233,336	245,002	(11,669)	(5.0)
Unamortized premiums	3,084,960	2,305,466	2,440,639	779,494	33.8
Capital leases	310,000	-	-	310,000	-
Total debt outstanding	<u>\$ 51,060,575</u>	<u>\$ 43,809,078</u>	<u>\$ 44,708,663</u>	<u>\$ 7,251,497</u>	<u>16.6 %</u>

Total debt increased \$7.25 million (16.6%) in 2014 as three new debt instruments were issued that exceeded the amount of principal payments made in 2014. In 2014, the District made \$1.88 million in scheduled principal payments, plus another \$277,543 was used to pay off three state loans early. The trustee fees for these state loans exceeded the interest rate earned on District reserves.

Two new debt instruments were entered into in 2014 to acquire property. First, a \$146,250 promissory note was used to acquire property intended to serve as the site for a future shop. This note was paid off in full in 2014 from Series 2014 bond proceeds. It is expected that construction will begin in three to five years.

Second, the District entered into a capital lease in 2014 to acquire property next to the District's Lost Canyon Booster Station. This property is necessary for any future expansion of the booster station, and a home on the property is being converted to an office.

In addition, \$8.14 million in Series 2014 Bonds were issued to pay for construction projects in Promontory and the rest of the District. The bonds sold at a premium leading to over \$9.0 million in gross proceeds.

The Promontory developer will use \$4.48 million in proceeds to construct an additional tank, pipeline and pump station within the development. The developer will reimburse the District for the related debt payments through new assessments on existing unsold lots and future lots developed within Promontory.

The remaining proceeds will be used by the District to develop a new well, construct a new tank, and upgrade pumps and their electrical components. These projects are expected to reduce power consumption.

Total debt outstanding decreased \$899,585 (2.0%) in 2013, as principal payments exceeded \$488,000 in Series 2011B draws to pay for related projects.

Bond covenants require the District to budget for a debt service coverage ratio of at least 1.25 times. As discussed earlier, debt coverage for 2014 was 1.50.

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

Mountain Regional Water Special Service District Bond Rating History						
	2009	2010	2011	2012	2013	2014
Series 2009B Revenue Bond						
Standard & Poor's	A+	A+	A+	A+	A+	A+
Fitch	A	AA-	AA-	AA-	A+	A+
Series 2012 Revenue Bond						
Standard & Poor's	n/a	n/a	n/a	A+	A+	A+
Fitch	n/a	n/a	n/a	AA-	A+	A+
Series 2014 Revenue Bond						
Standard & Poor's	n/a	n/a	n/a	n/a	n/a	A+
Fitch	n/a	n/a	n/a	n/a	n/a	A+

Budgetary Information

The 2014 \$2.32 million change in net position (net income) was \$1.30 million more than projected. However, this positive budget variance included two unusual events.

First, non-cash contributions-in-aid of construction received from developers added \$618,390 to the increase in net position, while the budgeted amount was zero.

Second, a \$350,000 budget amendment for bond issuance costs was adopted as new bonds were sold. The actual issuance costs were only \$180,067.

After adjusting for these events the positive budget variance would have been \$513,329. This better represents the District's 2014 financial performance. Lower power and repair costs than budgeted, along with strong building related collections contributed to this positive variance.

As shown below, operating revenue fell \$44,538 (0.6%) below projections as higher operating fees collections (including meter connection fees) were not sufficient to offset lower 2014 waters sales. Water sales finished \$161,971 (2.3%) under budget despite an August 2014 rate increase - due to low water usage resulting from cool wet weather.

Operating expenses were \$373,213 (5.7%) under budget in 2014, as all budget line items finished within budget. Operations was \$236,315 (5.7%) under budget due to lower than anticipated power and repair costs. Part of the power cost savings resulted from avoiding pumping water during peak power rate periods, while the remaining savings resulted from cool wet weather. Treatment carbon and membranes finished \$65,000 under budget, as the District did not need to purchase any carbon or membranes in 2014. The District anticipates spending \$125,000 for carbon in 2015.

