

**SKYLINE MOUNTAIN SPECIAL SERVICE DISTRICT**

**FINANCIAL STATEMENTS  
AND OTHER REPORTS**

Year Ended December 31, 2013

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Skyline Mountain Special Service District

### **Report on the Basic Financial Statements**

We have audited the accompanying financial statements of Skyline Mountain Special Service District (the District) as of and for the year ended December 31, 2013, and the related notes to the basic financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Basic Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinion***

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

## ***Other Matters***

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Skyline Mountain Special Service District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Orem, Utah  
April 22, 2014

## **SKYLINE MOUNTAIN SPECIAL SERVICE DISTRICT**

### **Management's Discussion and Analysis**

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As management of Skyline Mountain Special Service District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2013. We encourage readers to consider the information presented here in conjunction with the financial statements and notes.

#### **Financial Highlights**

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$153,091 (net position). Of this amount, \$55,004 (unrestricted net position) may be used to meet the District's ongoing obligations to provide water to its members.
- During the year ended December 31, 2013, the District was authorized to issue water revenue bonds up to \$3,007,000 to improve its water system. At December 31, 2013 total bonds issued totaled \$2,732,000 and construction in progress on the water system totaled \$2,777,747.

#### **Overview of the Financial Statements**

The financial statements consist of three separate statements, which are similar to a private-sector business. The Statement of Net Position present information on all of the District's assets and liabilities with the difference reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position present information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected fees charged).

The Statement of Cash Flows presents the activities of the District on a cash-received and cash-paid basis. This statement shows how cash was spent and reconciles the change in the cash accounts for the District during the most recent fiscal year.

#### **Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$153,091 at the close of the most recent fiscal year.

The tables on the following page summarize information presented in the financial statements.

**SKYLINE MOUNTAIN SPECIAL SERVICE DISTRICT**  
**Management's Discussion and Analysis**

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**Skyline Mountain Special Service District's NET POSITION**

December 31, 2013, and 2012

	2013	2012
Current assets	\$ 83,428	\$ 148
Capital assets and other assets	3,050,344	142,852
Total assets	<u>3,133,772</u>	<u>143,000</u>
Current liabilities	316,681	-
Long-term liabilities	<u>2,664,000</u>	-
Total liabilities	<u>2,980,681</u>	-
Net investment in capital assets	98,087	142,852
Unrestricted net position	<u>55,004</u>	<u>148</u>
Total net position	<u>\$ 153,091</u>	<u>\$ 143,000</u>

At December 31, 2013, the largest portion of the District's net position (\$98,087 or 64 percent) reflects its net investment in capital assets (e.g., water rights, water system, less bond payable). The District uses these capital assets to provide services to its members; consequently, these assets are not available for future spending. The remaining balance of unrestricted net position (\$55,004 or 36 percent) may be used to meet the District's ongoing obligations.

**Skyline Mountain Special Service District's CHANGE IN NET POSITION**

Years Ended December 31, 2013, and 2012

	2013	2012
Operating revenues	\$ 139,424	\$ 23,094
Operating expenses	<u>35,636</u>	<u>9,391</u>
Operating income	<u>103,788</u>	<u>13,703</u>
Nonoperating revenues (expenses)	<u>(93,697)</u>	-
Change in net position	10,091	13,703
Net position, beginning of year	<u>143,000</u>	<u>129,297</u>
Net position, end of year	<u>\$ 153,091</u>	<u>\$ 143,000</u>

## **SKYLINE MOUNTAIN SPECIAL SERVICE DISTRICT**

### **Management's Discussion and Analysis**

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In comparing 2013 with 2012, the following items should be noted:

Operating water service revenues from its members totaled \$139,424 during 2013, an increase of \$116,330 as compared to \$23,094 during 2012. This increase was a result of an increase in monthly assessments to help pay for the new water system and debt service. Operating expenses totaled \$35,636, an increase of \$26,245 as compared to \$9,391 during 2012. This increase was due to additional costs related to the water system project. Nonoperating revenues (expenses) in 2013 were \$93,697 compared to \$0 in 2012, an increase of \$93,697. The increase is mostly due to bond issuance costs and interest on bonds payable.

