

Supplemental
Continuing Disclosure Memorandum

For

**Metropolitan Water District of
Salt Lake & Sandy**

and for the

Utah Water Finance Agency
(Metropolitan Water District of Salt Lake & Sandy
as an “Obligated Person”)

Filed with

Electronic Municipal Market Access
emma.msrb.org

Submitted and dated as of December 20, 2011
(Annual submission required by December 27, 2011)

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Metropolitan Water District of Salt Lake & Sandy

3430 East Danish Road, Cottonwood Heights, UT 84093
Phone: 801-942-1391 Fax: 801-942-3674
www.mwdsls.org



December 20, 2011 (via electronic submission to emma.msrb.org)

Re: Continuing Disclosure Undertaking of Metropolitan Water District of Salt Lake & Sandy (Utah) (“MWDSLS”) and Utah Water Finance Agency (Pooled Loan Financing Program) (“UWFA”)

To Whom It May Concern:

In accordance with the provisions of paragraph (b) (5) (i) (A) of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as amended (the “Rule”), MWDSLS hereby files the enclosed (i) Financial Statements of MWDSLS for the Fiscal Year Ended June 30, 2011 (the “2011 FS”); and (ii) the Supplemental Continuing Disclosure Memorandum of MWDSLS dated on or before December 27, 2011 (the “SCDM”). This letter, the 2011 FS, and the SCDM constitute the annual financial information and operating data concerning MWDSLS to be filed in compliance with MWDSLS’ obligation under certain agreements entered into in connection with the offering of the following securities described in the following Official Statements:

<u>Securities</u>	<u>Official Statement</u>
CUSIP: 795560: AW1; AH4; AX9; AJ0; AY7; AK7; AZ4; AL5; BA8; AM3; AN1; AP6; BB6; AQ4; BC4; AR2; BE0; BD2; BF7; BH3; BG5	\$42,700,000 MWDSLS Water Revenue Bonds, Series 2004
CUSIP: 795560: BQ3; CA7; BR1; CB5; BS9; CC3; BT7; CD1; BU4; BV2; BW0; CE9; BX8; BY6; BZ3; CF6; CG4; CH2; CJ8	\$44,650,000 MWDSLS Water Revenue Bonds, Series 2005A
CUSIP: 795560: CY5; CZ2; DA6; DB4; DC2; DD0; DE8; DF5	\$60,320,000 MWDSLS Water Revenue and Refunding Bonds, Series 2009A
CUSIP: 917572: HP7; HQ5; HR3; HS1; HT9; HU6; HV4; HW2; HX0	\$24,585,000 UWFA Revenue Bonds, Series 2002B
CUSIP: 917572: KF5; KG3; KH1; KJ7; KK4; KL2; KM0; KN8	\$23,710,000 UWFA Revenue Bonds, Series 2003A

To the best of our knowledge, no event described in paragraph (b) (5) (i) (c) of the Rule has occurred that is required to be disclosed with respect to any of the above-described securities.

Sincerely,

Michael L. Wilson
General Manager

cc: Zions Bank Public Finance, Salt Lake City, Utah

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GENERAL

Contact Person For Metropolitan Water District Of Salt Lake & Sandy

As of the date of this Supplemental Continuing Disclosure Memorandum, the chief contact person for Metropolitan Water District of Salt Lake & Sandy (the “Metropolitan Water District”) is:

Michael L. Wilson, General Manager
wilson@mwdsls.org

Metropolitan Water District of Salt Lake & Sandy
3430 East Danish Road
Cottonwood Heights UT 84093
801.942.9685 | f 801.942.3674

Metropolitan Water District maintains an internet site that may be accessed at mwdsls.org. *The information available at this internet site is provided by Metropolitan Water District in the course of its normal operations and has not necessarily been reviewed for accuracy or completeness. Such information is not a part of this Supplemental Continuing Disclosure Memorandum.*

When used herein the terms “Fiscal Year[s] 20YY” or “Fiscal Year[s] End[ed][ing] June 30, 20YY” shall refer to the year beginning on July 1 of the year prior to the year indicated and ending on June 30 of the year indicated.

Obligation Person

Metropolitan Water District is an “obligated person(s)” within the meaning of Rule 15c2–12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, as Metropolitan Water District is an obligated participant in the Utah Water Finance Agency’s two bond issues financed in 2002 and 2003 (as discuss herein).

The Issues

Metropolitan Water District is providing continuing disclosure on three bond issues issued by Metropolitan Water District and two issues as an obligated person in the Utah Water Finance Agency.

1.

\$42,700,000

**Metropolitan Water District of Salt Lake & Sandy
Water Revenue Bonds, Series 2004**

Bonds dated and issued on: March 24, 2004

CUSIP numbers on the 2004 Bonds are provided below.

Background Information. The 2004 Bonds, as defined herein, were sold pursuant to negotiated sale to George K. Baum & Company, Kansas City, Missouri. Lewis Young Robertson & Burningham, Inc., Salt Lake City, Utah, acted as Financial Advisor.

The \$42,700,000, Metropolitan Water District of Salt Lake & Sandy, Water Revenue Bonds, Series 2004, dated March 24, 2004 (the “2004 Bonds”) were issued by Metropolitan Water District as fully–

registered bonds and are in book-entry form only, registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”). DTC is acting as securities depository for the 2004 Bonds.

Principal of and interest on the 2004 Bonds (interest payable January 1 and July 1 of each year) are payable by Zions Bank, Corporate Trust Department, Salt Lake City, Utah (“Zions Bank”), as Paying Agent and Trustee, to the registered owners thereof, currently DTC.

Optional Redemption. The 2004 Bonds maturing on or before July 1, 2015, are not subject to redemption. The 2004 Bonds maturing on or after July 1, 2016, are subject to redemption at the election of Metropolitan Water District on any date on or after July 1, 2014, in whole or in part, in such order of maturities as shall be selected by Metropolitan Water District and within each maturity as selected by the Trustee; provided that, in selecting 2004 Bonds for redemption, the Trustee shall treat each 2004 Bond as representing that number of 2004 Bonds which is obtained by dividing the principal amount of such bond by \$5,000. Such optional redemption of the 2004 Bonds shall be at the Redemption Price 100% of the principal amount of the 2004 Bonds to be redeemed, but without premium, plus accrued interest to the date of redemption.

Current Maturity Schedule.

Current principal outstanding: \$30,675,000

Original issue amount: \$42,700,000

Dated: March 24, 2004

Due: July 1, as shown below

Due July 1	CUSIP 795560	Principal Amount	Original Interest Rate		Due July 1	CUSIP 795560	Principal Amount	Original Interest Rate
2012.....	AW 1	\$1,865,000	3.375		2018.....	AP 6	\$2,585,000	5.00%
2012.....	AH 4	100,000	5.00		2019.....	BB 6	395,000	4.00
2013.....	AX 9	500,000	3.50		2019.....	AQ 4	2,315,000	5.00
2013.....	AJ 0	1,530,000	5.00		2020.....	BC 4	20,000	4.10
2014.....	AY 7	125,000	3.75		2020.....	AR 2	2,820,000	5.00
2014.....	AK 7	2,000,000	5.00		2021.....	BE 0	115,000	4.15
2015.....	AZ 4	230,000	3.60		2021.....	BD 2	2,870,000	5.00
2015.....	AL 5	2,000,000	5.00		2022.....	BF 7	3,130,000	5.00
2016.....	BA 8	115,000	3.70		2023.....	BH 3	235,000	4.30
2016.....	AM 3	2,220,000	5.00		2023.....	BG 5	3,050,000	5.00
2017.....	AN 1	2,455,000	5.00					

Credit Enhancement. The scheduled payments of the principal of and interest on the 2004 Bonds are guaranteed by Ambac Assurance Corporation (“Ambac”).

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2.

\$44,650,000
Metropolitan Water District of Salt Lake & Sandy
Water Revenue Bonds, Series 2005A

Bonds dated and issued on: January 27, 2005
CUSIP numbers on the 2005 Bonds are provided below.

Background Information. The 2005 Bonds, as defined herein, were sold pursuant to negotiated sale to George K. Baum & Company, Kansas City, Missouri. Lewis Young Robertson & Burningham, Inc., Salt Lake City, Utah, acted as Financial Advisor.

The \$44,650,000, Metropolitan Water District of Salt Lake & Sandy, Water Revenue Bonds, Series 2005A, dated January 27, 2005 (the “2005 Bonds”) were issued by Metropolitan Water District as fully-registered bonds and are in book-entry form only, registered in the name of Cede & Co., as nominee for DTC. DTC is acting as securities depository for the 2005 Bonds.

Principal of and interest on the 2005 Bonds (interest payable January 1 and July 1 of each year) are payable by Zions Bank, to the registered owners thereof, currently DTC.

Optional Redemption. The 2005 Bonds maturing on or before July 1, 2015, are not subject to redemption. The 2005 Bonds maturing on or after July 1, 2016, are subject to redemption at the election of Metropolitan Water District on any date on or after July 1, 2015, in whole or in part, in such order of maturities as shall be selected by the Metropolitan Water District and within each maturity as selected by the Trustee; provided that, in selecting 2005 Bonds for redemption, the Trustee shall treat each 2005 Bond as representing that number of 2005 Bonds which is obtained by dividing the principal amount of such bond by \$5,000. Such optional redemption of the 2005 Bonds shall be at the Redemption Price of 100% of the principal amount of the 2005 Bonds to be redeemed, plus accrued interest to the date of redemption.

Current Maturity Schedule.

