MOUNTAIN REGIONAL WATER
SPECIAL SERVICE DISTRICT
A COMPONENT UNIT OF SUMMIT COUNTY
Government Auditing Standards and
State of Utah Legal Compliance
Year Ended December 31, 2006

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMETNS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Governing Board
Mountain Regional Water Special Service District

We have audited the financial statements of Mountain Regional Water Special Service District (the District) as of and for the year ended December 31, 2006, and have issued our report thereon dated May 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We noted no matters involving internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the audit committee, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly,

SCHMITT, GRIFFITHS, SMITH & CO., P.C.

Sherman H. Smith, CPA

INDEPENDENT AUDITORS' REPORT ON THE STATE OF UTAH LEGAL COMPLIANCE

The Governing Board
Mountain Regional Water Special Service District

We have audited the basic financial statements of Mountain Regional Water Special Service District (the District), a component unit of Summit County, Utah, for the year ended December 31, 2006, and have issued our report thereon dated May 7, 2007. As part of our audit, we have audited the District's compliance requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to its major State assistance program as required by the State of Utah Legal Compliance Audit Guide for the year ended December 31, 2006. The District received the following major assistance program from the State of Utah:

Conservation and Development Fund (DNR, Division of Water Resources)

The District did not receive any non-major State grants for the year ended December 31, 2006.

Our audit included test work on the District's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Special Districts
Other General Compliance Issues
Impact Fees

The management of Mountain Regional Water Special Service District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Mountain Regional Water Special Service District complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended December 31, 2006.

Schmitt, Griffiths, Smith & Co., P.C.

May 7, 2007

May 7, 2007

To the Audit Committee of the Summit County Commission
and Management of Mountain Regional Water Special
Service District

We have audited the financial statements of Mountain Regional Water Special Service District (the District), a component unit of Summit County, Utah as of and for the year ended December 31, 2006, and have issued our report thereon dated May 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

This report is intended solely for the information and use of the audit committee, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly,

SCHMITT, GRIFFITHS, SMITH & CO., P.C.

Sherman H. Smith, CPA

MOUNTAIN REGIONAL WATER
SPECIAL SERVICE DISTRICT
A COMPONENT UNIT OF SUMMIT COUNTY, UTAH

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To The Audit Committee of the Summit County Commission
Mountain Regional Water Special Service District

Independent Auditors' Report

We have audited the accompanying basic financial statements of Mountain Regional Water Special Service District (the District), a component unit of Summit County, Utah, as of and for the years ended December 31, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Mountain Regional Water Special Service District as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Schmitt, Griffith, Brian & Co., P.C.

May 7, 2007

Management's Discussion and Analysis

Mountain Regional Water
Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2006

Overview of Basic Financial Statements

This section of the Mountain Regional Water Special Service District of Summit County (District) report serves as an introduction to its basic financial statements for the year ended December 31, 2006 and presents management's discussion and analysis of the District's financial condition. Please read it 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 enterprise where the intent of the governing body is that the costs of providing goods and services to the general public be financed or recovered primarily through user charges. The District is financed primarily through water sales, service fees, and impact fees. The District 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 Highlights

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

In 2006, the District's financial condition improved for the fourth straight year as the continuing building boom resulted in another year of strong growth in lot sales and building activity that exceeded projections. As a point of caution, with a fixed level of future development potential within the District's boundaries, this strong growth and the related high level of connection fee, impact fee, and special assessment collections can't continue indefinitely.

The extra impact fees and special assessments collected during the building boom are required by both state law and bond covenants to be set aside for future debt service payments. As such, when the building boom subsides, sufficient funds will be available to continue to make debt service payments for several years without creating an additional burden on District rate payers. The District will evaluate the benefits of paying debt off early once the opportunity exists.

Net Income

The District's 2006 net income of nearly $2.5 million was driven by three factors:

1. Promontory Special Improvement District (SID) assessment collections totaled $2.8 million. After the related interest income, interest expense, trustee and bank fees and bond issuance costs are taken into account, this SID accounted for over $2.0 million, or 82.6% of net income. See table at page 7 which identifies these amounts.

   An SID assessment is charged to the Promontory developer each time it sells a lot within the SID, and these funds are then set aside to make future debt payments on the corresponding $18.6 million SID bond. The SID includes 1,500 total lots. In future years the net income related to the Promontory SID could be negative because the early lots sales and related assessment collections have far exceeded expectations, meaning future collections will be less. Long-term, the total net cash flow for the Promontory SID will be zero.

   Current excess collections have been set aside in a restricted escrow account for future debt payments. Legally and contractually, the SID collections may not be used for any other purpose. The District will analyze the benefits of prepaying a portion of the SID bond principal in 2008 – which is as soon as allowed by the bond covenants.

   In 2006, the District collected special assessments for 142 Promontory lots. In 2005, the District collected 278 assessments, and in 2004 collected 137 assessments. The District needs to collect roughly 100 SID assessments each year to fund the related principal payments. Because lot sales in Promontory have been much higher than projected, the District currently has $4.2 million in excess cash in the bond account and $3.3 million in the debt service account for a total of $7.5 million. This represents over half of the remaining outstanding SID principal of $14.7 million.

   It is important to note that interest payments on the Promontory SID bonds must be paid solely by Promontory developers. The developers must also cover any shortfall in principal assessments. Thus, the District has no legal requirement to pay off any related debt service for the Promontory bonds other than from SID assessments. The undeveloped land in the Promontory development provides the full collateral for the bond holders.

2. In 2006, the District's operating revenue exceeded budget by $350,330. This was mostly due to connection fees that exceeded budget by $198,975 or 119.9%. The District issued 151 concurrency letters in 2006 for new customers using water. In the past, the District has used very conservative revenue estimates in order to build up cash reserves. For the 2007 budget, the District started using "middle of the road" revenue estimates.

   Because of strong growth in water sales, which is ongoing revenue, the District reduced the standby fee from $38.50 to $33.50 in January 2006 and to $31.25 in January 2007. In May 2006, the District reduced the rate charged to condominium homeowners' associations for water used on each unit's front and back yard in order to make this rate more comparable to an equal number of residential water users consuming the same amount of outdoor water. The lower rate does not apply to amenities provided by condominium homeowners' associations such as lakes, waterfalls, parks, trails, swimming pools, common space, etc.

   Connection and other fees related to the building boom exceeded budget by $219,450 in 2006. Connection fees are one-time revenue that will subside once the building boom slows. Thus, the extra funds will be used in 2007 to acquire capital equipment and to replace old vehicles, and not to increase ongoing expenditures.