Non-operating revenue was \$191,610 (8.9%) ahead of projections as higher impact fee collections and development related inspection fees (included in other non-operating revenue) resulted from improved building activity.

Non-operating expense was \$162,977 (8.8%) under budget due to a \$350,000 amendment for the Series 2014 Bond issuance costs. The actual 2014 issuance costs were only \$180,067.

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Mountain Regional Water Special Service District's Budget Comparison

	2014 Actual	2014 Budget	Favorable (Unfavorable)	
Operating revenues:				
Water sales	\$ 6,812,829	\$ 6,974,800		
Operating fees	350,920	246,400		
Other	52,913	40,000		
Total operating revenue	<u>7,216,662</u>	<u>7,261,200</u>	<u>(44,538)</u>	(0.6) %
Operating expenses:				
Operations				
Energy & Resource Management	345,813	351,500		
Lost Canyon Water Transmission	1,165,516	1,253,500		
Treatment Plant	368,396	459,800		
Distribution	1,962,004	2,009,000		
Safety	31,856	36,100		
Subtotal	<u>3,873,585</u>	<u>4,109,900</u>	<u>236,315</u>	
General Manager				
Engineering & Development	94,450	97,800		
Human Resources	80,966	92,200		
Legal	45,499	80,000		
Subtotal	<u>220,915</u>	<u>270,000</u>	<u>49,085</u>	
Public Services				
Public Services	382,041	387,700		
Subtotal	<u>382,041</u>	<u>387,700</u>	<u>5,659</u>	
Financial Management				
Financial Management	264,291	275,700		
Subtotal	<u>264,291</u>	<u>275,700</u>	<u>11,409</u>	
Depreciation				
Depreciation	1,429,555	1,500,300		
	<u>1,429,555</u>	<u>1,500,300</u>	<u>70,745</u>	
Total operating expenses	<u>6,170,387</u>	<u>6,543,600</u>	<u>373,213</u>	5.7 %
Operating income	<u>1,046,275</u>	<u>717,600</u>	<u>328,675</u>	
Non-operating revenue				
State grants	11,667	11,700		
Interest income	30,082	30,400		
Impact fees	625,850	450,000		
SID assessments	1,575,816	1,620,000		
Other non-operating revenue	95,295	35,000		
Total Non-operating revenue	<u>2,338,710</u>	<u>2,147,100</u>	<u>191,610</u>	8.9 %
Non-operating expenses				
Interest expense	1,441,191	1,431,000		
Loss on sale of assets	-	-		
Bond insurance expense	14,965	17,500		
Bond issuance expense	180,067	350,000		
Trustee and bank fees	44,300	45,000		
Total non-operating expenses	<u>1,680,523</u>	<u>1,843,500</u>	<u>162,977</u>	8.8 %
Total non-operating income	<u>658,187</u>	<u>303,600</u>	<u>354,587</u>	
Income (loss) before operating transfers	<u>1,704,462</u>	<u>1,021,200</u>	<u>683,262</u>	
Contributions-in-aid of construction	618,390	-	618,390	
Change in net position	<u>\$ 2,322,852</u>	<u>\$ 1,021,200</u>	<u>\$ 1,301,652</u>	

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Impact Fees

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

The impact per ERC (0.60 acre feet) was changed to \$10,513. Another change to the impact fee is how ERCS are calculated. Prior to 2014, ERCs were based on meter size for homes. Starting in 2014, the fee is now based on home size and the square feet of watered landscaping. This generally resulted in lower impact fees for homes up to 3,000 square feet, and significantly higher impact fees for homes over 8,000 square feet.

As shown below, the District has collected \$8.12 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 \$6.80 million has been or will be applied to debt service on impact fee eligible debt.