Current principal outstanding: \$40,275,000

Original issue amount: \$44,650,000

Dated: January 27, 2005

Due: July 1, as shown below

Due July 1	CUSIP 795560	Principal Amount	Original Interest Rate		Due July 1	CUSIP 795560	Principal Amount	Original Interest Rate
2012.....	BQ 3	\$1,425,000	3.625%		2018.....	BW 0	\$ 600,000	4.00%
2012.....	CA 7	600,000	5.00		2018.....	CE 9	2,475,000	5.00
2013.....	BR 1	1,250,000	3.55		2019.....	BX 8	3,225,000	5.00
2013.....	CB 5	1,000,000	5.00		2020.....	BY 6	3,400,000	5.00
2014.....	BS 9	375,000	3.875		2021.....	BZ 3	3,600,000	5.00
2014.....	CC 3	2,000,000	5.00		2022.....	CF 6	3,775,000	5.00
2015.....	BT 7	100,000	3.75		2023.....	CG 4	50,000	4.20
2015.....	CD 1	2,500,000	5.00		2023.....	CH 2	4,000,000	5.00
2016.....	BU 4	2,775,000	5.00		2024.....	CJ 8	4,200,000	5.00
2017.....	BV 2	2,925,000	5.00					

Credit Enhancement. The scheduled payments of the principal of and interest on the 2005 Bonds are guaranteed by Ambac.

3.

\$60,320,000
Metropolitan Water District of Salt Lake & Sandy
Water Revenue and Refunding Bonds, Series 2009A

Bonds dated and issued on: September 30, 2009
CUSIP numbers on the 2009 Bonds are provided below.

Background Information. The 2009 Bonds, as defined herein, were sold pursuant to negotiated sale to George K. Baum & Company, Kansas City, Missouri. Lewis Young Robertson & Burningham, Inc., Salt Lake City, Utah, acted as Financial Advisor.

The \$60,320,000, Metropolitan Water District of Salt Lake & Sandy, Water Revenue and Refunding Bonds, Series 2009A, dated September 30, 2009 (the “2009 Bonds”) were issued by Metropolitan Water District as fully-registered bonds and are in book-entry form only, registered in the name of Cede & Co., as nominee for DTC. DTC is acting as securities depository for the 2009 Bonds.

Principal of and interest on the 2009 Bonds (interest payable January 1 and July 1 of each year) are payable by Zions Bank, to the registered owners thereof, currently DTC.

Optional Redemption. The 2009 Bonds are subject to redemption at the election of Metropolitan Water District on July 1, 2019, or on any date thereafter, from such maturities or parts thereof as shall be selected by Metropolitan Water District, at the redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the redemption date.

Current Maturity Schedule.

Current principal outstanding: \$60,320,000

Original issue amount: \$60,320,000

Dated: September 30, 2009

Due: July 1, as shown below

Due July 1	CUSIP 795560	Principal Amount	Original Interest Rate		Due July 1	CUSIP 795560	Principal Amount	Original Interest Rate
2024.....	CY 5	\$3,675,000	5.00%		2028.....	DC 2	\$9,400,000	5.00%
2025.....	CZ 2	7,925,000	5.00		2029.....	DD 0	9,900,000	5.00
2026.....	DA 6	8,310,000	5.00		2030.....	DE 8	5,900,000	5.00
2027.....	DB 4	8,910,000	5.00		2031.....	DF 5	6,300,000	5.00

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1.

\$24,585,000
Utah Water Finance Agency
Revenue Bonds (Pooled Loan Financing Program), Series 2002B

Bonds dated on May 15, 2002; and issued on: May 30, 2002
CUSIP numbers on the 2002 UWFA Bonds are provided below.

Background Information. The 2002 UWFA Bonds, as defined herein, were sold pursuant to negotiated sale to George K. Baum & Company, Kansas City, Missouri. Lewis Young Robertson & Burningham, Inc., Salt Lake City, Utah, acted as Financial Advisor.

The \$24,585,000, Utah Water Finance Agency, Revenue Bonds (Pooled Loan Financing Program), Series 2002B, dated May 15, 2002 (the “2002 UWFA Bonds”) were issued by the Utah Water Finance Agency as fully-registered bonds and are in book-entry form only, registered in the name of Cede & Co., as nominee for DTC. DTC is acting as securities depository for the 2002 UWFA Bonds.

Principal of and interest on the 2002 UWFA Bonds (interest payable January 1 and July 1 of each year) are payable by Zions Bank, as Paying Agent and Trustee, to the registered owners thereof, currently DTC.

Optional Redemption. The 2002 UWFA Bonds maturing on and after July 1, 2013 are subject to redemption prior to maturity at the option of the Utah Water Finance Agency on and after July 1, 2012, in whole or in part at any time, from such maturities or parts thereof as shall be selected by the Utah Water Finance Agency, at a redemption price of 100% of the principal amount of the 2002 UWFA Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date.

Mandatory Sinking Fund Redemption. The 2002 UWFA Bonds (5.125% coupon) maturing on July 1, 2023 and the 2002 UWFA Bonds (5.25% coupon) maturing on July 1, 2023 are subject to mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount of such 2002 UWFA Bonds to be so redeemed, plus accrued interest to the redemption date, on the dates and in the principal amounts as follows:

<u>Mandatory Sinking Fund Redemption Date</u>	<u>Sinking Fund Requirements</u>
July 1, 2019 (5.125% coupon)	\$1,010,000
July 1, 2020 (5.125% coupon)	1,055,000
July 1, 2021 (5.125% coupon)	750,000
July 1, 2022 (5.125% coupon)	790,000
July 1, 2023 (5.125% coupon) (final maturity).....	<u>545,000</u>
Total	<u>\$4,150,000</u>
July 1, 2019 (5.25% coupon)	\$ 590,000
July 1, 2020 (5.25% coupon)	625,000
July 1, 2021 (5.25% coupon)	665,000
July 1, 2022 (5.25% coupon)	700,000
July 1, 2023 (5.25% coupon) (final maturity).....	<u>420,000</u>
Total	<u>\$3,000,000</u>

Current Maturity Schedule.

Current principal outstanding: \$16,390,000

Original issue amount: \$24,585,000

Dated: May 15, 2002

Due: July 1, as shown below

\$9,240,000 Serial Bonds

Due July 1	CUSIP 917572	Principal Amount	Original Interest Rate		Due July 1	CUSIP 917572	Principal Amount	Original Interest Rate
2012.....	HP 7	\$1,140,000	4.375%		2016.....	HT 9	\$1,400,000	5.25%
2013.....	HQ 5	1,180,000	4.50		2017.....	HU 6	1,450,000	5.00
2014.....	HR 3	1,240,000	5.25		2018.....	HV 4	1,525,000	5.10
2015.....	HS 1	1,305,000	5.25					

\$4,150,000 5.125% Term Bond due July 1, 2023 (CUSIP 917572 HW 2)

\$3,000,000 5.25% Term Bond due July 1, 2023 (CUSIP 917572 HX 0)

Credit Enhancement. The scheduled payments of the principal of and interest on the 2002 UWFA Bonds are guaranteed by Ambac.

2.

\$23,710,000

Utah Water Finance Agency

Revenue Bonds (Pooled Loan Financing Program), Series 2003A

Bonds dated and issued on: April 3, 2003

CUSIP numbers on the 2003 UWFA Bonds are provided below.

Background Information. The 2003 UWFA Bonds, as defined herein, were sold pursuant to negotiated sale to George K. Baum & Company, Kansas City, Missouri. Lewis Young Robertson & Burningham, Inc., Salt Lake City, Utah, acted as Financial Advisor.

The \$23,710,000, Utah Water Finance Agency, Revenue Bonds (Pooled Loan Financing Program), Series 2003A, dated April 3, 2003 (the “2003 UWFA Bonds”) were issued by the Utah Water Finance Agency as fully-registered bonds and are in book-entry form only, registered in the name of Cede & Co., as nominee for DTC. DTC is acting as securities depository for the 2003 UWFA Bonds.

Principal of and interest on the 2003 UWFA Bonds (interest payable January 1 and July 1 of each year) are payable by Zions Bank, as Paying Agent and Trustee, to the registered owners thereof, currently DTC.

Optional Redemption. The 2003 UWFA Bonds maturing on and after July 1, 2014 are subject to redemption prior to maturity at the option of the Utah Water Finance Agency on and after July 1, 2013, in whole or in part at any time, from such maturities or parts thereof as shall be selected by the Utah Water Finance Agency, at a redemption price of 100% of the principal amount of the 2003 UWFA Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date.

Current Maturity Schedule.

Current principal outstanding: \$10,175,000

Original issue amount: \$23,710,000

Dated: April 3, 2003

Due: July 1, as shown below

Due July 1	CUSIP 917572	Principal Amount	Original Interest Rate		Due July 1	CUSIP 917572	Principal Amount	Original Interest Rate
2012.....	KF 5	\$1,485,000	5.00%		2016.....	KK 4	\$1,810,000	5.25%
2013.....	KG 3	1,555,000	5.00		2017.....	KL 2	625,000	4.25
2014.....	KH 1	1,640,000	5.25		2018.....	KM 0	655,000	5.00
2015.....	KJ 7	1,720,000	5.25		2019.....	KN 8	685,000	5.00

Credit Enhancement. The scheduled payments of the principal of and interest on the 2003 UWFA Bonds are guaranteed by Ambac.

HISTORICAL RESULTS OF OPERATIONS AND DEBT SERVICE COVERAGE

The following table represents the historical operating results and debt service coverage of Metropolitan Water District for the following Fiscal Years.