#### **Capital Asset and Debt Administration**

During the year ended December 31, 2013, the District was authorized to issue water revenue bonds up to \$3,007,000 to improve its water system. At December 31, 2013, the majority of the District's capital assets are construction in progress (\$2,777,747) related to the improvement of the water system. The project is anticipated to be completed during 2014 for an additional cost of \$229,253. As of December 31, 2013, the District had issued \$2,732,000 in bonds payable.

#### **Economic Factors and Next Year's Budget and Rates**

The District prepared its 2014 budget anticipating increases in revenues and expenses. The District has raised assessments to cover maintenance of the system and debt service.

**SKYLINE MOUNTAIN SPECIAL SERVICE DISTRICT**  
**STATEMENT OF NET POSITION**

December 31, 2013

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**ASSETS**

**Current Assets:**

Cash	\$	71,958
Accounts receivable		<u>11,470</u>
Total current assets		83,428

**Capital Assets:**

Water rights, at cost		127,955
Construction in progress		<u>2,777,747</u>
Total capital assets		2,905,702

**Other Assets:**

Restricted investments		<u>144,642</u>
Total assets		<u>3,133,772</u>

**LIABILITIES**

**Current Liabilities:**

Construction contracts payable		220,257
Unearned revenue		11,924
Accrued interest		16,500
Current portion of bonds payable		<u>68,000</u>
Total current liabilities		316,681

**Long-Term Liabilities:**

Bonds payable, net of current portion		<u>2,664,000</u>
Total liabilities		<u>2,980,681</u>

**NET POSITION**

Net investment in capital assets		98,087
Unrestricted		<u>55,004</u>
Total net position	\$	<u><u>153,091</u></u>

The accompanying notes are an integral part of this financial statement.

**SKYLINE MOUNTAIN SPECIAL SERVICE DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
Year Ended December 31, 2013

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<b>Water Service Revenue</b>	\$ 139,424
<b>Operating Expenses:</b>	
Professional fees	10,724
Utilities	5,750
Insurance	4,423
Water testing	4,237
Travel	6,816
Supplies	1,248
Other expenses	<u>2,438</u>
Total operating expenses	<u>35,636</u>
<b>Operating Income</b>	103,788
<b>Nonoperating Revenues (Expenses):</b>	
Interest income	4,105
Interest expense	(40,074)
Bond issuance costs	<u>(57,728)</u>
Total nonoperating revenues (expenses)	<u>(93,697)</u>
<b>Change in Net Position</b>	10,091
<b>Net Position at Beginning of Year</b>	<u>143,000</u>
<b>Net Position at End of Year</b>	<u><u>\$ 153,091</u></u>

The accompanying notes are an integral part of this financial statement.

**SKYLINE MOUNTAIN SPECIAL SERVICE DISTRICT**  
**STATEMENT OF CASH FLOWS**

Year Ended December 31, 2013

**Cash Flows from Operating Activities:**

Collections from customers	\$ 139,878
Payments to suppliers for goods and services	<u>(35,636)</u>
Net cash provided by operating activities	104,242

**Cash Flows from Capital and Capital-Related Financing Activities:**

Purchases of capital assets	(2,542,593)
Interest paid	(23,574)
Bond issuance costs paid	(57,728)
Proceeds from bond payable	<u>2,732,000</u>
Net cash provided by capital and capital-related financing activities	108,105

**Cash Flows from Investing Activities:**

Interest received	<u>4,105</u>
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**Change in Cash and Cash Equivalents**

216,452

**Cash and Cash Equivalents at Beginning of Year**

148

**Cash and Cash Equivalents at End of Year** (Displayed as  
cash and investments on the statement of net position)

\$ 216,600

**Supplemental Data:**

For cash flow reporting, cash and cash equivalents include amounts in demand deposits, investments in the Utah Public Treasurers' Investment Fund, as well as short-term investments with original maturities of three months or less from the date of acquisition.

A reconciliation of operating income to net cash provided by operating activities follows:

Operating income	\$ 103,788
Changes in operating assets and liabilities:	
Accounts receivable	(11,470)
Unearned revenue	<u>11,924</u>
Net cash provided by operating activities	<u><u>\$ 104,242</u></u>

The accompanying notes are an integral part of this financial statement.