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

	2003 to 2009	2009	2010	2011	2012	2013	2014	Total
Cash Collections								
Impact Fees	\$ 5,881,478	\$ 72,974	\$ 232,210	\$ 228,948	\$ 196,067	\$ 519,352	\$ 594,360	\$ 7,725,389
Interest Earnings	363,399	12,484	4,028	3,538	4,471	3,372	3,217	394,509
Total cash collections	<u>6,244,877</u>	<u>85,458</u>	<u>236,238</u>	<u>232,486</u>	<u>200,538</u>	<u>522,724</u>	<u>597,577</u>	<u>8,119,898</u>
Cumulative cash collections	6,244,877	6,330,335	6,566,573	6,799,059	6,999,597	7,522,321	8,119,898	
Cash Expenditures								
Debt Service ⁽¹⁾	3,473,663	400,000	673,266	200,000	230,000	430,000	529,100	5,936,029
Basin Pipeline	1,322,226	-	-	-	-	-	1,988	1,324,214
Total cash expenditures	<u>4,795,889</u>	<u>400,000</u>	<u>673,266</u>	<u>200,000</u>	<u>230,000</u>	<u>430,000</u>	<u>531,088</u>	<u>7,260,243</u>
Cumulative cash expenditures	4,795,889	5,195,889	5,869,155	6,069,155	6,299,155	6,729,155	7,260,243	
Net Cash Flow to Date	<u>\$ 1,448,988</u>	<u>\$ (314,542)</u>	<u>\$ (437,028)</u>	<u>\$ 32,486</u>	<u>\$ (29,462)</u>	<u>\$ 92,724</u>	<u>\$ 66,489</u>	<u>\$ 859,655</u>
Cumulative Cash Flow	1,448,988	1,134,446	697,418	729,904	700,442	793,166	859,655	
Projected Future Uses								
Debt Service ⁽¹⁾		\$ 388,900	\$ 388,900	\$ 81,855	\$ -	\$ -	\$ -	\$ 859,655
Other Projects		-	-	-	-	-	-	-
Total Future Cash Expenditures		<u>\$ 388,900</u>	<u>\$ 388,900</u>	<u>\$ 81,855</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 859,655</u>
Total Projected Cumulative Cash Flow								<u>\$ -</u>

Since a significant portion of the District's infrastructure was funded with long-term debt, most impact fees collections are applied to debt service.

Between 2003 and 2014, total debt payments of \$13.02 million were eligible to be paid from impact fees, while only \$5.94 million was applied to debt service. This means only 45.6% of the impact fees needed to pay off the impact fee eligible debt was provided from impact fee collections. The remaining 54.4% came from water rates. Over the long run, the amount of impact fee collections should equal the eligible debt payments.

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As shown above, impact fee collections dropped to \$72,974 in 2009, at the start of the Great Recession. An improved building economy starting in 2013 resulted in increasing cash impact fee collections of \$519,352 in 2013 and \$594,360 in 2014. Since the 2013 and 2014 amounts shown above are on a cash basis, they will differ from the accrual impact fee revenues shown on the Statement of Changes in Net Position included in the following Financial Statements, and the revenue amounts discussed under the Summary of Revenue in this Management Discussion and Analysis.

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
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Statements of Net Position
December 31, 2014 and 2013

	2014	2013
Assets		
Current Assets		
Cash and investments	\$ 3,746,227	\$ 3,511,585
Restricted cash and investments	10,399,530	2,074,492
Accounts receivable	494,329	562,990
Due from other governmental entities	28,000	28,000
Other receivables	-	65,562
Prepaid expenses	1,037,405	1,033,890
Inventories	102,705	97,262
Total current assets	15,808,196	7,373,781
Cash Restricted for Debt Repayment	513,640	544,338
Capital Assets		
Depreciable assets, net	57,949,744	57,305,339
Land and water rights	20,361,463	19,821,463
Construction-in-progress	42,567	380,270
Total assets	94,675,610	85,425,191
Deferred Outflow of Resources		
Loss on bond refunding	1,623,612	1,709,441
	\$ 96,299,222	\$ 87,134,632