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Historical Results of Operations and Debt Service Coverage

Metropolitan Water District of Salt Lake & Sandy

	Fiscal Year Ended June 30				
	2011	2010	2009	2008	2007
Water deliveries (in acre–feet).....	57,828	62,600	66,589	71,341	67,755
Revenues:					
Water sales.....	\$ 11,706,782	\$ 11,811,107	\$ 13,189,614	\$ 13,303,657	\$ 11,413,780
Water treatment.....	336,841	919,230	41,386	33,468	79,288
Property tax revenues (1).....	9,358,950	9,259,099	9,362,507	9,111,809	7,913,797
Interest income.....	262,141	487,791	752,386	1,318,549	1,861,575
Special assessment (2).....	12,067,106	12,065,245	11,966,780	11,926,261	12,346,474
Other (3).....	138,367	80,411	54,359	122,985	757,046
Total revenues.....	<u>33,870,187</u>	<u>34,622,883</u>	<u>35,367,032</u>	<u>35,816,729</u>	<u>34,371,960</u>
Operating expenses (4):					
Cost of sales and services.....	9,623,956	10,216,761	11,075,233	10,073,339	9,440,311
General and administrative.....	2,326,968	1,917,777	5,943,980	5,407,232	2,223,181
Total operating expenses.....	<u>11,950,924</u>	<u>12,134,538</u>	<u>17,019,213</u>	<u>15,480,571</u>	<u>11,663,492</u>
Available for debt service.....	<u>\$ 21,919,263</u>	<u>\$ 22,488,345</u>	<u>\$ 18,347,819</u>	<u>\$ 20,336,158</u>	<u>\$ 22,708,468</u>
Debt service:					
Debt service (5).....	<u>\$ 15,366,246</u>	<u>\$ 13,751,207</u>	<u>\$ 13,417,504</u>	<u>\$ 14,733,562</u>	<u>\$ 13,310,101</u>
Debt service coverage.....	<u>1.43X</u>	<u>1.64X</u>	<u>1.37X</u>	<u>1.38X</u>	<u>1.71X</u>
Rate coverage requirement.....	<u>1.15X</u>	<u>1.15X</u>	<u>1.15X</u>	<u>1.15X</u>	<u>1.15X</u>

(1) Property tax revenues are not pledged to the payment of debt service, but may be used for operation and maintenance expenses.

(2) Special assessments to Salt Lake City and Sandy City are not subject to water sales.

(3) Includes aqueduct capacity rentals, laboratory fees, and other miscellaneous revenues from the District's basic financial statements (does not include gain on sale of capital assets, gain on investment in Provo River Water Users Association or gain on net increase in fair value of investments).

(4) Does not include depreciation and amortization.

(5) A portion of the existing debt service consists of variable rate debt. A portion of the variable rate bonds has been swapped into a synthetic fixed rate.

(Source: Metropolitan Water District.)

**FINANCIAL INFORMATION REGARDING
METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY**

Five-Year Financial Summaries

The summaries contained herein were extracted from Metropolitan Water District's annual Financial Statements for Fiscal Years 2011 through 2007. The summaries have not been audited.

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Metropolitan Water District of Salt Lake & Sandy

Statement of Net Assets

(This summary has not been audited)

	As of June 30				
	2011	2010	2009	2008	2007
Assets and deferred outflows					
Current assets:					
Cash and cash equivalents:	\$ 22,758,309	\$ 23,212,815	\$ 13,479,833	\$ –	\$ –
Unrestricted cash and cash equivalents	–	–	–	29,377,362	13,492,433
Restricted cash and cash equivalents	–	–	–	17,694,296	21,660,978
Accounts receivable	1,078,815	969,667	3,723,089	2,273,261	4,351,977
Prepaid expenses	67,398	–	–	–	478,616
Supplies	157,377	193,469	201,967	150,684	135,946
Notes receivable–Sandy City	–	–	–	–	1,560,086
Property Taxes receivable	–	–	–	–	–
Total current assets	24,061,899	24,375,951	17,404,889	49,495,603	41,680,036
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	19,043,008	28,537,053	24,573,782	–	–
Investments	–	–	9,418,563	–	–
Investment in Provo River Water Users Association	32,608,532	17,090,136	20,034,816	19,656,295 #	18,942,696
Bond issue costs, net	10,491,548	10,847,401	6,645,585	4,853,261 #	4,088,124
Other	–	–	11,090	11,090 #	11,090
Capital assets, net	340,960,746	347,963,441	347,240,928	352,876,282 #	349,905,690
Total assets	427,165,733	428,813,982	425,329,653	426,892,531	414,627,636
Deferred outflows:					
Deferred outflow of resources	9,098,380	11,153,298	–	– #	–
Total assets	\$436,264,113	\$439,967,280	\$425,329,653	\$426,892,531	\$414,627,636
Liabilities					
Current liabilities:					
Accounts payable	\$ 1,389,481	\$ 1,929,833	\$ 2,190,722	\$ 2,728,863	\$ 7,350,507
Accrued expenses	626,180	525,746	478,206	502,539	3,469,568
Accrued interest payable	4,034,660	3,902,723	2,423,342	2,472,273	–
Current portion of long-term liabilities:					
Bonds payable, current	4,795,000	4,500,000	3,765,000	3,225,000	3,320,000
Deferred revenue	–	–	1,714,018	703,200	–
Provo River Water Users Association	–	–	175,845	175,845	175,845
Total current liabilities	10,845,321	10,858,302	10,747,133	9,807,720	14,315,920
Long-term liabilities:					
Interest rate swap agreement	9,098,380	11,153,298	–	–	–
Unamortized bond premium, net of discounts	9,635,359	10,248,449	4,615,828	4,945,024	5,274,219
Bonds payable–net of current portion	244,460,000	257,865,000	262,245,000	261,410,000	253,135,000
Provo River Water Users Association	–	–	3,281,935	3,305,566	3,522,257
Total long-term liabilities	263,193,739	279,266,747	270,142,763	269,660,590	261,931,476
Total liabilities	274,039,060	290,125,049	280,889,896	279,468,310	276,247,396
Net assets:					
Invested in capital assets, net of related debt	88,527,275	93,497,112	93,922,041	85,677,246	103,799,031
Restricted net assets	12,995,655	10,027,844	11,313,239	17,694,296	15,430,761
Unrestricted	60,702,123	46,317,275	39,204,477	44,052,679	19,150,448
Total net assets	162,225,053	149,842,231	144,439,757	147,424,221	138,380,240
Total liabilities and net assets	\$436,264,113	\$439,967,280	\$425,329,653	\$426,892,531	\$414,627,636

(Source: Information taken from Metropolitan Water District's basic financial statements. This summary itself has not been audited.)

Metropolitan Water District of Salt Lake & Sandy
Statements of Revenues, Expenses, and Changes in Net Assets

(This summary has not been audited)

	Fiscal Year Ended June 30				
	2011	2010	2009	2008	2007
Revenues:					
Water sales.....	\$ 11,706,782	\$ 11,811,107	\$ 13,189,614	\$ 13,303,657	\$ 11,413,780
Water treatment.....	336,841	919,230	41,386	33,468	79,288
Aqueduct capacity rentals.....	-	-	-	-	-
Total revenues.....	<u>12,043,623</u>	<u>12,730,337</u>	<u>13,231,000</u>	<u>13,337,125</u>	<u>11,493,068</u>
Operating expenses:					
Cost of sales and services.....	9,623,956	10,216,761	11,075,233	10,073,339	9,440,311
General and administrative.....	2,326,968	1,917,777	5,943,980	5,407,232	2,223,181
Depreciation and amortization.....	11,102,779	11,025,827	10,367,114	3,947,915	3,741,786
Total operating expenses.....	<u>23,053,703</u>	<u>23,160,365</u>	<u>27,386,327</u>	<u>19,428,486</u>	<u>15,405,278</u>
Operating loss.....	<u>(11,010,080)</u>	<u>(10,430,028)</u>	<u>(14,155,327)</u>	<u>(6,091,361)</u>	<u>(3,912,210)</u>
Other revenues (expenses):					
Property tax revenues.....	9,358,950	9,259,099	9,362,507	9,111,809	7,913,797
Special assessment revenue.....	12,067,106	12,065,245	11,966,780	11,926,261	12,346,474
Interest income.....	262,141	487,791	752,386	1,318,549	1,861,575
Interest expense.....	(10,998,183)	(11,383,408)	(11,801,104)	(12,261,922)	(2,547,004)
Net increase in the fair value of investments.....	77,339	71,354	457,414	-	-
Laboratory fees.....	604	392	570	416	9,885
Gain (loss) on investment in Provo River Water Users Association.....	12,831,237	(779,515)	378,521	713,599	228,918
Gain (loss) on disposal of capital assets.....	(344,055)	-	-	20,556	-
Other revenue.....	137,763	80,019	53,789	122,569	747,161
Total other revenues, net.....	<u>23,392,902</u>	<u>9,800,977</u>	<u>11,170,863</u>	<u>10,951,837</u>	<u>20,560,806</u>
Income (loss) before contributions and transfers.....	<u>12,382,822</u>	<u>(629,051)</u>	<u>(2,984,464)</u>	<u>4,860,476</u>	<u>16,648,596</u>
Transfers of assets and related contributed capital-CUWCD.....	-	-	-	4,183,505	-
Change in net assets.....	<u>12,382,822</u>	<u>(629,051)</u>	<u>(2,984,464)</u>	<u>9,043,981</u>	<u>16,648,596</u>
Net assets, beginning of year, as restated.....	<u>149,842,231</u>	<u>150,471,282</u>	<u>147,424,221</u>	<u>138,380,240</u>	<u>121,731,644</u>
Net assets, end of year.....	<u>\$162,225,053</u>	<u>\$149,842,231</u>	<u>\$144,439,757</u>	<u>\$147,424,221</u>	<u>\$138,380,240</u>

(Source: Information taken from Metropolitan Water District's basic financial statements. This summary itself has not been audited.)

INFORMATION SPECIFIC TO THE BOND ISSUES

Water Sources

Metropolitan Water District derives its source of water through various ownership and contractual interests in Little Cottonwood Creek (“LCC”), the Provo River Project (“PRP”), the Central Utah Project (“CUP”), and the Ontario Drain Tunnel (“ODT”) as further described below:

- Metropolitan Water District’s member cities, Salt Lake City and Sandy City, own water rights in LCC that, by contract, are utilized by Metropolitan Water District to be treated and conveyed to the member cities and others.
- Metropolitan Water District owns 61,700 shares of the 100,000 authorized and outstanding shares of stock of the PRP. These shares entitle Metropolitan Water District to receive 61.7% of PRP annual water supply, or 61,700 acre–feet (“AF”) in most water years.
- Metropolitan Water District has petitioned for 20,000 AF annually of CUP water. This petition is with the Central Utah Water Conservancy District.
- Metropolitan Water District, on behalf of Sandy City, purchased water rights in ODT. This water supply is a part of the Provo River system and is utilized in conjunction with other available resources.