   Other operating revenue declined in 2006 as the state legislature reduced the administrative fee service districts can charge customers when these districts assess property tax liens for delinquent accounts. SID administrative fees assessed on the developer of Promontory declined in 2006 as well since the projects funded by the related debt were completed.

3. The District's operating expense was $348,741 under the amended budget in 2006. Salary and benefit costs were below budget due to the delay in hiring three new positions and because one employee was on disability for several weeks. Power costs were under budget because the implementation of a rate increase by Rocky Mountain Power was delayed until December 2006. Legal fees were under budget due to delays in lawsuits that will push related legal costs into 2007.

The District's net income is shown below by three categories:

Mountain Regional Water Special Service District's Income Statement Components

	Total 2006	Operations 2006	Promontory SID 2006	Project Funds 2006
Operating revenues:				
Water sales	$ 4,336,904	$ 4,336,904	$ -	$ -
Connection fees	364,975	364,975	-	-
Service	8,961	8,961	-	-
Other	122,990	122,990	-	-
Total operating revenue	4,833,830	4,833,830	-	-
Operating Expenses:				
Water production	963,577	963,577	-	-
Engineering and information technology	133,511	133,511	-	-
Operations, maintenance and repairs	989,391	989,391	-	-
Management and finance	398,346	398,346	-	-
Legal services	179,198	179,198	-	-
Depreciation	1,288,336	1,288,336	-	-
Total operating expenses	3,952,359	3,952,359	-	-
Operating income (loss)	881,471	881,471	-	-
Non-operating revenues (expenses)				
State grants	11,667	-	-	11,667
Interest income	759,638	384,998	343,064	31,576
Impact fees	757,150	757,150	-	-
SID assessments	2,843,411	-	**2,843,411**	-
Gain on sale of fixed assets	16,023	16,023	-	-
Other non-operating revenue	28,625	28,625	-	-
Interest expense	(2,654,660)	(1,595,160)	(1,059,500)	-
Trustee and bank fees	(44,739)	(38,739)	(6,000)	
Bond issuance cost amortization	(108,263)	(45,493)	(62,770)	
Total non-operating revenues (expenses)	1,608,852	(492,596)	2,058,205	43,243
Income before operating transfers	**$ 2,490,323**	**$ 388,875**	**$ 2,058,205**	**$ 43,243**

As discussed above, the Promontory SID generated most of the District's 2006 net income resulting from very strong SID assessment collections and interest earnings on debt service reserves.

New Infrastructure

The District's massive capital projects initiative to address the water shortage and quality problems within its service areas was completed in 2005, resulting in a drastic reduction in capital expenditures in 2006.

In 2006, the District substantially completed its conversion to radio reads for meters. These radio reads improve accuracy and significantly reduce the man hours needed to read meters, resulting in long-term savings.

District Financial Analysis

Net Assets

An entity's net asset position (i.e. total assets less total liabilities) may serve over time as a useful indicator of a government's financial position. As shown below, overall net assets increased nearly $2.6 million or 22.3% in 2006 – mostly from net income generated by SID assessment collections. Between 2004 and 2005 net assets increased nearly $5.5 million, again mostly from net income generated by SID assessment collections.

Net assets also increased from positive net income from operations in 2004, 2005 and 2006. This demonstrates the District's continued improvement of its financial condition following the consolidation of several water companies that were failing both operationally and financially.

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

	2006	2005	2004	$ Change 2006 to 2005	% Change 2006 to 2005
Operating revenue	$ 4,833,830	$ 4,735,361	$3,633,680	$ 98,469	2.1 %
Operating expenses	(3,952,359)	(3,334,842)	(2,777,177)	(617,517)	18.5
Operating income (loss)	881,471	1,400,519	856,503	(519,048)	(37.1)
Non-operating revenue	4,416,514	6,642,400	4,265,920	(2,225,886)	(33.5)
Non-operating expense	(2,807,662)	(2,543,270)	(2,563,077)	(264,392)	10.4
Income (loss) before operating transfers	2,490,323	5,499,649	2,559,346	(3,009,326)	(54.7)
Transfers and contributions to (from) district	100,000	-	-	100,000	-
Change in net assets	2,590,323	5,499,649	2,559,346	(2,909,326)	(52.9)
Net assets - beginning	11,610,709	6,111,060	3,551,714	5,499,649	90.0
Net assets - ending	$ 14,201,032	$ 11,610,709	$6,111,060	$ 2,590,323	22.3 %

The District's net assets can be segregated into three categories to provide more insight into why its financial condition is improving, as shown below.

Mountain Regional Water Special Service District's Net Assets

	2006	2005	2004	$ Change 2006 to 2005	% Change 2006 to 2005
Unrestricted current assets	$ 2,486,809	$ 1,945,361	$ 1,299,435	$ 541,448	27.8 %
Capital assets	47,610,227	47,999,746	47,381,134	(389,519)	(0.8)
Other assets	15,894,862	14,576,900	12,133,421	1,317,962	9.0
Total assets	65,991,898	64,522,007	60,813,990	1,469,891	2.3
Unrestricted current liabilities	928,886	678,270	872,256	250,616	36.9
Long-term liabilities	49,017,477	50,512,758	52,066,073	(1,495,281)	(3.0)
Other liabilities	1,844,503	1,720,270	1,764,601	124,233	7.2
Total liabilities	51,790,866	52,911,298	54,702,930	(1,120,432)	(2.1)
Net assets					
Invested in capital assets, net of related debt	9,098,863	7,198,771	3,631,451	1,900,092	26.4
Restricted	2,309,732	1,802,768	859,252	506,964	28.1
Unrestricted	2,792,437	2,609,170	1,620,357	183,267	7.0
Total net assets	$ 14,201,032	$ 11,610,709	$ 6,111,060	$ 2,590,323	22.3 %

"Net assets invested in capital assets, net of related debt" measures the net value of an entity's fixed assets such as land, water system infrastructure, equipment, and water rights after deducting accumulated depreciation and any debt outstanding used to acquire or construct those fixed assets. The 2005 and 2006 increases in net assets invested in capital assets, net of related debt are largely the result of principal payments made on bonds used to acquire or construct those assets, plus an increase in the debt service reserve cash balances from excess SID assessments, impact fee collections, and interest earned on debt service reserves.

Restricted net assets include other restricted cash accounts less liabilities that will be paid exclusively from future restricted revenue collections. This includes future impact fees collected from The Colony service area. The developer prepaid most impact fees for The Colony service area and will be reimbursed by the District as it collects the impact fee from lot owners when the developer sells a lot.