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	2014	2013
Liabilities		
Current Liabilities		
Accounts payable	\$ 136,471	\$ 260,912
Accrued liabilities	791,729	679,192
Due to other government entities	105,031	420,480
Current portion, capital lease	11,850	-
Current portion, accrued liabilities - developer	300,920	179,198
Current portion of long-term debt	1,864,215	1,880,436
Total current liabilities	3,210,216	3,420,218
Long-term Liabilities		
Capital lease, less current portion	298,150	-
Accrued liabilities - developer, less current portion	1,234,316	1,396,368
Long-term debt, less current portion	48,886,360	41,928,642
Total liabilities	53,629,042	46,745,228
Deferred Inflow of Resources		
Unamortized gain on invested debt reserves applied	746,526	788,602
Total deferred inflow of resources	746,526	788,602
Net Position		
Net investment in capital assets	36,310,285	34,618,833
Restricted	1,847,438	1,467,991
Unrestricted	3,765,931	3,513,978
Total net position	41,923,654	39,600,802
	\$ 96,299,222	\$ 87,134,632

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Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2014 and 2013

	2014	2013
Operating Revenues		
Water sales	\$ 6,812,829	\$ 6,884,945
Operation fees	350,920	259,851
Other	52,913	69,330
Total operating revenues	7,216,662	7,214,126
Operating Expenses		
Operations, maintenance and repairs	1,993,860	1,870,797
Water production	1,533,912	1,527,502
Engineering and energy and technology management	440,263	423,200
Management and finance	727,298	642,462
Legal services	45,499	30,254
Depreciation	1,429,555	1,374,783
Total operating expenses	6,170,387	5,868,998
Operating Income	1,046,275	1,345,128
Non-Operating Revenues (Expenses)		
Grants	11,667	47,648
Interest income	30,082	26,789
Impact fees	625,850	563,385
Special Improvement District assessments	1,575,816	794,375
Gain (loss) on sale of capital assets	9,138	(16,776)
Other non-operating revenue	86,157	2,996
Interest expense	(1,441,191)	(1,527,500)
Trustee and bank fees	(44,300)	(46,220)
Bond insurance cost amortization	(14,965)	(17,414)
Bond issuance costs	(180,067)	-
Total non-operating revenues (expenses), net	658,187	(172,717)
Income Before Transfers	1,704,462	1,172,411
Contributions-in-aid of Construction	618,390	288,413
Change in net position	2,322,852	1,460,824
Net Position, Beginning of Year	39,600,802	38,139,978
Net Position, End of Year	\$ 41,923,654	\$ 39,600,802

Mountain Regional Water Special Service District
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Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Operating Activities		
Cash received from customers	\$ 7,350,885	\$ 7,371,505
Cash paid to suppliers	(2,633,491)	(2,261,559)
Cash paid to employees	(2,471,667)	(2,098,629)
Net Cash from Operating Activities	2,245,727	3,011,317
Capital and Related Financing Activities		
Grants received	-	35,981
Interest and bank fees paid	(1,553,565)	(1,665,668)
Purchase of property and equipment	(1,202,014)	(1,139,427)
Proceeds from sale of capital assets	9,935	-
Long-term debt payments	(2,157,978)	(1,240,746)
Proceeds from long-term debt	9,089,371	488,000
Payments for bond issuance costs	(180,069)	-
Proceeds on accrued liability - developer	57,737	125,509
Payments on accrued liability - developer	(98,067)	(104,198)
Special Improvement District assessment	1,575,816	794,375
Impact fees	625,850	563,385
Other revenue received	86,157	2,996
Net Cash from (used for) Capital and Related Financing Activities	6,253,173	(2,139,793)
Investing Activities		
Investment income	30,082	26,789
Investment in restricted cash	(8,294,340)	(435,421)
Net Cash used for Investing Activities	(8,264,258)	(408,632)
Net Change in Cash and Investments	234,642	462,892
Cash and Investments, Beginning of Period	3,511,585	3,048,693
Cash and Investments, End of Period	\$ 3,746,227	\$ 3,511,585

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Statements of Cash Flows
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	2014	2013
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ 1,046,275	\$ 1,345,128
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	1,429,555	1,374,783
Changes in operating assets and liabilities:		
Accounts receivable	68,661	(117,600)
Due from other government entities	-	42,996
Other receivables	65,562	231,983
Prepaid expenses	(18,480)	78,623
Inventory	(5,443)	18,576
Accounts payable	(124,441)	(35,604)
Accrued liabilities	99,487	70,529
Due to other government entities	(315,449)	1,903
Total adjustments	1,199,452	1,666,189
Net Cash from Operating Activities	\$ 2,245,727	\$ 3,011,317
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Capital asset contributions-in-aid of construction	\$ 618,390	\$ 288,413
Land acquired under capital lease	310,000	-
Land acquired through long-term debt	146,650	-

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.