## SKYLINE MOUNTAIN SPECIAL SERVICE DISTRICT NOTES TO FINANCIAL STATEMENTS

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### Note 1. Significant Accounting Policies

The accounting policies of Skyline Mountain Special Service District (the District) conform to accounting principles generally accepted in the United States of America applicable to local governmental units. The following is a summary of the more significant policies:

Reporting Entity – Skyline Mountain Special Service District is a local governmental unit organized as a special service district. The District was organized on June 16, 1998, to manage the water needs of the Skyline Mountain Resort and its members.

Basis of Accounting – The District records revenues and expenses using the accrual basis of accounting. The District operates as an enterprise fund, which accounts for activities in a manner similar to private business where the Board has decided that the determination of revenues earned, costs incurred, and net income is necessary for management accountability. The District applies all applicable private-sector guidance in accounting and reporting for its operations to the extent that those standards do not conflict with or contradict guidance of governmental standards.

The District distinguishes operating revenues and expenses from nonoperating items by whether or not transactions are related to the District's daily operations of providing water to the Skyline Mountain Resort and its members.

Accounts Receivable – Accounts receivable consist of assessments due to the District from members of the Skyline Mountain Resort. The District has not established an allowance for uncollectible accounts, as it deems all amounts to be fully collectible.

Water Rights – The District has acquired water rights. The water rights are recorded at cost.

Unearned Revenue – Unearned revenues consist of prepaid assessments to the District from its members.

### Note 2. Cash and Investments

The District complies with the State Money Management Act (*Utah Code* Title 51, Chapter 7) (the Act) and related Rules of the Money Management Council (the Council) in handling its depository and investing transactions. District funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the District to invest in the Utah Public Treasurers' Investment Fund (PTIF), certificates of deposit, U.S. Treasury obligations, U.S. agency issues, high-grade commercial paper, banker's acceptances, repurchase agreements, corporate bonds, money market mutual funds, and obligations of governmental entities within the state of Utah.

The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. The District considers the rules of the Council to be necessary and sufficient for adequate protection of its uninsured bank deposits.

## SKYLINE MOUNTAIN SPECIAL SERVICE DISTRICT NOTES TO FINANCIAL STATEMENTS

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### Note 2. Cash and Investments (Continued)

Cash – The District considers demand deposits to be cash. The District’s carrying amount of cash is \$71,958 and the bank balance is \$73,053 at December 31, 2013, all of which is covered by federal depository insurance.

*Custodial Credit Risk* – Custodial credit risk for deposits is the risk that, in the event of a bank failure, a government’s deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk.

Investments – At December 31, 2013, the District’s investment balances of \$144,642 were held in the PTIF. The PTIF is an external local government investment pool managed by the Utah State Treasurer. The PTIF is authorized and makes investments in accordance with the Act. The Council provides regulatory oversight for the PTIF. Participant accounts with the PTIF are not insured or otherwise guaranteed by the State of Utah. Participants in the PTIF share proportionally in the income, costs, gains and losses from investment activities. The degree of risk of the PTIF depends upon the underlying portfolio, which primarily consists of money market securities held by the Utah State Treasurer. The portfolio has a weighted average maturity of 63 days. The PTIF is not rated. The reported value of the pool is the same as the fair value of the pool shares.

*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 interest rate risk by complying with the Act, which requires that the remaining term to maturity of investments to not exceed the period of availability of the funds invested. The Act further limits the remaining term to maturity on all investments in commercial paper and bankers’ acceptances to 270 days or less and fixed-income securities to 365 days or less. In addition, variable-rate securities may not have a remaining term to final maturity exceeding two years.

*Credit Risk* – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District’s policy for reducing its exposure to credit risk is to comply with the Act and related rules. The Act and related rules limit investments in commercial paper to a first tier rating and investments in fixed-income and variable-rate securities to a rating of A or higher as rated by Moody’s Investors Service or by Standard & Poor’s.

*Concentration of Credit Risk* – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The District’s policy for managing this risk is to comply with the Act and related rules. The Act limits investments in commercial paper and or corporate obligations to 5% of the District’s total portfolio with a single issuer.

*Custodial Credit Risk* – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The District’s policy for managing this risk is to comply with the Act and related rules.

**SKYLINE MOUNTAIN SPECIAL SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 2. Cash and Investments (Continued)**

In accordance with water revenue bond requirements, the District maintains restricted investment accounts for bond debt service and retention.