"Restricted net assets" increased in both 2005 and 2006 because the District set aside excess funds in operating and repair reserve accounts and experienced a net increase in customer deposits. Customers constructing new homes and businesses are required to deposit $1,500 with the District until their new structure is completed. If no damage is done to the District's infrastructure during construction, the full deposit is returned to the customer. If the District's infrastructure is damaged, the deposited funds are used to pay the repair costs. During periods of strong growth, the number of customer deposits increases.

"Unrestricted net assets" increased again in both 2005 and 2006 due to positive net income from operations. These assets include unrestricted cash, accounts receivable, inventory, and prepaid expenses. Prior to 2004, the District's total unrestricted net assets was negative.

Summary of Revenues

As shown below, the District experienced a 2.1% increase in operating revenue between 2005 and 2006 despite implementing two rate reductions during the year. In January 2006, the District reduced the standby fee by $5.00 per month. The standby fee is assessed on vacant lots with immediate access to the District's water system and on prepaid connection certificate holders. Because only certain fixed costs are included in the standby fee and the total number of standby fee lots and customers using water increased, those fixed costs were allocated among more customers in 2006, resulting in the $5.00 fee reduction.

Mountain Regional Water Special Service District's Revenue Summary

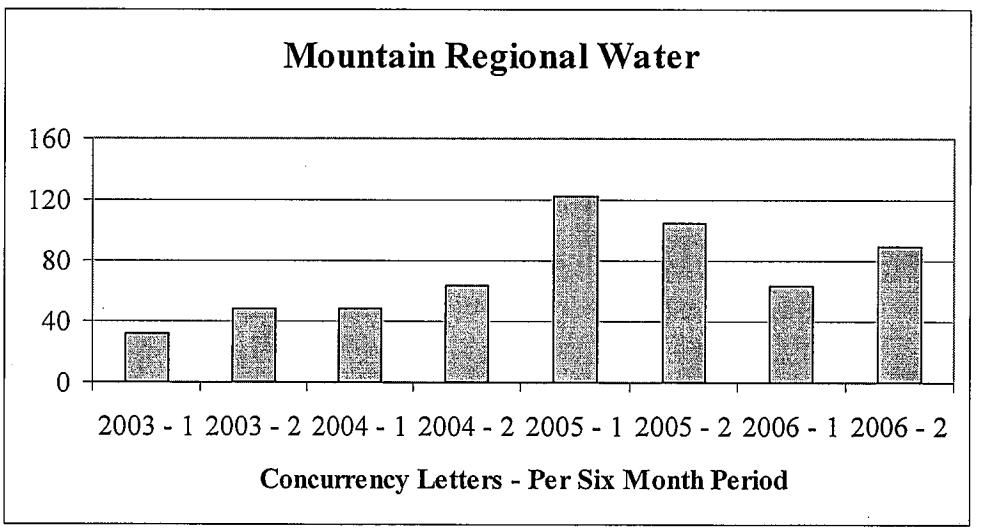
	2006	2005	2004	$ Change 2006 to 2005	% Change 2006 to 2005
Operating					
Water sales	$ 4,336,904	$ 4,052,394	$ 3,254,251	$ 284,510	7.0 %
Connection fees	364,975	483,745	237,675	(118,770)	(24.6)
Service	8,961	10,479	13,540	(1,518)	(14.5)
Other	122,990	188,743	128,214	(65,753)	(34.8)
Total operating	4,833,830	4,735,361	3,633,680	98,469	2.1
Non-operating					
State grants	11,667	11,667	259,667	-	-
Interest income	759,638	457,382	405,201	302,256	66.1
Impact fees	757,150	704,709	1,054,174	52,441	7.4
SID assessments	2,843,411	5,182,900	2,546,878	(2,339,489)	(45.1)
Gain on sale of fixed assets	16,023	169,846	-	(153,823)	-
Other non-operating revenue	28,625	115,896	-	(87,271)	-
Total non-operating	4,416,514	6,642,400	4,265,920	(2,225,886)	(33.5)
Total revenue	$ 9,250,344	$ 11,377,761	$ 7,899,600	$ (2,127,417)	(18.7) %

In addition, the District significantly reduced the common irrigation water rate charged to condominiums to water their front and back yards. This 2006 rate reduction was implemented in order to create equity between condominium owners and residential homeowners for similar types of outdoor watering. As such, the common irrigation rate reduction did not apply to condominium amenities such as trails, swimming pools and parks.

These two rate reductions were more than offset by customer growth.

The significant growth in operating revenue between 2004 and 2005 resulted from the 2005 implementation of conservation rates that led to much higher water charges for a small number of District customers who use massive quantities of water. In addition, customer growth exceeded 10.0% in 2005 resulting in higher water sales and connection fees.

Connection fees declined in 2006 despite strong customer growth. Although growth peaked in 2005 and declined in early 2006, growth rebounded in the second half of 2006 as shown below.



The District's non-operating revenue declined 33.5% and its total revenue declined 18.7% in 2006, although this is not cause for alarm. This was largely the result of a decline in SID assessment collections. However, SID collections in 2006 were still higher than needed on an annual basis to retire the related SID bonds on schedule. The excess SID assessment collections in 2004, 2005 and 2006 have generated enough reserves to make the related SID debt service payments for several years and will likely allow the District to pay off the bonds early.

Interest earnings increased sharply in 2006 due to higher short-term interest rates. State law restricts the duration of local government investments to shorter term instruments.