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

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 Investments

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 investments. Cash and highly liquid financial instruments restricted to capital expenditures, or other long-term purposes of the District are excluded from this definition.

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

Notes to Financial Statements
December 31, 2014 and 2013

Accounts Receivable

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

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

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

Inventories

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

Proprietary Fund Capital Assets

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

	<u>Estimated Useful Life (Years)</u>
Buildings	60
Improvements other than buildings	25 - 60
Furniture and fixtures, machinery and equipment, vehicles, and engineering library	5 - 7

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

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 1, 2015, the date the financial statements were available to be issued.

In February 2015, the District increased its liability insurance coverage limit from \$5.0 million to \$10.0 million.

Note 2 - Deposits and Investments

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

Custodial Credit Risk

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

As of December 31, 2014, \$673,358 of the District's \$923,358 bank balance was uninsured and uncollateralized. As of December 31, 2013, \$849,990, of the District's \$1,099,990 bank balance was uninsured and uncollateralized.

Credit Risk

Cash and 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, 2014 and 2013, the District had \$4,463,344 and \$4,005,508, respectively, invested directly with the PTIF. In addition, the District had, as of December 31, 2014 and 2013, respectively, \$9,342,301 and \$1,135,333 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.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Notes to Financial Statements
December 31, 2014 and 2013

Note 3 - Capital Assets

A summary of activity in the capital assets for the year ended December 31, 2014 is as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets not being depreciated					
Land and water rights	\$ 19,821,463	\$ 540,000	\$ -	\$ -	\$ 20,361,463
Construction-in-progress	380,270	868,331	-	(1,206,034)	42,567
	<u>20,201,733</u>	<u>1,408,331</u>	<u>-</u>	<u>(1,206,034)</u>	<u>20,404,030</u>
Depreciable assets					
Buildings	7,612,615	-	-	-	7,612,615
Improvements other than buildings	63,489,854	698,943	-	764,152	64,952,949
Furniture and fixtures	181,851	-	-	-	181,851
Machinery and equipment	888,723	92,145	(314,152)	441,882	1,108,598
Vehicles	735,423	77,635	(25,433)	-	787,625
Engineering library	105,000	-	-	-	105,000
	<u>73,013,466</u>	<u>868,723</u>	<u>(339,585)</u>	<u>1,206,034</u>	<u>74,748,638</u>
Less accumulated depreciation:					
Buildings	(1,553,069)	(132,067)	-	-	(1,685,136)
Improvements other than buildings	(12,651,891)	(1,123,120)	-	-	(13,775,011)
Furniture and fixtures	(151,989)	(10,483)	-	-	(162,472)
Machinery and equipment	(781,215)	(78,655)	314,153	-	(545,717)
Vehicles	(464,963)	(85,230)	24,635	-	(525,558)
Engineering library	(105,000)	-	-	-	(105,000)
Total accumulated depreciation	<u>(15,708,127)</u>	<u>(1,429,555)</u>	<u>338,788</u>	<u>-</u>	<u>(16,798,894)</u>
Total capital assets being depreciated, net	<u>57,305,339</u>	<u>(560,832)</u>	<u>(797)</u>	<u>1,206,034</u>	<u>57,949,744</u>
	<u>\$ 77,507,072</u>	<u>\$ 847,499</u>	<u>\$ (797)</u>	<u>\$ -</u>	<u>\$ 78,353,774</u>

Mountain Regional Water Special Service District
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Notes to Financial Statements
December 31, 2014 and 2013