The following table sets forth the amounts (in acre–feet) of water actually obtained by Metropolitan Water District from the various sources:

<u>Fiscal Year</u>	<u>LCC</u>	<u>PRP</u>	<u>CUP</u>	<u>ODT</u>	<u>Total</u>	<u>% change from prior year</u>
2011	15,214	38,700	17,692	4,847	76,453	(9.8)%
2010	16,232	40,321	24,014	4,191	84,758	2.9
2009	18,547	40,072	19,409	4,340	82,368	(11.8)
2008	9,843 (1)	79,996	148 (2)	3,442	93,429	(0.4)
2007	29,922	49,935	10,265	3,717	93,839	17.0

(1) The reduced volume for LCC for Fiscal Year 2008 is due to the operational start–up of the Point of the Mountain Water Treatment Plant and the construction–related shut down at the Little Cottonwood Water Treatment Plant. Both events led to a reduced ability to divert, treat, and deliver water from Little Cottonwood Creek.

(2) The variation in amounts of CUP water reflects seasonal weather and water use patterns due to this report being based on a Fiscal Year basis. The annual water year amount (November 1 thru October 31) for CUP water is 20,000 acre feet (full allotment reached in water year 2009).

(Source: Metropolitan Water District.)

Certain Water Facilities

Little Cottonwood Water Treatment Plant. Metropolitan Water District’s Little Cottonwood Water Treatment Plant treats water from the Salt Lake Aqueduct belonging to Metropolitan Water District and others, as well as water from Little Cottonwood and Bell Canyon Creeks belonging to Salt Lake City and Sandy City. An expansion of the Little Cottonwood Water Treatment Plant, in 2007, increased the hydraulic capacity of the plant to 143 million gallons per day (“MGD”) and enhanced the water treatment process.

Point of the Mountain Water Treatment Plant. Metropolitan Water District's Point of the Mountain Water Treatment Plant treats water from the Provo Reservoir Canal and the Jordan Aqueduct belonging to Metropolitan Water District and others. Completed in 2007, the treatment capacity is 70 MGD.

Jordan Valley Water Treatment Plant. Metropolitan Water District owns 2/7ths (or approximately 28.57%) of the capacity of the Jordan Valley Water Treatment Plant which treats water from the Provo Reservoir Canal and the Jordan Aqueduct belonging to Metropolitan Water District and others. Metropolitan Water District's portion of the treatment capacity is approximately 51 MGD.

Jordan Narrows Pump Station and Turbine. Metropolitan Water District meets its obligations set forth in an exchange agreement with Utah Lake Distributing Company by furnishing water through the Jordan Narrows Pump Station and Turbine facilities. The pumping capacity is approximately 135 cubic feet per second ("cfs").

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Annual Water Sales

Metropolitan Water District of Salt Lake & Sandy

Fiscal Year	Salt Lake City		Sandy City		Other (1)		Rate Per Acre Feet		Totals	
	Revenue	Acre Feet	Revenue	Acre Feet	Revenue	Acre Feet	July–September	October–June	Revenue	Acre Feet (2)
2011.....	\$ 8,799,585	41,420	\$ 2,907,197	15,690	\$ 336,841	718	\$ 322	\$ 116	\$ 12,043,623	57,828
2010.....	8,935,252	44,844	2,875,898	15,555	919,187	2,201	313	113 (3)	12,730,337	62,600
2009.....	9,220,984	46,105	3,968,630	19,843	41,386	641	200	200	13,231,000	66,589
2008.....	9,496,040	50,511	3,796,891	20,196	44,194	634	188	188	13,337,125	71,341
2007.....	8,190,506	46,803	3,085,975	17,634	216,587	1,318	175	175	11,493,068	67,755

- (1) This volume amount (in acre feet) includes water sales (of Metropolitan Water District supplies) to irrigation entities. This revenue amount includes water sales to irrigation entities and treatment and conveyance charges to others for Metropolitan Water District treating and conveying the other entities' supplies. The significant increase for Fiscal Year 2010 is related to extra treatment and conveyance charges due to construction activity by others at the Jordan Valley Water Treatment Plant and related facilities.
- (2) The volume amounts indicated only include metered sales of Metropolitan Water District supplies to the member cities and irrigation entities. The supplies used as shown in the table under "INFORMATION SPECIFIC TO THE BOND ISSUES—Water Sources" above include deliveries to meet exchange agreement obligations and any system losses in addition to the metered sales.
- (3) foot during July through September and then being reduced to \$113 per acre foot for October through June. In prior years, the same rate was charged year-round.

(Source: Metropolitan Water District.)

METROPOLITAN WATER DISTRICT'S FISCAL YEAR 2011 FINANCIAL STATEMENTS

Included with this supplement are Metropolitan Water District's financial statements for Fiscal Year 2011 and 2010.

Additionally, financial statements of Metropolitan Water District and Utah Water Finance Agency may be found on the "world wide web" at the State of Utah, State Auditor's website at:

sao.utah.gov

and at Metropolitan Water District's website:

mwdsls.org

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**Metropolitan Water District
of Salt Lake & Sandy**

**Financial Statements and
Independent Auditors' Report**

June 30, 2011 and 2010

Metropolitan Water District of Salt Lake & Sandy

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Jensen & Keddington, P.C.

Certified Public Accountants

Jeffery B. Jensen, CPA

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Gregory B. White, CPA

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Metropolitan Water District of Salt Lake & Sandy
Cottonwood Heights, Utah

We have audited the accompanying financial statements of Metropolitan Water District of Salt Lake & Sandy (the District) as of and for the fiscal years ended June 30, 2011 and 2010, which collectively comprise the District's basic financial statements 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 audit. The financial statements of the District as of June 30, 2010, were audited by other auditors whose report dated October 19, 2010, expressed an unqualified opinion on those statements. As discussed in Note 11, the District has restated its June 30, 2010, financial statements during the current year to correct for errors in reporting improperly capitalized fixed assets, in conformity with accounting principles generally accepted in the United States of America. The other auditors reported on the June 30, 2010, financial statements before the restatement.

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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the fiscal 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 November 1, 2011, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 4 are presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

November 1, 2011

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Salt Lake City, Utah 84123

Management's Discussion and Analysis (Unaudited)

The management of the Metropolitan Water District of Salt Lake & Sandy (the "District") presents to the reader of the District's financial statements this discussion and analysis of the District's financial performance for the fiscal years ended June 30, 2011 and 2010.

Overview of the financial statements

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States, promulgated by the Governmental Accounting Standards Board ("GASB"). The District reports as a single enterprise fund. Revenues are recognized when earned and expenses are recognized in the period in which they are incurred. See the notes to the financial statements for a summary of the District's significant accounting policies.

Metropolitan Water District of Salt Lake & Sandy's Net Assets

	2011	2010	2009
Current and other assets	\$ 86,204,987	\$ 80,850,541	\$ 74,619,855
Capital assets	<u>340,960,746</u>	<u>347,963,441</u>	<u>353,283,543</u>
Total assets	427,165,733	428,813,982	427,903,398
Deferred outflow of resources	<u>9,098,380</u>	<u>11,153,298</u>	<u>13,846,517</u>
Total assets and deferred outflow of resources	<u>436,264,113</u>	<u>439,967,280</u>	<u>441,749,915</u>
Current and other liabilities	10,845,321	10,858,302	10,571,288
Long-term liabilities	<u>263,193,739</u>	<u>279,266,747</u>	<u>280,707,345</u>
Total liabilities	<u>274,039,060</u>	<u>290,125,049</u>	<u>291,278,633</u>
Net Assets:			
Invested in capital assets, net of related debt	88,527,275	93,497,112	99,953,566
Restricted net assets	12,995,655	10,027,844	11,313,239
Unrestricted net assets	<u>60,702,123</u>	<u>46,317,275</u>	<u>39,204,477</u>
Total fund net assets	<u>\$ 162,225,053</u>	<u>\$ 149,842,231</u>	<u>\$ 150,471,282</u>

Financial analysis

The District's primary sources of revenue are made up from water sales, property taxes, and special assessment revenues. Each source of revenue is predictably stable with slight variations in water sales due to seasonal weather patterns, and slight variations in property taxes due to changes in property values and/or certified tax rates. Special assessment revenues are based on each member city's investment in new system capacity and/or new water supplies. Once the special assessments are established, they remain stable until the investment in system capacity or water supply has been paid.

As part of its ongoing efforts to effectively manage long-term debt, the District refinanced a portion of its debt by restructuring the series A bonds, see note 6 for further details. In addition, the District is taking steps to diversify its deposits and investments. These efforts are consistent with the Utah Money Management Act. A contract with a certified investment advisor has been established with investment activity to begin in FY 2012.

The gain on the investment in Provo River Water Users Association primarily reflects an increase in the equity of the Association due to contributions to the Association from the federal government related to improvements made to the Deer Creek Dam as part of the Bureau of Reclamation's Safety of Dams Program.