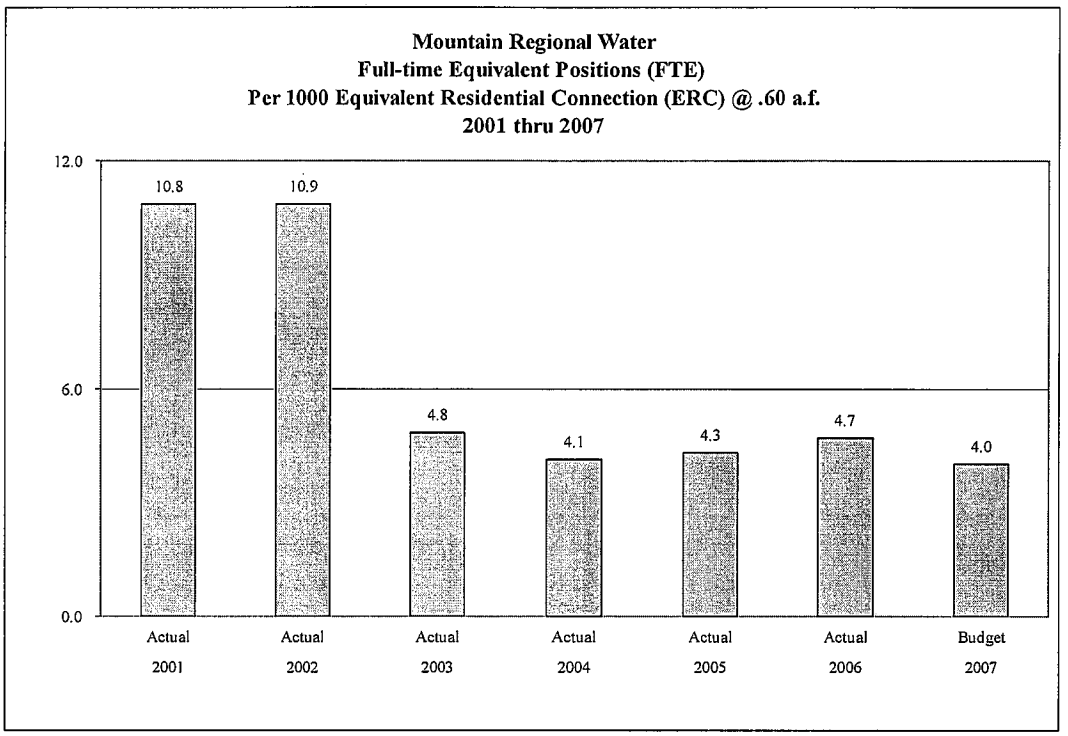
Summary of Expenses

Excluding non-cash depreciation expense, overall expenses increased 16.8% in 2006. The District added three new employees in 2006 to address the rapid growth and development in the District, and to operate the new treatment plant. Water production costs increased as well.

Mountain Regional Water Special Service District's Expense Summary

	2006	2005	2004	$ Change 2006 to 2005	% Change 2006 to 2005
Operating					
Water production	$ 963,577	$ 747,972	$ 626,970	$ 215,605	28.8 %
Engineering and information technology	133,511	94,037	64,063	39,474	42.0
Operations, maintenance and repairs	989,391	1,069,234	965,432	(79,843)	(7.5)
Management and finance	398,346	284,423	288,476	113,923	40.1
Legal services	179,198	86,019	152,864	93,179	108.3
Depreciation	1,288,336	1,053,157	679,372	235,179	22.3
Total operating	3,952,359	3,334,842	2,777,177	617,517	18.5
Non-Operating					
Interest expense	2,654,660	2,399,724	2,374,322	254,936	10.6
Trustee and bank fees	44,739	35,664	25,180	9,075	25.4
Bond issuance cost amortization	108,263	107,882	163,575	381	0.4
Total non-operating	2,807,662	2,543,270	2,563,077	264,392	10.4
Total expenses	$ 6,760,021	$ 5,878,112	$ 5,340,254	$ 881,909	15.0 %

Despite adding three new employees, the District has fewer positions per equivalent residential connection in 2006 than it had prior to 2004. Since no new employees will be added in 2007, the number of positions per equivalent residential connection in 2007 will be the lowest in the District's history as shown below.



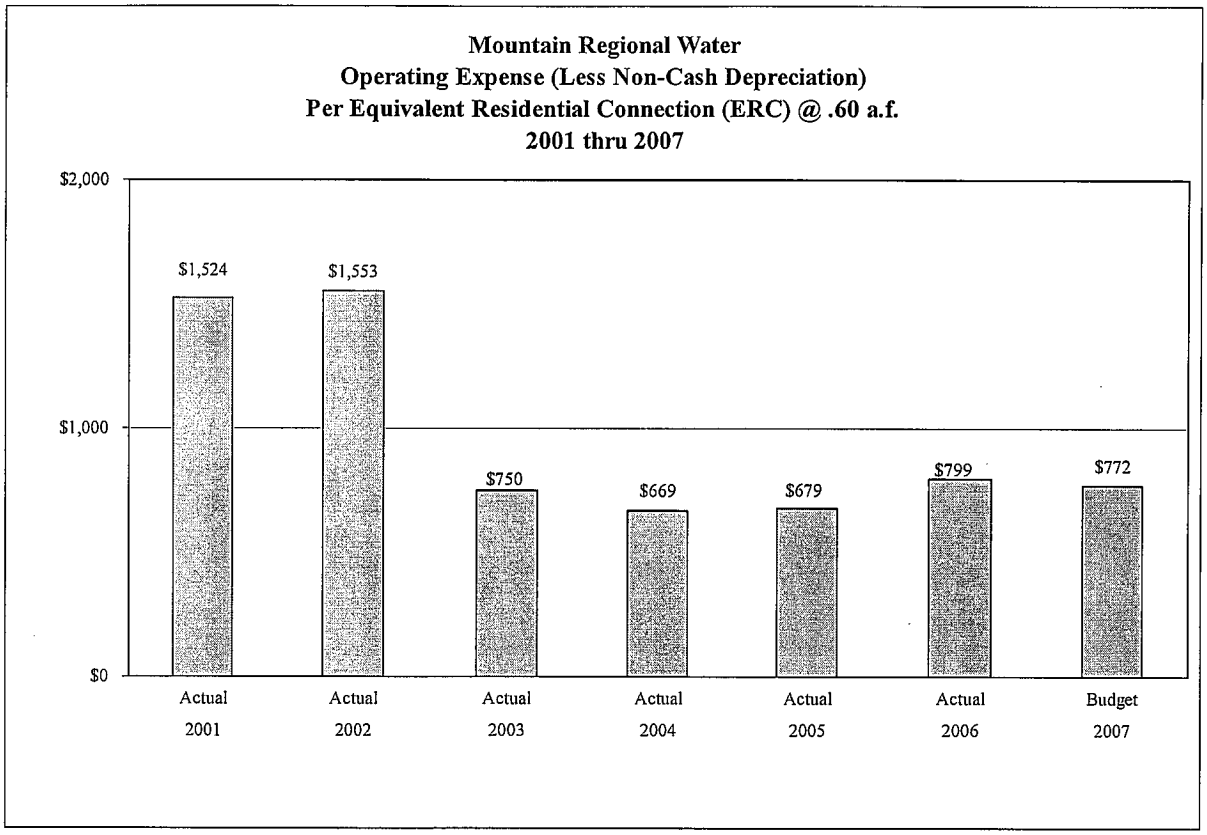
Water production costs such as power, treatment, and water lease fees increased in 2006 due to water usage by new customers and a new golf course; and because the new treatment plant was utilized more extensively. Water treated at the plant is more expensive to produce than well water because of treatment costs and the need to pump the water much further. In order to operate the treatment plant a new position was added in 2006.