**Note 3. Capital Assets**

Capital asset activity for the year ended December 31, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Water rights	\$ 127,955	\$ -	\$ -	\$ 127,955
Construction in progress	14,897	2,762,850	-	2,777,747
Total capital assets	<u>\$ 142,852</u>	<u>\$ 2,762,850</u>	<u>\$ -</u>	<u>\$ 2,905,702</u>

**Note 4. Bonds Payable**

During the year ended December 31, 2013, the District authorized the issuance of water revenue bonds up to \$3,007,000. The bonds bear interest at 2.5 percent and require annual payments on October 1 of each year. The bonds will mature on September 30, 2043. During the year ended December 31, 2013, the District issued \$2,732,000 of these bonds and incurred \$57,728 in bond issuance costs.

The debt service requirements on the bonds payable at December 31, 2013 are as follows:

<u>Year Ending June 30,</u>	
2014	\$ 68,000
2015	70,000
2016	72,000
2017	74,000
2018	76,000
2019-2023	406,000
2024-2028	461,000
2029-2033	522,000
2034-2038	590,000
2039-2043	<u>393,000</u>
Total	<u>\$ 2,732,000</u>

**SKYLINE MOUNTAIN SPECIAL SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 5. Commitments**

The District has a construction project in progress with an anticipated total cost of \$3,007,000. At December 31, 2013, \$2,777,747 had been incurred on the project leaving an estimated \$229,253 in additional costs to be incurred in future years. The project is being funded with water revenue bonds.

**Note 6. Risk Management**

The District maintains insurance coverage for general, automobile, and personal injury up to \$2,000,000 per occurrence through policies administered by a third party. The District also insures its buildings, including those under construction, and contents against all insurable risks of direct physical loss or damage with the third party. This all-risk insurance coverage provides for repair or replacement of damaged property at a replacement cost basis. Settled claims have not exceeded the District's insurance coverage for any of the past three years.

**Note 7. Subsequent Event**

During 2014, the District has issued additional \$175,000 in bonds payable to finance its water system project.

## **OTHER REPORTS**

**SKYLINE MOUNTAIN SPECIAL SERVICE DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended December 31, 2013

Grantor/Program Title	CFDA Number	Agreement Number	Receivable December 31, 2012	Received	Expended	Receivable December 31, 2013
<b>U.S. Environmental Protection Agency:</b>						
Passed through State of Utah Department of Environmental Quality:						
Capitalization Grants for Drinking Water State Revolving Funds						
	66.468	FS 99878412/3	\$ -	\$ 2,089,294	\$ 2,089,294	\$ -
Total federal awards			<u>\$ -</u>	<u>\$ 2,089,294</u>	<u>\$ 2,089,294</u>	<u>\$ -</u>

The accompanying notes are an integral part of this schedule.

**SKYLINE MOUNTAIN SPECIAL SERVICE DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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**Note A. General**

The schedule of expenditures of federal awards presents the activity of all federal award programs of Skyline Mountain Special Service District (the District) for the year ended December 31, 2013. All federal financial awards received directly from federal agencies as well as federal financial awards passed through from other government agencies are included on the schedule. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in operations or cash flows of the District.

**Note B. Basis of Accounting**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.



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Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

Board of Directors  
Skyline Mountain Special Service District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Skyline Mountain Special Service District (the District), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 22, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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*.

**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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Squire & Company, PC". The signature is written in a cursive, flowing style.

Orem, Utah  
April 22, 2014



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## Independent Auditor's Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

Board of Directors  
Skyline Mountain Special Service District

### **Report on Compliance for Each Major Federal Program**

We have audited Skyline Mountain Special Service District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Skyline Mountain Special Service District's major federal programs for the year ended December 31, 2013. Skyline Mountain Special Service District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

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

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Skyline Mountain Special Service District's major federal programs based on our audit of the types of 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Skyline Mountain 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 for each major federal program. However, our audit does not provide a legal determination of Skyline Mountain Special Service District's compliance.

#### ***Opinion on Each Major Federal Program***

In our opinion, Skyline Mountain Special Service District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

## Report on Internal Control Over Compliance

Management of Skyline Mountain Special Service District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Skyline Mountain Special Service District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Skyline Mountain 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 type of compliance requirement of a federal program 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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance 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 compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Orem, Utah  
April 22, 2014

**SKYLINE MOUNTAIN SPECIAL SERVICE DISTRICT  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

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No audit requirement in prior year.