Metropolitan Water District of Salt Lake & Sandy's Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues	\$ 12,043,623	\$ 12,730,337	\$ 13,231,000
Operating expenses	<u>(23,053,703)</u>	<u>(23,160,365)</u>	<u>(24,415,127)</u>
Operating loss	(11,010,080)	(10,430,028)	(11,184,127)
Non-operating revenues	34,735,140	21,184,385	22,971,929
Non-operating expenses	<u>(11,342,238)</u>	<u>(11,383,408)</u>	<u>(11,801,104)</u>
Total non-operating revenues (expenses), net	<u>23,392,902</u>	<u>9,800,977</u>	<u>11,170,825</u>
Change in net assets	12,382,822	(629,051)	(13,302)
Net assets - beginning of year	<u>149,842,231</u>	<u>150,471,282</u>	<u>150,484,584</u>
Net assets - end of year	<u>\$ 162,225,053</u>	<u>\$ 149,842,231</u>	<u>\$ 150,471,282</u>

Metropolitan Water District of Salt Lake & Sandy's Summary of Revenues

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues:			
Water sales	\$ 11,706,782	\$ 11,811,107	\$ 13,189,614
Water treatment	336,841	919,230	41,386
Total operating revenues	<u>12,043,623</u>	<u>12,730,337</u>	<u>13,231,000</u>
Non-operating revenues:			
Property tax revenues	9,358,950	9,259,099	9,362,507
Special assessment revenue	12,067,106	12,065,245	11,966,780
Interest income	262,141	487,791	752,386
Net increase in fair value of investments	77,339	71,354	457,414
Laboratory fees	604	392	570
Gain (loss) on investment in Provo River Water Users Associati	12,831,237	(779,515)	378,521
Other income	<u>137,763</u>	<u>80,019</u>	<u>53,751</u>
Total non-operating revenues	<u>34,735,140</u>	<u>21,184,385</u>	<u>22,971,929</u>
Total revenues	<u>\$ 46,778,763</u>	<u>\$ 33,914,722</u>	<u>\$ 36,202,929</u>

Metropolitan Water District of Salt Lake & Sandy's Summary of Expenses

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating expenses			
Cost of sales and services	\$ 9,623,956	\$ 10,216,761	\$ 11,075,233
General and administrative	2,326,968	1,917,777	2,972,780
Depreciation	<u>11,102,779</u>	<u>11,025,827</u>	<u>10,367,114</u>
Total operating expenses	<u>23,053,703</u>	<u>23,160,365</u>	<u>24,415,127</u>
Non-operating expenses			
Interest expense	10,998,183	11,383,408	11,801,104
Loss on disposal of capital assets	<u>344,055</u>	<u>-</u>	<u>-</u>
Total non-operating expenses	<u>11,342,238</u>	<u>11,383,408</u>	<u>11,801,104</u>
Total expenses	<u>\$ 34,395,941</u>	<u>\$ 34,543,773</u>	<u>\$ 36,216,231</u>

Capital asset activity

The District's capital assets for its governmental activities, as of June 30, 2011 and 2010, amounted to \$340,960,746 and \$347,963,441, respectively (net of accumulated depreciation). This investment in capital assets includes the water system, land, administrative buildings and equipment, aqueduct rights and privileges, and investments in surface water resources.

A thorough review of fixed assets was conducted during the fiscal year 2011. This resulted in the disposal of some capital assets and reclassifications of others (see note 4). In addition, the District has completed the design of the replacement of the terminal reservoir of the Salt Lake Aqueduct. The design was nearly complete as of June 30, 2011, with construction expected to start in fiscal year 2012 and continue through fiscal year 2019. Additional financing is anticipated during that time period in order to fully fund the project. The construction cost of the project is anticipated to be approximately \$37 million.

Economic factors and budgetary analysis

Despite the difficulties found in the general economy, the District continues to find its revenues and expenses to be following a steady trend. Water rates are expected to increase 3% a year. This forecast has been communicated to the member cities and they anticipate the change. Operations and maintenance expenses are budgeted at an inflationary index of 3% per year. Capital expenditures are planned using asset management techniques that evaluate the condition, criticality, and consequence of the asset. Long-term debt is reviewed on an ongoing basis in an effort to capitalize on any opportunities. The District's bond ratings are AA+ by Fitch and AA+ by Standard and Poors.

Requests for information

This financial report is designed to give its readers a general overview of the District's finances. Questions regarding any information contained in this report or requests for additional information should be addressed to the General Manager, 3430 East Danish Road, Cottonwood Heights, Utah 84093.

Metropolitan Water District of Salt Lake & Sandy

Statements of Net Assets

June 30	2011	2010
Assets and deferred outflows		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 22,758,309	\$ 23,212,815
Accounts receivable	1,078,815	969,667
Prepaid expenses	67,398	-
Supplies	157,377	193,469
Total current assets	24,061,899	24,375,951
Noncurrent assets:		
Restricted assets (Note 2):		
Cash and cash equivalents	19,043,008	28,537,053
Investment in Provo River Water Users Association (Note 5)	32,608,532	17,090,136
Bond issuance costs, net	10,491,548	10,847,401
Capital assets, net (Note 4)	340,960,746	347,963,441
Total assets	427,165,733	428,813,982
Deferred outflows:		
Deferred outflow of resources	9,098,380	11,153,298
Total assets and deferred outflows	\$ 436,264,113	\$ 439,967,280
Liabilities		
Current liabilities:		
Accounts payable	\$ 1,389,481	\$ 1,929,833
Accrued expenses	626,180	525,746
Accrued interest payable	4,034,660	3,902,723
Bonds payable, current (Note 6)	4,795,000	4,500,000
Total current liabilities	10,845,321	10,858,302
Long-term liabilities:		
Interest rate swap agreement	9,098,380	11,153,298
Unamortized bond premium, net of discounts	9,635,359	10,248,449
Bonds payable, net of current portion (Note 6)	244,460,000	257,865,000
Total long-term liabilities	263,193,739	279,266,747
Total liabilities	274,039,060	290,125,049
Net assets:		
Invested in capital assets, net of related debt	88,527,275	93,497,112
Restricted net assets (Note 3)	12,995,655	10,027,844
Unrestricted net assets (note 3)	60,702,123	46,317,275
Total net assets	162,225,053	149,842,231
Total liabilities and net assets	\$ 436,264,113	\$ 439,967,280

See accompanying notes to financial statements

Metropolitan Water District of Salt Lake & Sandy

Statements of Revenues, Expenses, and Changes in Net Assets

For the fiscal years ended June 30	2011	2010
Operating revenues:		
Water sales	\$ 11,706,782	\$ 11,811,107
Water treatment	336,841	919,230
Total operating revenues	12,043,623	12,730,337
Operating expenses:		
Cost of sales and services	9,623,956	10,216,761
General and administrative	2,326,968	1,917,777
Depreciation	11,102,779	11,025,827
Total operating expenses	23,053,703	23,160,365
Operating loss	(11,010,080)	(10,430,028)
Non-operating revenues (expenses):		
Property tax revenues	9,358,950	9,259,099
Special assessment revenue	12,067,106	12,065,245
Interest income	262,141	487,791
Interest expense	(10,998,183)	(11,383,408)
Net increase in the fair value of investments	77,339	71,354
Laboratory fees	604	392
Gain (loss) on investment in Provo River Water Users Association	12,831,237	(779,515)
Loss on disposal of capital assets	(344,055)	-
Other revenue	137,763	80,019
Total non-operating revenues (expenses), net	23,392,902	9,800,977
Change in net assets	12,382,822	(629,051)
Net assets, beginning of year, as restated (see note 11)	149,842,231	150,471,282
Net assets, end of year	\$ 162,225,053	\$ 149,842,231

See accompanying notes to financial statements

Metropolitan Water District of Salt Lake & Sandy

Statements of Cash Flows

For the fiscal years ended June 30	2011	2010
Cash flows from operating activities:		
Receipts from water sales	\$ 11,597,634	\$ 12,850,511
Receipts from water treatment	336,841	919,230
Payments to vendors	(5,180,210)	(5,301,377)
Payments for general and administrative expenses	(1,448,219)	(1,300,180)
Payments to employees	(3,049,220)	(3,148,583)
Employee benefits paid	(1,798,352)	(1,737,959)
Administrative expenses to PRWUA	(946,147)	(851,290)
Net cash provided (used) by operating activities	(487,673)	1,430,352
Cash flows from non-capital financing activities:		
Property tax revenue	9,358,950	9,259,099
Other revenue	137,763	80,019
Laboratory fees revenue	604	392
Net cash provided (used) by non-capital financing activities	9,497,317	9,339,510
Cash flows from capital and related financing activities:		
Special assessment revenue	12,067,106	12,065,245
Proceeds from bonds	94,890,000	60,320,000
Refunded bonds	(103,500,000)	(60,200,000)
Principal paid on revenue bonds	(4,500,000)	(3,765,000)
Acquisition and construction of capital assets	(4,382,055)	(5,705,725)
Bond issuance costs	(241,982)	(4,732,727)
Reoffering premiums	-	6,245,712
Interest paid	(10,866,246)	(9,986,207)
Net cash provided (used) by capital and related financing activities	(16,533,177)	(5,758,702)
Cash flows from investing activities:		
Proceeds from sale of investments	-	9,511,610
Contributions to PRWUA	(2,687,159)	(1,292,615)
Interest on investments	262,141	466,098
Net cash provided (used) by investing activities	(2,425,018)	8,685,093
Net change in cash and cash equivalents	(9,948,551)	13,696,253
Cash and cash equivalents, beginning of year	51,749,868	38,053,615
Cash and cash equivalents, end of year	\$ 41,801,317	\$ 51,749,868

See accompanying notes to financial statements

Metropolitan Water District of Salt Lake & Sandy

Statements of Cash Flows (continued)

For the fiscal years ended June 30

2011

2010

**Reconciliation of operating loss to net cash
used by operating activities:**

Operating loss	\$ (11,010,080)	\$ (10,430,028)
Depreciation	11,102,779	11,025,827
Decrease (increase) in accounts receivable	(109,148)	1,817,404
Decrease in prepaid expenses	(67,398)	-
Increase in supplies	36,092	8,498
Decrease in accounts payable	(540,352)	(260,889)
Decrease in deferred revenue	-	(778,000)
Increase in accrued expenses	100,434	47,540

Net cash provided (used) by operating activities	\$ (487,673)	\$ 1,430,352
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Cash and cash equivalents summary:

Unrestricted cash and cash equivalents	\$ 22,758,309	\$ 23,212,815
Restricted cash and cash equivalents	19,043,008	28,537,053

Total cash and cash equivalents	\$ 41,801,317	\$ 51,749,868
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Noncash investing, capital, and financing activities:

Gain (loss) on investment in Provo River Water Users Association	\$ 12,831,237	\$ (779,515)
Net increase in the fair value of investments	\$ 77,339	\$ 71,354

See accompanying notes to financial statements

Metropolitan Water District of Salt Lake & Sandy

Notes to Financial Statements

**Note 1 -
Significant
accounting
policies**

Reporting entity - The Metropolitan Water District of Salt Lake & Sandy (the "District") is organized under the Metropolitan Water District Act. The District is a separate legal entity, with a seven member board, five of which are appointed by Salt Lake City and two of which are appointed by Sandy City. Board members serve for a specified term and cannot be removed without cause. However, as the member cities are unable to impose their will and are not financially accountable for the District, the District is not reported as a component unit of the member cities. Substantially all of the water resources developed by the District are sold to Salt Lake City and Sandy City.