Operations, maintenance, and repairs costs show a decrease in 2006 because two of its employees were transferred to the newly created Public Services department that is rolled up into the management and finance line item. As such, management and finance showed an increase in 2006. Legal fees also increased in 2006 as several nuisance lawsuits progressed.

Engineering and information technology costs increased in 2006 as a new engineering position was established to act as both District Engineer and General Manager. This position was needed to address rapid new development within the District and to improve efficiency through the increased use of technology.

The increase in operating expenses between 2004 and 2005 is largely the result of higher non-cash depreciation expense that increased due to the completion of water infrastructure badly needed to address past water and quality problems, and to address rapid growth.

As shown in the table below, operating expense per equivalent residential connection has declined dramatically since 2001 as the District has improved efficiency, leveraged technology, and experienced economies of scale in a growing District. Since 2003, operating expense per equivalent residential connection has increased 3.0% - which is significantly less than the 12.7% increase in the Consumer Price Index over the same period.



Budgetary Information

The District had favorable budget variances in 2006 for both total operating revenue and expenses, as well as for total non-operating revenues and expenses. This is true for both the 2006 Initial Budget adopted in December 2005; and the 2006 Amended Budget prepared in September 2006 and adopted in December 2006.

The 2006 Amended Budget incorporated only one change: $41,800 was transferred from contingency to legal services to address costs related to a lawsuit. These costs were incurred in early 2007, so this budget amendment for 2006 was unnecessary. In fact, the District budgeted for these costs in both 2006 and 2007 since the exact timing of the legal services was unknown. State law prohibits service districts from carrying forward operating budget savings from one year into the next.

Mountain Regional Water Special Service District's Budget Comparison

	2006 Actual	2006 Initial Budget	Variance	2006 Amended Budget	Variance
Operating revenues:					
Water sales	$ 4,336,904	$ 4,256,400	$ 80,504	$ 4,256,400	$ 80,504
Connection fees	364,975	166,000	198,975	166,000	198,975
Service	8,961	6,600	2,361	6,600	2,361
Other	122,990	54,500	68,490	54,500	68,490
Total operating revenue	4,833,830	4,483,500	350,330	4,483,500	350,330
Operating Expenses:					
Water production	963,577	1,051,300	87,723	1,051,300	87,723
Engineering and information technology	133,511	147,000	13,489	147,000	13,489
Operations, maintenance and repairs	989,391	1,073,100	83,709	1,073,100	83,709
Management and finance	398,346	468,900	70,554	468,900	70,554
Legal services	179,198	227,500	48,302	269,300	90,102
Depreciation	1,288,336	1,291,500	3,164	1,291,500	3,164
Total operting expenses	3,952,359	4,259,300	306,941	4,301,100	348,741
Operating income (loss)	881,471	224,200	657,271	182,400	699,071
Non-operating revenues (expenses)					
State grants	11,667	25,000	(13,333)	25,000	(13,333)
Interest income	759,638	381,600	378,038	381,600	378,038
Impact fees	757,150	600,000	157,150	600,000	157,150
SID assessments	2,843,411	2,000,000	843,411	2,000,000	843,411
Gain on sale of fixed assets	16,023	-	16,023	-	16,023
Other non-operating revenue	28,625	-	28,625	-	28,625
Interest expense	(2,654,660)	(2,724,200)	69,540	(2,724,200)	69,540
Trustee and bank fees	(44,739)	(40,200)	(4,539)	(40,200)	(4,539)
Bond issuance cost amortization	(108,263)	(108,000)	(263)	(108,000)	(263)
Total non-operating revenues (expenses)	1,608,852	134,200	1,474,652	134,200	1,474,652
Income (loss) before operating transfers	2,490,323	358,400	2,131,923	316,600	2,173,723
Contingency	-	100,000	100,000	58,200	58,200
Transfers to/from local governements	100,000	-	100,000	-	100,000
Net change in equity	$ 2,590,323	$ 258,400	$2,131,923	$ 258,400	$2,215,523

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; water system infrastructure; construction in progress; and buildings, equipment and furnishings.

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

	2006	2005	2004	$ Change 2006 to 2005	% Change 2006 to 2005
Land and water rights	$ 14,796,703	$ 14,746,703	$ 14,523,941	$ 50,000	0.3 %
Water system infrastructure	28,559,038	29,030,061	12,334,029	(471,023)	(1.6)
Construction in progress	131,349	-	19,473,804	131,349	n/a
Buildings, equipment and furnishings	4,123,137	4,222,983	1,049,360	(99,846)	(2.4)
Total capital assets (net)	$ 47,610,227	$ 47,999,747	$ 47,381,134	$ (389,520)	(0.8) %

As shown below, the District's capital assets (net of depreciation) as of December 31, 2006 amounted to $47.6 million compared to $48.0 million for 2005, and $47.4 million in 2004. The 2006 decrease resulted from additional accumulated depreciation of existing assets. Only some minor equipment acquisitions and small capital projects were undertaken in 2006. The District had close to $19.5 million in construction in progress on December 31, 2004 for projects that were completed in early 2005.

Because the amounts shown below are net of depreciation, the amount of cash expended for capital projects as shown in other areas of these financial statements may be different.

The District is currently working with Park City and Weber Basin Water Conservancy District to expand the capacity of the Lost Creek Canyon project to meet the water needs for future growth in the Snyderville Basin. Weber Basin has committed to pay the construction costs for this expansion, net of any federal grants it receives. Weber Basin will recover these capital costs from future lease rates charged to the District and Park City.

Outstanding Debt

The District maintains a schedule to pay off all its bonds by 2033. The District's debt level resulted from the need to acquire additional water rights, sources, and infrastructure to provide water to struggling service areas acquired or annexed into the District that were experiencing water shortages and quality problems.

Mountain Regional Water Special Service District's Outstanding Debt

	2006	2005	2004	$ Change 2006 to 2005	% Change 2006 to 2005
Revenue and refunding bonds	$ 32,800,000	$ 32,900,000	$ 32,900,000	$ (100,000)	(0.3) %
Special assessment bonds	14,700,000	16,000,000	17,300,000	(1,300,000)	(8.1)
State notes and bonds	1,169,127	1,022,527	1,131,926	146,600	14.3
Capital lease	-	-	9,546	-	n/a
Total debt outstanding	$ 48,669,127	$ 49,922,527	$ 51,341,472	$ (1,253,400)	(2.5) %

The District issued no new debt in 2006 but did assume a $278,000 no interest state loan from Timberline Service District, which annexed into the District for water service. The District's efforts to develop new infrastructure and acquire additional water rights to address the water shortages and quality problems within many of its acquired or annexed service areas has been accomplished. Total debt outstanding declined in both 2006 and 2005 because the District made principal payments.