A summary of activity in the capital assets for the year ended December 31, 2013 was 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>
Less accumulated depreciation:					
Buildings	(1,423,932)	(129,137)	-	-	(1,553,069)
Improvements other than buildings	(11,549,351)	(1,102,540)	-	-	(12,651,891)
Furniture and fixtures	(169,234)	(8,274)	25,519	-	(151,989)
Machinery and equipment	(773,450)	(38,943)	31,178	-	(781,215)
Vehicles	(380,445)	(84,518)	-	-	(464,963)
Engineering library	(105,000)	(11,371)	11,371	-	(105,000)
Total accumulated depreciation	<u>(14,401,412)</u>	<u>(1,374,783)</u>	<u>68,068</u>	<u>-</u>	<u>(15,708,127)</u>
Total capital assets being depreciated, net	<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>

Depreciation expense for 2014 and 2013 was \$1,429,555 and \$1,374,783, respectively.

Contributions-in-aid of construction in the amounts of \$618,390 and \$288,413 were contributed to the District in 2014 and 2013, respectively.

Note 4 - Current Accrued Liabilities

Current accrued liabilities consist of accrued wages and benefits, customer deposits, and interest on outstanding debt. As of December 31, 2014 and 2013, accrued liabilities were \$791,729 and \$679,192, respectively. Accrued payroll accounted for \$370,057 of accrued liabilities as of December 31, 2014 and \$326,144 as of December 31, 2013. Customer deposits accounted for \$320,596 of accrued liabilities as of December 31, 2014 and \$265,021 as of December 31, 2013.

Mountain Regional Water Special Service District
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Notes to Financial Statements
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Note 5 - Long-term Debt

A summary of long-term debt activity for the years ended December 31, 2014 and 2013 is as follows:

	Balance January 1, 2014	Additions	Reductions	Balance December 31, 2014	Due Within One Year
Notes payable	\$ 1,792,276	\$ 146,650	\$ (260,978)	\$ 1,677,948	\$ 88,215
Bonds payable	39,478,000	8,185,000	(1,897,000)	45,766,000	1,776,000
Unamortized grants	233,336	-	(11,669)	221,667	-
Unamortized premium	2,305,466	904,371	(124,877)	3,084,960	-
Capital lease obligation - Note 6	-	310,000	-	310,000	11,850
	<u>\$ 43,809,078</u>	<u>\$ 9,546,021</u>	<u>\$ (2,294,524)</u>	<u>\$ 51,060,575</u>	<u>\$ 1,876,065</u>
	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>

The District had one outstanding note payable to the State of Utah, Department of Natural Resources – Division of Water Resources at December 31, 2013 that was paid in full during 2014. The note was assumed as part of acquisitions of water companies by the District. The note was secured by property and required annual payments.

The District also paid off two zero interest State of Utah loans early during 2014. The loans had an outstanding balance at December 31, 2013 of \$173,000. The loans were secured by net revenues. The annual trustee fees for these state loans exceeded the lost interest earnings from paying them off early.

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

The District issued two new debt instruments in 2014, one of which was paid off in full in 2014.

First, a \$146,250 promissory note with a maturity date of June 2017 was issued in 2014 to acquire a piece of property to use as the site for a future shop. It is expected this shop will not be constructed for several years. The District paid off this 4.0% interest note in December 2014 using proceeds from the Series 2014 bonds.

Second, the \$8.14 million Series 2014 bonds were issued in December 2014 and sold at a \$904,371 premium. The term is 20 years with interest ranging from 2.0% to 5.0% during the life of the bond.

Mountain Regional Water Special Service District
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Notes to Financial Statements
December 31, 2014 and 2013

About half the proceeds will be used to construct a new tank, pipeline and pump station in the Promontory development. The Promontory developer will reimburse the District for use of these proceeds through a second assessment on existing undeveloped lots and newly planted lots.

The remaining Series 2014 bond proceeds will be used to construct a new well and tank, and upgrade several pumps and booster stations. It is anticipated that these improvements will reduce the District's power consumption.

The district also entered into a capital lease to acquire land in 2014. See note 6.