**SKYLINE MOUNTAIN SPECIAL SERVICE DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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I. Summary of auditor's results:

*Financial Statements:*

Type of auditor's report issued: unmodified

Internal control over financial reporting:

-Material weaknesses identified?      \_\_\_ yes      X no

-Significant deficiencies identified that are not considered to be material weaknesses?  
   \_\_\_ yes      X none reported

Noncompliance material to financial statements noted?  
   \_\_\_ yes      X no

*Federal Awards:*

Internal control over major programs:

-Material weaknesses identified?      \_\_\_ yes      X no

-Significant deficiencies identified that are not considered to be material weaknesses?  
   \_\_\_ yes      X none reported

Type of auditor's report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of  
Circular A-133?      \_\_\_ yes      X no

Identification of major programs:

<u>CFDA Number</u>	<u>Cluster and Name of Federal Program(s)</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee?      \_\_\_ yes      X no

II. Financial statement findings:

No matters were reported.

III. Federal award findings and questioned costs:

No matters were reported.



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Independent Auditor's Report on Each General State Compliance Requirement Tested and Report on Internal Control Over Compliance in Accordance with the *State of Utah Legal Compliance Audit Guide*

Board of Directors  
Skyline Mountain Special Service District

**Report on Each General State Compliance Requirement Tested**

We have audited the compliance of Skyline Mountain Special Service District (the District) with the general and major state program compliance requirements described in the *State of Utah Legal Compliance Audit Guide* for the year ended December 31, 2013.

General state compliance requirements tested for the year ended December 31, 2013 are identified as follows:

- Cash Management
- Budgetary Compliance
- Special and Local Service District Board Members

The District did not receive any major state grants for the year ended December 31, 2013.

***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 the 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 of Utah Legal Compliance Audit Guide*, issued by the Office of the Utah State Auditor. Those standards and the *State of Utah Legal Compliance Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a general state compliance requirement or a major state program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each general state compliance requirement tested and each major state program. However, our audit does not provide a legal determination of the District's compliance.

### ***Opinion on Each General State Compliance Requirement Tested***

In our opinion, Skyline Mountain Special Service District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each general compliance requirement tested for the year ended December 31, 2013.

### **Report on Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the state compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the state requirements that could have a direct and material effect on each general state compliance requirement tested and each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each general state compliance requirement tested and each major state program and to test and report on internal control over compliance in accordance with the *State of Utah Legal Compliance Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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



Orem, Utah  
April 22, 2014



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## Letter to Management

Board of Directors  
Skyline Mountain Special Service District

In planning and performing our audit of the basic financial statements of Skyline Mountain Special Service District (the District) as of and for the year ended December 31, 2013, 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*, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, as discussed below, we identified certain matters involving internal control, compliance, and other operational matters that are presented for your consideration. This letter does not affect our report dated April 22, 2014, on the financial statements of the District. This letter accompanies our reports dated April 22, 2014, in accordance with *Government Auditing Standards*, OMB Circular A-133, and the *State of Utah Legal Compliance Audit Guide*.

### **Certain Other Matters**

*Budgeting* – Expenditures may not legally exceed budgeted appropriations at the fund level. Total expenditures exceeded budgeted amounts by \$59,538 for the year ended December 31, 2013, respectively. We recommend budgets be adopted and amended as appropriate to avoid overspending.

*Deposits and Investments Reporting* – The Deposits and Investments Form that was submitted to the Utah Money Management Council as of December 31, 2013 did not contain all account balances for the District. We recommend that a member of management review these reports for accuracy before they are submitted.

*Management's Response* – We appreciate your recommendations. We will review these items and make changes as necessary.

We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve internal control and compliance, or result in other operating efficiencies.

We appreciated working with and the assistance and responsiveness of District personnel during the audit. We also note management's ability and sensitivity to display and communicate an appropriate attitude regarding internal control and the financial reporting process. We are available to discuss these matters with you as needed.

This communication is intended solely for the information and use of the Board of Directors and management of Skyline Mountain Special Service District and oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Aguie & Company, PC*

Orem, Utah  
April 22, 2014