As shown above, the District has several low and no interest notes and bonds financed through the State of Utah with a total outstanding principal balance of nearly $1.2 million. The increase between 2006 and 2005 is due to the assumed Timberline Service District loan discussed above.

The District paid $1.3 million in principal on $18.6 million Promontory SID bonds in both 2006 and 2005, leaving an outstanding principal balance of $14.7 million. Currently, the District has almost $7.5 million set aside in debt reserves for this bond. Starting in 2008, the District can start retiring outstanding bonds ahead of schedule per the related bond covenants.

A $100,000 principal payment was made on the remaining principal of the $33.0 million revenue and refunding bonds in 2006 leaving a remaining balance of $32.8 million. Slowly increasing principal payments began in 2006. The District's current revenue sources are sufficient to pay all bond payments into the foreseeable future.

The District is required by several bond covenants to maintain a debt service coverage ratio of at least 1.25 times. This ratio was 1.83 in 2006 compared to 1.97 in 2005. This ratio should decline in coming years as debt service payments on the $33.0 million revenue and refunding bonds slowly increase, and water lease costs increase. The District will continue to maintain a ratio of at least 1.25.

The District's capital lease for heavy equipment was paid in full in 2005.

The District was issued a "BBB" bond rating by both Fitch and Standards and Poor in 2003. The District then issued its Series 2003 $33,000,000 Revenue and Refunding Bond, which resulted in a bond upgrade rating from "BBB" to a "AAA" through the acquisition of bond insurance. The District has not requested a new bond rating since 2003.

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.

Basic Financial Statements

Mountain Regional Water
Special Service District
A Component Unit of Summit County, Utah
Balance Sheets
December 31, 2006 and 2005

	2006	2005
ASSETS		
Current assets:		
Cash	$ 1,420,799	$ 1,132,515
Restricted cash	3,937,285	3,582,940
Accounts receivable	428,643	507,610
Other receivables	121,568	4,504
Prepaid expenses	466,266	257,324
Inventory	49,982	43,408
Total current assets	6,424,543	5,528,301
Cash restricted for debt repayment	10,715,761	9,679,068
Capital assets:		
Depreciable assets, net	32,682,176	33,253,044
Land and water rights	14,796,703	14,746,703
Construction-in-progress	131,349	-
Other assets, net	1,241,366	1,314,891
	$ 65,991,898	$ 64,522,007

See accompanying notes and independent auditors' report.

Mountain Regional Water
Special Service District
A Component Unit of Summit County, Utah
Balance Sheets, Continued
December 31, 2006 and 2005

	2006	2005
LIABILITIES		
Current liabilities:		
Accounts payable	$ 211,505	$ 58,260
Accrued liabilities	717,381	620,010
Due to other government entities	84,203	168,405
Current portion of long-term debt	1,542,532	1,510,400
Accrued liability - impact fees	217,768	27,333
Current portion, accrued liability - developer	-	14,132
Total current liabilities	2,773,389	2,398,540
Accrued liability - developer, less current portion	1,890,884	2,100,632
Long-term debt, net of current portion	47,126,593	48,412,126
Total liabilities	51,790,866	52,911,298
NET ASSETS		
Invested in capital assets, net of related debt	9,098,863	7,198,771
Restricted	2,309,732	1,802,768
Unrestricted	2,792,437	2,609,170
Fund equity	14,201,032	11,610,709
	$ 65,991,898	$ 64,522,007

See accompanying notes and independent auditors' report.

Mountain Regional Water
Special Service District
A Component Unit of Summit County, Utah
Statements of Revenues, Expenses
and Changes in Net Assets
Years Ended December 31, 2006 and 2005

	2006	2005
Operating revenues:		
Water sales	$ 4,336,904	$ 4,052,394
Connection fees	364,975	483,745
Service	8,961	10,479
Other	122,990	188,743
Total operating revenues	4,833,830	4,735,361
Operating expenses:		
Water production	963,577	747,972
Engineering and water development	133,511	94,037
Operations, maintenance and repairs	989,391	1,069,234
Management and finance	398,346	284,423
Legal services	179,198	86,019
Depreciation	1,288,336	1,053,157
Total operating expenses	3,952,359	3,334,842
Operating income	881,471	1,400,519
Non-operating revenues (expenses):		
State grants	11,667	11,667
Interest income	759,638	457,382
Impact fees	757,150	704,709
Special Improvement District assessments	2,843,411	5,182,900
Gain on sale of fixed assets	16,023	169,846
Other non-operating revenue	28,625	115,896
Interest expense	(2,654,660)	(2,399,724)
Trustee and bank fees	(44,739)	(35,664)
Bond issuance cost amortization	(108,263)	(107,882)
Total non-operating revenues	1,608,852	4,099,130
Income before transfers	2,490,323	5,499,649
Contributions in aid of construction	100,000	-
Net income	2,590,323	5,499,649
Net assets, beginning of year	11,610,709	6,111,060
Net assets, end of year	$ 14,201,032	$ 11,610,709

See accompanying notes and independent auditors' report.

Mountain Regional Water
Special Service District
A Component Unit of Summit County, Utah
Statements of Cash Flows
Years Ended December 31, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Cash received from customers	$ 4,795,733	$ 4,722,155
Cash paid to employees and suppliers	(2,721,141)	(2,654,782)
Net cash from operating activities	2,074,592	2,067,373
Cash flows from capital and related financing activities:		
Purchase of property and equipment,	(804,629)	(1,583,165)
Interest paid	(2,705,302)	(2,832,911)
Lease payments	-	(9,546)
Long-term debt payments	(1,531,401)	(1,409,400)
Capitalized bond issuance costs	(9,153)	-
Net repayments of pre-paid impact fees	176,303	27,333
Payments on accrued liability - developer	(209,748)	(28,783)
Proceeds from sale of bonds	278,000	-
Special Improvement District assessment	2,843,411	5,182,900
Impact fees	757,150	704,709
Proceeds from sale of assets	21,836	464,846
Other revenue received	28,625	115,896
Net cash from capital and related financing activities	(1,154,908)	631,879
Cash flows from investing activities:		
Interest received	759,638	457,382
Net change in cash	1,679,322	3,156,634
Cash - beginning of period	14,394,523	11,237,889
Cash - end of period	$ 16,073,845	$ 14,394,523
Cash reported on the balance sheet:		
Cash	$ 1,420,799	$ 1,132,515
Restricted cash	3,937,285	3,582,940
Cash restricted for debt repayment	10,715,761	9,679,068
	$ 16,073,845	$ 14,394,523

See accompanying notes and independent auditors' report.