Basis of presentation - The District is a governmental unit that is accounted for as a business-type activity. It is classified as a proprietary fund type and operates as an enterprise fund. The District's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Under the accrual basis of accounting, revenues are recognized when earned and expenditures are recognized when incurred.

The District reports its water production, storage, and distribution operations as a proprietary fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Cash and cash equivalents - For purposes of the statements of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less, when purchased, to be cash equivalents.

Accounts receivable - Accounts receivable are generally comprised of receivables on water sales and special assessment revenues, which are expected to be paid by cities and other wholesale customers. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management does not expect any uncollectible amounts as most payments are from governmental entities.

Supplies - Inventories, consisting of chemicals for the purification of water and fuels are stated at the lower of cost (on the first-in, first-out basis) or market.

Capital assets - Capital assets include property, plant, equipment, and intangible assets (i.e. investment in water sources), and are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of more than one year. Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Water sources are recorded at their acquisition cost. Donated or contributed capital assets are recorded at their estimated fair value on the date received. Depreciation of capital assets is computed using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Building and improvements	5-50
Machinery and equipment	3-20
Transportation equipment	3-7
Furniture and fixtures	3-20
Aqueduct and appurtenances	5-75

No depreciation is provided on construction in progress until the asset is placed in service.

Metropolitan Water District of Salt Lake & Sandy

Notes to Financial Statements (continued)

Note 1 - Significant accounting policies (continued) **Bond issuance costs, bond discounts, and bond premiums** - Costs incurred for bond issuance, bond discounts, and bond premiums are deferred and amortized over the term of the related bonds using a method approximating the effective interest method. Bond discounts and bond premiums are presented as a reduction or addition to the face amount of bonds payable, whereas, issuance costs are recorded as an asset.

Capitalization of interest costs - The District capitalizes interest on borrowings which are used to finance construction. Capitalization of interest is net of interest earned on construction funds borrowed. Interest capitalization ceases when the construction project is substantially completed. Net interest capitalized was \$12,830 and \$44,672 and total interest expense was \$10,998,183 and \$11,383,408 for the fiscal years ended June 30, 2011 and 2010, respectively.

Deferred charges - Costs of preliminary surveys, design and other investigations which are related to proposed construction are deferred and included in construction in progress until the projects are placed in service, at which time they are depreciated over their useful lives. The cost of discontinued projects is charged to expense in the year the decision is made to discontinue the project.

Capital contributions - In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, capital contributions are recorded as revenues.

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

Hedging activities - The District accounts for hedging activities in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This standard requires that derivative instruments be reported at fair value, and that changes in the fair value of instruments that are considered to be hedging derivative instruments and found to be effective, be reported as either deferred inflows or deferred outflows in the statements of net assets. In addition, the District has early implemented the provisions of GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, which clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty.

Classification of revenue:

• **Operating revenues** - Operating revenues include activities that have the characteristics of exchange transactions such as water sales revenue.

• **Non-operating revenues** - Non-operating revenues include activities that have the characteristics of non-exchange transactions and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB Statement No. 34. Examples of non-operating revenues include property tax revenues, interest income, gain or loss on sale of assets, and equity earnings in the District's investment in Provo River Water Users Association.

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. All general liability, real property, and vehicles are insured through commercial policies. The District has established a self-insurance reserve to fund deductibles on the commercial policies. The amount of settlements did not exceed insurance coverage for the past three years for all policies.

Reclassifications - Certain reclassifications have been made to the 2010 financial statement presentation to correspond to the current year's format. Total net assets and changes in net assets are unchanged due to these reclassifications.

Metropolitan Water District of Salt Lake & Sandy

Notes to Financial Statements (continued)

**Note 1 -
Significant
accounting
policies
(continued)**

•**Property tax revenue** - Property tax revenue is collected and remitted by the Salt Lake County Treasurer as an agent for the District.

Utah statutes establish the process by which taxes are levied and collected. Property taxes are assessed as of January 1 of the year in which they are due. September 1 is the levy date with a due date of November 30. Delinquent taxes are subject to a two percent penalty, with a \$10 minimum penalty. If delinquent taxes and penalties are not paid by January 15 of the following year, these delinquent taxes, including penalties, are subject to an interest charge at a rate equal to the federal discount rate, and the interest period is from January 1 until the date paid. If on March 15 following the lapse of four years from the date when the property taxes became delinquent, the taxes remain delinquent, the County Treasurer advertises and sells the property at a tax sale.

•**Water sales revenue** - Revenue from water sales is recorded based on monthly usage at the stated wholesale water rate. Water usage is measured by flow meters located throughout the system.

Net assets - The District's net assets are classified as follows:

•**Invested in capital assets, net of related debt** - This component of net assets consists of the District's total investment in capital assets, net of accumulated depreciation, reduced by the outstanding debt obligations related to those assets. To the extent debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

•**Restricted net assets** - This component of net assets consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.

•**Unrestricted net assets**- This component of net assets consists of net assets that do not meet the definition of "restricted net assets" or "invested in capital assets, net of related debt".

Note 2 - Cash, Cash and cash equivalents consisted of the following:

cash equivalents, and investments	June 30	2011	2010
Unrestricted:			
Self insurance contingency		\$ 2,000,000	\$ 2,000,000
Interest rate stabilization		2,629,511	1,597,314
Operating and maintenance		18,128,798	19,615,501
Total unrestricted cash and cash equivalents		22,758,309	23,212,815
Restricted:			
Bond payments and capital projects		14,883,452	24,425,174
Operating and maintenance		3,417,789	3,370,949
Renewal and replacement		650,000	650,000
150th South pipeline		32,342	31,965
Jordan Valley WTP O&M agreement		20,000	20,000
Jordan aqueduct repayment contract		39,425	38,965
Total restricted cash and cash equivalents		19,043,008	28,537,053
Total cash and cash equivalents		\$ 41,801,317	\$ 51,749,868

Metropolitan Water District of Salt Lake & Sandy

Notes to Financial Statements (continued)

Note 2 - Cash, cash equivalents, and investments (continued) **Deposits** - Deposits and investments for local governments are governed by the Utah Money Management Act (Utah Code Annotated, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the District's exposure to various risks related to its cash management activities.

Custodial credit risk - Custodial credit risk for deposits is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. The Act requires all deposits of local government to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Council.

As of June 30, 2011 and 2010, the District's deposits had bank balances of \$2,387,742 and \$9,059,234, respectively, which are held in qualified depositories. Because these funds are held in a daily sweep account, they are not covered by federal depository insurance. Repurchase agreements in the amount of \$650,000 are supported by a safekeeping receipt issued by a qualified depository, but the securities are held by the investment's counterparty, not in the name of the District.

Credit risk - 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 of investments is to comply with the Money Management Act. The District is authorized to invest in the Utah Public Treasurer's Investment Fund (the "PTIF"), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, Utah Code Annotated, 1953, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses - net of administration fees of the PTIF, are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares. For the years ended June 30, 2011 and 2010, the District had funds of \$24,625,702 and \$18,502,969, respectively, with the PTIF. The entire balance had a maturity of less than one year. The PTIF pool has not been rated.

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by investing mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The District's investment policy specifies that all investments will be sufficiently liquid to enable the District to meet all operating requirements which might be reasonably anticipated.

Metropolitan Water District of Salt Lake & Sandy

Notes to Financial Statements (continued)

Note 3 - Net assets Net assets are restricted by provisions of the bond resolutions adopted by the District (Note 6) as follows:

Amounts restricted for costs of construction projects - The 2002 Bond Resolution requires that a reserve be established or bond proceeds restricted to the related construction projects. Any excess funds shall be applied to the payment of principal and interest on the bonds when due.

Amounts restricted for revenue bond debt service - On April 29, 2002, the District adopted a master resolution providing for the issuance of water revenue bonds ("2002 Bond Resolution") which requires that a debt service account ("Bond Fund") be maintained, at minimum, that is equal to the principal and interest installment due within the fiscal year on the outstanding revenue bonds.

Amounts restricted for renewal and replacement - The 2002 Bond Resolution requires that an initial renewal and replacement reserve of \$650,000 be established but the reserve may be increased or decreased from time to time by a supplemental resolution. In the event a deficiency arises in the amounts restricted for the Bond Fund, monies in the renewal and replacement reserve shall be transferred to satisfy the deficiency.