Debt Coverage

The District continues to comply with its 1.25 debt coverage requirement for its bonding. The debt coverage ratios for 2014 and 2013 were 1.50 and 1.80, respectively.

The District's bond covenant allows it to include the balance in a rate stabilization fund in its coverage calculations. When these funds are included, the 2014 and 2013 coverage ratios increase to 1.88 and 2.32, respectively.

Debt Schedule

The District has issued the following notes and bonds payable as of December 31, 2014 and 2013:

Series	Original Issue	Interest Rate	Maturity Date	Principal Outstanding	
				2014	2013
Notes payable					
State of Utah, Dept. of Natural Resources - Div. of Water Resources Note	\$ 324,000	None	2016	\$ -	\$ 29,993
Weber Basin Water Conservancy District Note	2,033,436	4.6%	2028	1,677,948	1,762,283
				<u>1,677,948</u>	<u>1,792,276</u>
Bonds payable					
Water revenue					
2002B	433,000	None	2015	-	63,000
2006	278,000	None	2018	-	110,000
2008	3,026,000	2.0%	2029	2,377,000	2,512,000
2009B	9,045,000	2.0% - 3.5%	2018	6,160,000	7,685,000
2011A	679,000	1.52%	2031	649,000	659,000
2011B	1,278,000	None	2032	1,170,000	1,179,000
2012	27,270,000	2.0% - 5.0%	2033	27,270,000	27,270,000
2014	8,140,000	2.0% - 5.0%	2034	8,140,000	-
				<u>45,766,000</u>	<u>39,478,000</u>

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

Notes to Financial Statements
December 31, 2014 and 2013

Series	Original Issue	Interest Rate	Maturity Date	Principal Outstanding	
				2014	2013
Unamortized grants					
2012	350,000	N/A	2033	221,667	233,336
				<u>221,667</u>	<u>233,336</u>
Unamortized premiums					
2009B	202,474	N/A	2018	86,775	97,187
2012	2,383,832	N/A	2033	2,097,403	2,208,279
2014	904,371	N/A	2034	900,782	-
				<u>3,084,960</u>	<u>2,305,466</u>
Capital lease obligations - Note 6					
2014 Zions Lease Purchase	310,000	2.22% - 2.90%	2034	310,000	-
				51,060,575	43,809,078
Less current portion				<u>(1,876,065)</u>	<u>(1,880,436)</u>
				<u>\$ 49,184,510</u>	<u>\$ 41,928,642</u>

As of December 31, 2014, the aggregate maturities of notes and bonds payable, including interest, are as follows:

Years Ending December 31,	Capital Lease Obligations		Notes Payable		Bonds Payable		Total Debt Service Requirement
	Principal	Interest	Principal	Interest	Principal	Interest	
2015	\$ 11,850	\$ 7,726	\$ 88,215	\$ 81,065	\$ 1,776,000	\$ 1,687,534	\$ 3,632,814
2016	12,197	7,379	92,273	77,186	2,110,000	1,637,398	3,916,857
2017	12,553	7,023	96,518	73,128	2,119,000	1,576,368	3,865,014
2018	12,919	6,657	100,958	68,883	1,807,000	1,507,352	3,484,193
2019	13,296	6,279	105,602	64,443	1,861,000	1,456,049	3,487,094
2020-24	72,541	25,339	605,500	248,133	11,380,000	6,213,854	18,447,487
2025-29	82,497	15,384	588,882	102,167	13,612,000	3,970,021	18,273,070
2030-34	92,147	5,732	-	-	11,101,000	1,297,945	12,398,945
	<u>\$ 310,000</u>	<u>\$ 81,519</u>	<u>\$ 1,677,948</u>	<u>\$ 715,005</u>	<u>\$ 45,766,000</u>	<u>\$ 19,346,521</u>	<u>\$ 67,505,474</u>

Note 6 - Leases

The District has two operating leases. The first is for an office which is \$30,684 annually, while the second is for a backhoe for \$6,168 per year. The total annual outlay is \$36,752 for operating leases that expire at various dates through December 2015. Total future minimum lease payments for the operating leases is \$36,752 for the year ended December 31, 2015.