Mountain Regional Water
Special Service District
A Component Unit of Summit County, Utah
Statements of Cash Flows, Continued
Years Ended December 31, 2006 and 2005

	2006	2005
Reconciliation of net income to net cash from operating activities:		
Net operating income	$ 881,471	$ 1,400,519
Adjustments to reconcile net operating income to net cash from operating activities:		
Depreciation	1,288,336	1,053,157
Changes in operating assets and liabilities:		
Accounts receivable	78,967	(27,737)
Other receivables	(117,064)	14,531
Prepaid expenses	(208,942)	397
Inventory	(6,574)	(2,258)
Accounts payable	153,245	(250,838)
Accrued liabilities	97,371	56,852
Due to other government entities	(92,218)	(177,250)
Total adjustments	1,193,121	666,854
Net cash from operating activities	$ 2,074,592	$ 2,067,373

See accompanying notes and independent auditors' report.

Mountain Regional Water
Special Service District
A Component Unit of Summit County, Utah
Notes to Financial Statements
December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies

This summary of significant accounting policies of Mountain Regional Water Special Service District (the 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, and have been consistently applied in the preparation of these financial statements.

Operations

The District was formed in 1987 pursuant to a resolution passed and adopted by the Summit County Board of Commissioners providing for the creation of the Atkinson Special Service District of Summit County, Utah. On January 1, 2000 the name was changed to Mountain Regional Water Special Service District. The District was created to provide improved water utility services to an area of new growth and development within the 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 Board of Commissioners.

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(1) Summary of Significant Accounting Policies, Continued

Accounting Policies

The District operates as an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing services to the public on a continuing basis are financed through user charges. Revenue from water sales is recorded based on monthly usage at stated rates. Other revenues are recorded when services are performed.

Effective January 1, 2003, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government.* GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments: Omnibus,* and GASB Statement No. 38, *Certain Financial Statement Disclosures.* The District follows all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Budgetary Policy

Budgetary procedures for the District have been established by Utah State Statute in Title 17A – Special Districts. The District uses the same accounting method for preparing the budget as is used for financial reporting.

Annual proprietary fund operating and capital budgets are prepared in accordance with state law. On or before the first regularly scheduled meeting of the Summit County Commission in November, the Commission 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 Commission must hold a public hearing on the tentative budget. A final budget must be adopted by the Commission no later than December 31.

Budgets may be increased by resolution of the Commission at any time during the fiscal year at a regular meeting or special meeting called for that purpose. Summit County policy requires that any such meeting must be publicly noticed for at least two weeks.

(1) Summary of Significant Accounting Policies, Continued

Budgetary Policy, Continued

Under Utah Code, the District's budget establishes maximum legal authorization for expenses during the fiscal year. Expenses are not to exceed budgeted amounts, including revisions, except as allowed by the code for certain events.

Cash Equivalents

The District considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

The District considers all accounts receivable to be collectible.

Inventory

Inventories are recorded at the lower of cost or market on a first-in, first-out basis.

Depreciation and Amortization

The costs of property and equipment are depreciated using the straight-line method over estimated useful lives ranging from 3 to 60 years.

Capitalized Interest Expense

The District capitalizes interest in connection with the construction of water systems financed through debt. Interest capitalization ceases when water systems are completed and available for use. For the years ended December 31, 2006 total interest expense was $2,654,660 of which none was capitalized, although $21,811 was either accrued or amortized. For the year ended December 31, 2005 the District incurred gross interest expense of $2,805,138, of which $383,603 was capitalized and $21,811 was either accrued or amortized.

Comprehensive Income

Comprehensive income approximates net income for the years ended December 31, 2006 and 2005.

(1) Summary of Significant Accounting Policies, Continued

Estimations and Assumptions

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Deposits and Investments

Deposits and investments for the District are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by the rules of the Utah Money Management Council ("the 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 Money Management 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 Utah Money Management Council.

As of December 31, 2006, $231,390 of the District's bank balance of $431,390 was uninsured and uncollateralized. As of December 31, 2005, $544,102 of the District's bank balance of $744,102 was uninsured and uncollateralized.

(2) Deposits and Investments, Continued

Credit Risk

Investments. Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The District's policy for limiting the credit risk is to comply with the Utah Money Management 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, 2006 and 2005, the District had $5,122,736 and $4,491,471, respectively, invested directly with the PTIF. In addition, the District had as of December 31, 2006 and 2005 respectively, $7,853,131 and $6,850,102 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.

As of December 31, 2006 and 2005 respectively, the District had $2,996,638 and $2,955,003 invested in a guaranteed investment contract with Bank of America. The funds invested represent the debt service reserve for Series 2003 $33 million revenue and refunding bond. Bank of America is required to invest the funds in accordance with the Utah Money Management Act. Wells Fargo Corporate Trust acts as trustee for this investment.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The local government manages its exposure to declines in fair value by investing mainly in the PTIF and by adhering to the Utah Money Management 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.

(3) Capital Assets

Capital asset activity for the year ending December 31, 2006 was as follows:

	Balance January 1, 2006	Additions	Dispositions / Transfers	Balance December 31, 2006
Capital assets not being depreciated:				
Land and water rights	$ 14,746,703	$ 50,000	$ -	$ 14,796,703
Construction-in-progress	-	131,349	-	131,349
	14,746,703	181,349	-	14,928,052
Depreciable assets:				
Buildings	3,578,930	50,000	-	3,628,930
Improvements other than buildings	33,479,026	530,452	-	34,009,478
Furniture and fixtures	165,667	28,564	-	194,231
Machinery and equipment	771,830	23,927	-	795,757
Vehicles	241,817	89,887	(42,900)	288,804
Engineering library	108,675	-	-	108,675
	38,345,945	722,830	(42,900)	39,025,875
Accumulated depreciation	(5,092,901)	(1,288,336)	37,538	(6,343,699)
	33,253,044	(565,506)	(5,362)	32,682,176
	$ 47,999,747	$ (384,157)	$ (5,362)	$ 47,610,228

Depreciation expense for 2006 and 2005 was $1,288,336 and $1,053,157, respectively.

(4) Other Assets

As of December 31, 2006 and 2005, other assets were made up of capitalized debt issuance costs of $1,896,870 and $1,862,133 net of accumulated amortization of $655,504 and $547,241, respectively. The debt issuance costs are being amortized over the life of the related debts (up to thirty years).

(5) Accrued Liabilities

Accrued liabilities consist of accrued wages and benefits, customer deposits, pre-paid water reservation fees and interest on outstanding debt.