Use of restricted assets - When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

Restricted net assets are as follows:

June 30	2011	2010
Future debt service	\$ 8,836,099	\$ 5,915,965
Operating and maintenance	3,417,789	3,370,949
Renewal and replacement	650,000	650,000
150th South pipeline	32,342	31,965
Jordan Valley WTP O&M agreement	20,000	20,000
Jordan aqueduct repayment contract	39,425	38,965
Total restricted net assets	\$ 12,995,655	\$ 10,027,844

Unrestricted net assets are as follows:

June 30	2011	2010
Committed		
Self insurance contingency	\$ 2,000,000	\$ 2,000,000
Interest rate stabilization	2,629,511	1,597,314
Uncommitted	56,072,612	42,719,961
Total unrestricted net assets	\$ 60,702,123	\$ 46,317,275

Metropolitan Water District of Salt Lake & Sandy

Notes to Financial Statements (continued)

Note 4 - Capital assets Capital asset activity for the fiscal year ended June 30, 2011 is as follows:

	Beginning Balance	Additions/ Transfers In	Disposals/ Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Water sources	\$ 25,660,970	\$ 2,971,200	\$ -	\$ 28,632,170
Land and right of way	20,147,384	-	-	20,147,384
Construction in progress	3,740,190	1,634,762	(56,610)	5,318,342
Total capital assets, not being depreciated	49,548,544	4,605,962	(56,610)	54,097,896
Capital assets, being depreciated:				
Buildings and improvements	234,698,583	5,577	(2,960,317)	231,743,843
Machinery and equipment	24,535,523	-	(8,061,437)	16,474,086
Transportation equipment	847,318	16,123	(8,388)	855,053
Furniture and fixtures	211,306	-	(50,416)	160,890
Aqueduct and appurtenances	111,415,440	51,034	(1,195,585)	110,270,889
Total capital assets, being depreciated	371,708,170	72,734	(12,276,143)	359,504,761
Less accumulated depreciation/amortization for:				
Buildings and improvements	(37,391,709)	(6,487,503)	2,852,362	(41,026,850)
Machinery and equipment	(16,890,240)	(1,108,103)	7,329,028	(10,669,315)
Transportation equipment	(791,059)	(63,001)	53,650	(800,410)
Furniture and fixtures	(184,286)	(7,146)	50,797	(140,635)
Aqueduct and appurtenances	(18,035,979)	(3,224,711)	1,255,989	(20,004,701)
Total accumulated depreciation/amortization	(73,293,273)	(10,890,464)	11,541,826	(72,641,911)
Total capital assets being depreciated, net	298,414,897	(10,817,730)	(734,317)	286,862,850
Total capital assets, net	\$ 347,963,441	\$ (6,211,768)	\$ (790,927)	\$ 340,960,746

Metropolitan Water District of Salt Lake & Sandy

Notes to Financial Statements (continued)

Note 4 - Capital assets Capital asset activity for the fiscal year ended June 30, 2010 is as follows:

(continued)	Beginning Balance	Additions/ Transfers In	Disposals/ Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Water sources	\$ 22,689,770	\$ 2,971,200	\$ -	\$ 25,660,970
Land and right of way	20,147,384	-	-	20,147,384
Construction in progress	3,261,723	2,734,525	(2,256,058)	3,740,190
Total capital assets, not being depreciated	46,098,877	5,705,725	(2,256,058)	49,548,544
Capital assets, being depreciated:				
Buildings and improvements	233,089,927	1,608,656	-	234,698,583
Machinery and equipment	24,129,519	406,004	-	24,535,523
Transportation equipment	847,318	-	-	847,318
Furniture and fixtures	211,306	-	-	211,306
Aqueduct and appurtenances	111,174,042	241,398	-	111,415,440
Total capital assets, being depreciated	369,452,112	2,256,058	-	371,708,170
Less accumulated depreciation/amortization for:				
Buildings and improvements	(31,154,401)	(6,237,308)	-	(37,391,709)
Machinery and equipment	(15,725,405)	(1,164,835)	-	(16,890,240)
Transportation equipment	(782,541)	(8,518)	-	(791,059)
Furniture and fixtures	(101,085)	(83,201)	-	(184,286)
Aqueduct and appurtenances	(14,504,014)	(3,531,965)	-	(18,035,979)
Total accumulated depreciation/amortization	(62,267,446)	(11,025,827)	-	(73,293,273)
Total capital assets being depreciated, net	307,184,666	(8,769,769)	-	298,414,897
Total capital assets, net	\$ 353,283,543	\$ (3,064,044)	\$ (2,256,058)	\$ 347,963,441

Note 5 - Provo River Water Users Association

The Provo River Water Users Association (the "Association") is a water resources agency incorporated under Utah law with 100,000 shares of no-par value, assessable capital stock, all of which were outstanding at June 30, 2011 and 2010. Each share carries a pro rata right to the use of all water made available by the Association annually up to a limit of one acre foot per share of stock. The District holds 61,700 (61.7%) of the Association's shares of stock, with the remaining 38.3% being held by 19 stockholders that are made up of individuals, for-profit businesses, not-for-profit companies, and government agencies, of which 1 stockholder owns a greater than 10% interest. In accordance with governmental accounting standards, the District's investment has been accounted for using the equity method. The carrying value of the District's investment at June 30, 2011 and 2010 approximated the District's underlying equity in the net assets of the Association.

Metropolitan Water District of Salt Lake & Sandy

Notes to Financial Statements (continued)

Note 5 - Provo River Water Users Association (continued) The accounts of the Association are included in the June 30 financial statements of the District as of its most recent audited financial statements, October 31, 2010 and 2009. The District's investment in the Association as of October 31, 2010 and 2009 is summarized as follows:

October 31	2010	2009
District's share of Deer Creek Division:		
Original contract	\$ 7,033,800	\$ 7,033,800
Excess costs	7,654,208	7,654,208
Total share of Deer Creek Division	14,688,008	14,688,008
District's interest in the Association's retained earnings	16,342,061	2,402,128
District's total share in the Association's retained earnings	31,030,069	17,090,136
Additional contributions		
Contribution related to the Association's enclosure project	1,449,818	-
Contribution for Deer Creek Project	128,645	-
Total	\$ 32,608,532	\$ 17,090,136

Summary financial information for the Association as of, and for the fiscal years ended October 31, 2010 and 2009, is presented as follows:

October 31	2010	2009
Cash and investments	\$ 11,950,313	\$ 1,357,243
Other assets, principally water rights	65,590,589	38,122,540
Total assets	77,540,902	39,479,783
Total liabilities	27,249,057	11,693,740
Total equity	50,291,845	27,786,043
Total liabilities and equity	77,540,902	39,479,783
Total revenues	25,367,147	3,744,763
Total expenses	(3,184,645)	(3,205,872)
Net income	\$ 22,182,502	\$ 538,891

The Association's complete financial report can be obtained by contacting their offices directly, located at 285 West 1100 North, Pleasant Grove, UT 84062.

Metropolitan Water District of Salt Lake & Sandy

Notes to Financial Statements (continued)

Note 6 - Long-term debt The District's long-term debt consisted of the following:

June 30	2011	2010
2002B Series water revenue refunding bonds, interest at 3.50% to 5.25%, maturing in annual installments through 2024.	\$ 14,805,000	\$ 15,635,000
2003A Series water revenue bonds, interest at 2.50% to 5.25%, maturing in annual installments through 2020.	5,140,000	5,595,000
2004 Series water revenue bonds interest at 2.25% to 5%, maturing in annual installments through 2024.	32,575,000	34,390,000
2005A Series water revenue bonds, interest at 3.00% to 5.00%, maturing in annual installments through 2025.	41,525,000	42,725,000
B-3 Series program revenue bonds, interest at 3.64% to 4.23%, maturing in annual installments through 2036.	-	75,000,000
B-5 Series water revenue bonds, interest at weekly variable rate (0.37% at June 30, 2010), maturing in annual installments through 2032.	-	28,700,000
2009A Series water revenue refunding bonds, interest at 4.23%, maturing in 2031 with interest only payments through 2024.	60,320,000	60,320,000
2011A Series variable rate water revenue refunding bonds, interest at monthly variable rate (0.99% at June 30, 2011), maturing in annual installments through 2036.	94,890,000	-
Total debt	249,255,000	262,365,000
Less bonds payable, current	(4,795,000)	(4,500,000)
Bonds payable, net of current portion	\$ 244,460,000	\$ 257,865,000

Metropolitan Water District of Salt Lake & Sandy

Notes to Financial Statements (continued)

Note 6 - Long-term debt (continued) As of June 30, 2011, aggregate debt service requirements of the District's debt (fixed-rate and variable-rate) and net receipts/payments on associated hedging derivative instruments are presented below. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary. The hedging derivative instruments column reflects only net receipts/payments on derivative instruments that qualify for hedge accounting.

Fiscal year ending June 30	Principal	Interest	Hedging derivatives, net	Total
2012	\$ 4,795,000	\$ 8,419,294	\$ 2,101,645	\$ 15,315,939
2013	5,695,000	8,228,827	2,101,645	16,025,472
2014	6,040,000	7,990,481	2,101,645	16,132,126
2015	6,335,000	7,709,298	2,101,645	16,145,943
2016	6,745,000	7,395,520	2,101,645	16,242,165
2017-2021	39,540,000	31,617,829	10,508,225	81,666,054
2022-2026	54,175,000	21,403,578	10,422,189	86,000,767
2027-2031	75,340,000	9,584,487	284,917	85,209,404
2032-2036	44,500,000	1,101,653	-	45,601,653
2037-2041	6,090,000	-	-	6,090,000
Total	\$ 249,255,000	\$ 103,450,967	\$ 31,723,556	\$ 384,429,523

Changes to the District's long-term debt are as follows:

	2011	2010
Beginning balance	\$ 262,365,000	\$ 266,010,000
Bonds issued	94,890,000	60,320,000
Bond retirements and principal payments	(108,000,000)	(63,965,000)
Ending balance	\$ 249,255,000	\$ 262,365,000
Due within one year	\$ (4,795,000)	\$ (4,500,000)

Credit risk - Effective on May 11, 2009, the District replaced JP Morgan Chase Bank, National Association with the New York Branch of Landesbank Hessen-Thuringen Girozentrale ("Heleba") as the liquidity provider for all outstanding variable rate debt (Series B-3 and B-5). The District terminated and paid in full the agreement on May 9, 2011.

The following are selected provisions of the 2002 Bond Resolution:

Optional redemption and redemption prices - The series 2002B bonds maturing on or after July 1, 2013, are subject to redemption prior to maturity at the option of the District on or after July 1, 2012, in whole or in part at any time, from such maturities or parts thereof as shall be selected by the District, at a redemption price of 100% of the principle amount of the Series 2002B bonds or portions thereof to be redeemed, plus accrued interest to the redemption date.