Total lease expense for the years ended December 31, 2014 and 2013 totaled \$36,752 and \$35,652, respectively.

The District also leases land under a long-term capital lease. The lease expires on August 1, 2034. Leased property under the capital lease of land is \$310,000 at December 31, 2014.

Note 7 - Long-term Accrued Liabilities – Developer

The District entered into an agreement with a developer during 2000 regarding the prepayment of municipal use impact fees. Under the terms of this agreement, the developer agreed to prepay the District \$6,300 per Equivalent Residential Connection (ERC) for 240 ERC's. These prepaid impact fees were recorded by the District as an accrued liability to the developer. During 2004, the developer prepaid an additional \$1,201,612 for the irrigation impact fee or an additional \$9,129 per lot, on the lots still owned by the developer. The developer also prepaid the total impact fee for two other lots at \$16,650 each. These prepaid impact fees were recorded by the District as 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, 2014 and 2013 was \$1,384,316 and \$1,471,368, respectively.

Other developers had prepaid amounts as of December 31, 2014 and 2013 of \$150,920 and \$104,198, respectively.

Note 8 - 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 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 17.29% of covered salary and wages through June 30, 2014 and 18.47% for the remainder of 2014. The District's contributions to this system for the years ending December 31, 2014 and 2013 were \$256,772, and \$226,929, 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 13.99% of covered salary and wages through June 30, 2014 and 14.94% for the remainder of 2014. The District's contributions to this system for the years ending December 31, 2014 and 2013 were \$18,374 and \$7,640, 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 1.78% percent of their covered salaries to a 401(k) plan in 2014. However, employers are allowed to make this contribution on behalf of its employees, which the District did in both 2014 and 2013. Contributions to this plan for the years ending December 31, 2014 and 2013 were \$3,702, and \$1,426, 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 9 - 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, 2014 and 2013, 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 by SBRD.

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 if the District exercised its option to install an underground waterline casing through the underpass during construction. If the District had chosen to exercise this option it would have been required to contribute an additional \$100,000 towards the underpass construction costs.

In 2013, the necessary multi-agency funding was obtained. In 2014, the District chose not to exercise its option as the cost to install the pipeline casing was prohibitive. Thus, the \$28,000 should be released to the District in 2015.

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 2014 and 2013, 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, 2014 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 1, 2015.

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 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 Sully LLP". The signature is written in a cursive, flowing style.

Ogden, Utah
May 1, 2015



**Independent Auditor's Report in Accordance with the *State Compliance Audit Guide*
on Compliance with General State Compliance Requirements and Internal Control
over Compliance**

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

Report On Compliance with General State Compliance Requirements

We have audited Mountain Regional Water Special Service District's compliance with the applicable general state compliance requirements described in the *State Compliance Audit Guide*, issued by the Office of the Utah State Auditor, that could have a direct and material effect on Mountain Regional Water Special Service District for the year ended December 31, 2014.

General state compliance requirements were tested for the year ended December 31, 2014 in the following areas:

- Budgetary Compliance
- Utah Retirement Systems
- Impact Fees
- Nepotism
- Utah Public Finance Website

The District did not receive any major or nonmajor State grants during the year ended December 31, 2014.

Management's Responsibility

Management is responsible for compliance with the general state requirements referred to above and the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

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

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

Opinion

In our opinion, Mountain Regional Water Special Service District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on Mountain Regional Water Special Service District for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of Mountain Regional Water Special Service 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 of compliance, we considered Mountain Regional Water Special Service District's internal control over compliance with the compliance requirements that could have a direct and material effect on Mountain Regional Water Special Service District or on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with general state compliance requirements and for each major state program and to test and report on internal control over compliance in accordance with the *State Compliance Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mountain Regional Water Special Service District's internal control over compliance.

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

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

Purpose of Report

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



Ogden, Utah
May 1, 2015

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Schedule of Findings and Responses
December 31, 2014 and 2013

2014 - None