(6) Long-Term Debt

A summary of long-term debt activity for the year ended December 31, 2006 is as follows:

	Balance January 1, 2006	New Debt Issued or Acquired	Principal Payments	Balance December 31, 2006	Due Within One Year
Notes payable	$ 189,526	$ -	$ 40,401	$ 149,125	$ 40,532
Bonds payable	49,733,000	278,000	1,491,000	48,520,000	1,502,000
	$ 49,922,526	$ 278,000	$ 1,531,401	$ 48,669,125	$ 1,542,532

The District has two outstanding notes payable to the State of Utah, Department of Natural Resources – Division of Water Resources. The notes were assumed as part of acquisitions of water companies by the District. The notes are secured by property and require annual payments.

The District's bonds consist of water revenue and special assessment bonds. Water revenue bonds are secured by the revenues of the District. Special assessment bonds are secured by special assessments of special improvement districts. Principal and interest payments are due annually and semi-annually.

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(6) Long-Term Debt, Continued

The District has issued the following notes and bonds payable as of December 31, 2006 and 2005:

Series	Original Issue	Interest Rate	Maturity Date	Principal Outstanding 2006	Principal Outstanding 2005
Notes Payable					
State of Utah, Dept. of Natural Resources - Div. of Water Resources					
Note	$ 258,000	None	2007	$ 27,432	$ 54,732
Note	324,000	None	2016	121,693	134,794
				149,125	189,526
Bonds Payable					
Water revenue					
1991	295,000	5.00%	2012	147,000	164,000
2002	357,000	1.51%	2022	294,000	310,000
2002B	433,000	None	2015	322,000	359,000
2003	33,000,000	2.0% - 5.0%	2033	32,800,000	32,900,000
2006	257,000	2.0% - 5.0%	2033	257,000	-
Special assessment					
2003	$ 18,600,000	6.25% - 7.0%	2018	14,700,000	16,000,000
				48,520,000	49,733,000
				48,669,125	49,922,526
			Less current portion	(1,542,532)	(1,510,400)
				$ 47,126,593	$ 48,412,126

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(6) Long-Term Debt, Continued

As of December 31, 2006, the aggregate maturities of notes and bonds payable, including interest, are as follows:

Years Ending	Promissory Notes		Bonds Payable		Total Debt Service
December 31,	Principal	Interest	Principal	Interest	Requirement
2007	$ 40,532	$ -	1,502,000	$ 2,631,004	$ 4,173,536
2008	13,100	-	1,514,000	2,542,113	4,069,213
2009	13,100	-	1,515,000	2,452,786	3,980,886
2010	13,100	-	1,426,000	2,357,109	3,796,209
2011	13,100	-	1,417,000	2,267,708	3,697,808
2012-16	56,193	-	8,098,000	9,934,237	18,088,430
2017-21	-	-	6,622,000	7,514,520	14,136,520
2022-26	-	-	7,536,000	5,930,567	13,466,567
2027-31	-	-	12,275,000	3,605,500	15,880,500
2032-33	-	-	6,615,000	502,750	7,117,750
	$ 149,125	$ -	$ 48,520,000	$ 39,738,294	$ 88,407,419

(7) Capital Lease

The District leases equipment under a capital lease, which expired in 2005. The cost of the equipment, $62,710 was capitalized in the District's property and equipment. In 2005, the District made the final payment on this lease of $9,789.

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(8) Accrued Liability – Developer

The District entered into an agreement with a developer during 2000 regarding the prepayment of municipal and industrial use impact fees. Under the terms of this agreement, the developer agreed to pre-pay the District $6,300 per residential Equivalent Connection (REC) for 240 REC's. These pre-paid impact fees were recorded by the District as an accrued liability to the developer. During 2004, the developer pre-paid 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 pre-paid the total impact fee for two other lots at $16,650 each. These pre-paid 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 pre-paid impact fees as of December 31, 2006 and 2005 was $1,332,884 and $1,542,632, respectively.

During 2002, the District established Special Improvement District No. 2002-1 and in 2003 issued the Special Assessment Bonds Series 2003 (the SID bonds). In accordance with the terms of the bonds, the developer deposited $558,000 into a bond stabilization fund with the District to be used for bond repayment in the event of default by the developer. When the SID bonds are fully retired, the District will refund the deposit to the developer if no event of default has occurred. Accordingly, the deposit is recorded as an accrued liability to the developer as of both December 31, 2006 and 2005.

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(9) Related Party Transactions

The District, from time to time, enters into agreements with Summit County, a related party. Historically, these agreements have included the leasing of certain vehicles, the payment of water reservation and lease fees on behalf of the District, loans for working capital, and the shared services of an employee. As of December 31, 2006 and 2005, the amount payable to Summit County was $84,203 and $168,405, respectively.

(10) Contingency

Predecessor water companies and services districts that annexed into the District entered into agreements to provide future connections without assessing an impact fee in exchange for water rights, sources, and other infrastructure. As a result, the District may incur a reduction in future impact fee collections.

(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 State governments. The District pays an annual premium to ULGT for its general insurance coverage. During 2006, the District did not increase any level of insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the prior years.

(12) Net Assets

Net assets at December 31, 2006 and 2005 are as follows:

	2006	2005
Invested in capital assets, net of related debt:		
Capital assets, net	$ 47,610,227	$ 47,999,746
Outstanding debt issued to construct capital assets, net of cash restricted for debt repayment	(37,953,364)	(40,228,843)
Long-term portion of developer liability	(558,000)	(572,132)
Total invested in capital assets, net of related debt	9,098,863	7,198,771
Restricted net assets	2,309,732	1,802,768
Unrestricted net assets	2,792,437	2,609,170
Total net assets	$ 14,201,032	$ 11,610,709

Mountain Regional Water
Special Service District
A Component Unit of Summit County, Utah
Impact Fees Sources and Uses
December 31, 2006 and 2005

	2003	2004	2005	2006
Sources of funds				
Net impact fee collections	$ 1,432,253	$ 1,636,262	$ 717,920	$ 716,914
Interest earned	38,499	22,358	58,143	93,548
Carryforward from previous year	-	1,470,752	1,807,146	1,983,209
Total sources	1,470,752	3,129,372	2,583,209	2,793,671
Uses of funds				
Basin Pipeline	-	1,322,226	-	-
Debt service payments for projects	-	-	600,000	600,000
Total uses	-	1,322,226	600,000	600,000
Ending Balance	$ 1,470,752	$ 1,807,146	$ 1,983,209	$ 2,193,671
Annual Cash Flow	$ 1,470,752	$ 336,394	$ 176,063	$ 210,462