Metropolitan Water District of Salt Lake & Sandy

Notes to Financial Statements (continued)

Note 6 - Long-term debt (continued) **Pledge of the Bond Resolutions** - The 2002 Bond Resolution provides that the Bonds shall be special obligations of the District payable solely from and secured by: (i) the proceeds of sale of the Bonds; (ii) the revenues, and (iii) all funds (other than the operation and maintenance fund and the rebate fund), including the investments, if any, thereof, subject to any required rebate of all or a portion of the earnings on such investments to the United States of America.

Funds required by the Bond Resolutions - The 2002 Bond Resolution requires that certain "funds" be established to account for the District's receipts and disbursements. Such "funds" are accounts within the District's records and are not separate funds or groups of self-balancing accounts. The amounts held in these funds are to be used for the purposes stipulated in the 2002 Bond Resolution.

Current year bond refunding - During fiscal year 2011, the District issued \$94,890,000 of bonds, series 2011A with a variable interest rate, to refund \$74,800,000 of outstanding bonds; series B-3, and \$28,700,000 of outstanding bonds, series B-5. The series 2011A matures in 2036. GASB requires that the difference between the reacquisition price and the net carrying amount of the old debt will be deferred and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or life of the new debt, whichever is shorter. The difference between the reacquisition price and the net carrying amount of the old debt is comprised of unamortized issuance costs and unamortized termination costs of the refunded bonds, which totaled \$2,662,680 and \$1,764,723 at the date of refunding, respectively. The refunding was done in order to reduce total debt service payments in the future and resulted in an estimated economic gain of \$3,868,013.

Prior year bond refunding - During fiscal year 2010, the District issued \$60,320,000 of bonds, series 2009A with a fixed interest rate of 4.23%, to refund \$60,200,000 of outstanding revenue bonds; series B-3. The series 2009A matures in 2031. An initial debt service reserve was set up in the amount of \$6,032,000. GASB requires that the difference between the reacquisition price and the net carrying amount of the old debt will be deferred and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or life of the new debt, whichever is shorter. The difference between the reacquisition price and the net carrying amount of the old debt is comprised of unamortized issuance costs and swap termination costs of the refunded bonds, which totaled \$434,857 and \$3,944,000 at the date of refunding, respectively. The refunding was done in order to reduce total debt service payments in the future and resulted in an estimated economic gain of \$4,092,662.

Note 7 - Derivative instruments - The District's long-term debt strategy is to maintain a mixture of fixed and variable-rate debt to take advantage of the two markets in order to effectively manage its debt, and to reduce its exposure to interest rate risk.

The District is a party to contracts for various derivative instruments, as discussed below. All derivative instruments of the District are classified as debt. At June 30, 2011, the District has the following derivative instruments outstanding:

	Notional Amount	Fair Value	Changes in Fair Value	
			Classification	Amount
Pay-fixed interest rate swap	\$ 15,300,000	\$ (2,620,307)	Deferred Outflow	\$ 541,764
Pay-fixed interest rate swap	43,500,000	(6,478,073)	Deferred Outflow	1,513,154
Total	\$ 58,800,000	\$ (9,098,380)		\$ 2,054,918

Metropolitan Water District of Salt Lake & Sandy

Notes to Financial Statements (continued)

Note 7 - Derivative instruments (continued) At June 30, 2010, the District has the following derivative instruments outstanding:

	Notional Amount	Fair Value	Changes in Fair Value	
			Classification	Amount
Pay-fixed interest rate swap	\$ 15,300,000	\$ (3,162,071)	Deferred Outflow	\$ (749,725)
Pay-fixed interest rate swap	43,500,000	(7,991,227)	Deferred Outflow	(1,744,999)
Total	\$ 58,800,000	\$ (11,153,298)		\$ (2,494,724)

On May 6, 2011, the District novated their two interest rate swap agreements with Deutsche Bank. The novated swaps carry similar terms and are pay-fixed, receive-variable interest rate swaps on a portion of their 2011A revenue refunding bonds. The notional amount of the swaps were \$15,300,000 and \$43,500,000, respectively. The notional amount of the swaps and the principal amounts of the debt will start to decline in fiscal year 2025. The swaps are scheduled to terminate August 23, 2027. Under the terms of the swaps, the District pays a rate of 3.865% and 3.640%, respectively, and receives a variable rate equivalent to 67% of the 1-month USD-LIBOR-BBA (0.12% at June 30, 2011).

Fair value - At June 30, 2011 and 2010, the swaps had a combined negative fair value of \$9,098,380 and \$11,153,298, respectively, because interest rates have declined since the swaps were executed. The negative fair value may be mitigated by reduction in total interest payments required on the bonds, creating a lower synthetic interest rate. Because interest on the variable rate bonds adjusts to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was calculated under the terms and conditions of the agreement. The swap provider is the calculation agent.

Credit risk - Credit risk is the risk that the counterparty will not fulfill its obligations to the District. Should a swap be terminated when there is a positive value to the District, the District has the risk the counterparty will not be able to make the termination payment. Also, during the life of the swap, the District runs the risk that the counterparty will not make the monthly swap payments and thus be exposed to variable interest rates. This risk has been mitigated by the highly rated counterparty in these transactions. At June 30, 2011, the swap counterparty was rated Aa3 by Moody's Investor Services, A+ by S&P, and AA- by Fitch. In managing its interest rate swaps, the District adheres to the rules and regulations set forth by the Utah State Money Management Council.

Metropolitan Water District of Salt Lake & Sandy

Notes to Financial Statements (continued)

Note 7 - Derivative instruments (continued) **Basis risk** - The District's variable rate bondholders are paid the bond rate, which rate is closely based upon the tax-exempt interest rate of the Securities Industry and Financial Markets Association, which replaced the Bond Market Association Index, plus a spread, if any, based upon actual remarketing rates. Interest rate swaps can be structured utilizing a number of indices, which result in varying synthetic fixed rates. The basis risk is created when the interest paid by the District to the bondholder differs from the interest rate received from the counterparty.

Termination risk - The District or the counterparty may terminate the swap if either party fails to perform under the terms of the contract. The District may terminate the swap if the counterparty's credit quality rating falls below BBB-. If the swap is terminated, the variable-rate bond will no longer carry a synthetic interest rate. Also, if at the time of termination, the swaps had a negative fair value, the District would be liable to the counterparty for an amount equal to the swap's fair value.

Rollover risk - The District is exposed to rollover risk with its interest rate derivatives. Should a derivative terminate before the underlying bonds mature, there could be a time when the District is exposed to market volatility. Upon the termination of current interest rate derivatives, the District could be exposed to different market conditions for hedging its true variable rate bonds.

Note 8 - Retirement plans **Plan description** - The District contributes to the Local Governmental Noncontributory Retirement System, which is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Utah Retirement System ("the System"). The System provides retirement benefits, annual cost of living allowances, death benefits, and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State legislature.

The System was established and is governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (the "Office") for the administration of the System and plans. Chapter 49 places the System, the Office, and related plans and programs under the direction of the Utah State Retirement Board (the "Board") whose members are appointed by the Governor.

The System issues a publicly available financial report that includes financial statements and required supplementary information for the System and Plans. A copy of the report may be obtained by writing to the Utah Retirement System, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

Funding policy - The District was required to contribute 13.37% and 11.66% for the fiscal years ended June 30, 2011 and 2010, respectively of annual covered salary to the Local Government Noncontributory Retirement Systems. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The District's contributions to the Local Government Noncontributory Retirement System for the years ended June 30, 2011 and 2010 were \$464,291 and \$411,155, respectively. The contributions were equal to the required contributions for each year.

Loans or notes between the District and the Retirement System - No securities, loans, or notes of the District are included in the assets of the System.

Metropolitan Water District of Salt Lake & Sandy

Notes to Financial Statements (continued)

Note 9 - Deferred compensation plans - **401(k) plan** - The District offers their full-time permanent employees participation in a defined contribution plan created in accordance with Internal Revenue Code Section 401(k) (the "Plan"). The Plan is administered by the System. Employees may contribute from 1% to 100% of their annual salary up to a maximum of \$16,500 (\$22,000 for employees aged 50 or older) for 2011 and 2010, respectively. Through May 1, 1998, the District contributed 1.18% of the covered payroll of employees who also participate in the noncontributory retirement plan. After May 1, 1998, the District contributed 50% of the first 6% contributed by the employee, up to a maximum of 3% of the covered payroll of employees who also participate in the noncontributory retirement plan. During 2011 and 2010, all participants in the Plan also participated in the noncontributory defined benefit plan of the System. The District is not legally obligated to contribute and any contribution made is at the discretion of the Board of Trustees. All employee and District contributions are fully vested at all times.

Contributions made by employees to the Plan were \$144,056 and \$168,889 for the fiscal years ended June 30, 2011 and 2010, respectively. Contributions made by the District to the Plan were \$89,202 and \$84,526, respectively.

457 and Roth IRA plans - The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and Roth IRA ("the Plans"). The Plans, administered by the System and available to all District full-time permanent employees, permits an employee to defer a portion of their salary until future years. The deferred compensation is not available to employees or their beneficiaries until termination, retirement, death, or unforeseeable emergency.

The employer contribution to the Plans was \$0 for both years. Employee contributions for the years ended June 30, 2011 and 2010 for the 457 Plan were \$28,116 and \$27,759 and for the Roth IRA plan the contributions were \$27,961 and \$25,748, respectively.

The 401(k), 457 and the Roth IRA plans are included in a publicly available financial report that includes financial statements and required supplementary information. A copy of the System's report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

Note 10 - Commitments and contingent liabilities - The District is contingently liable for an amount equal to 35% of its direct liability on the original contract with the Association for costs incurred on the Deer Creek Division of the Provo River Project if other subscribers default, and shares remain unsold. The maximum contingent liability amounted to approximately \$665,000 at June 30, 2011.

Metropolitan Water District of Salt Lake & Sandy

Notes to Financial Statements (continued)

Note 10 - Commitments and contingent liabilities (continued) - The District entered into a separate agreement with Sandy City for the District to purchase water rights in the Ontario Drain Tunnel. The rights are owned by the District and were purchased using a portion of the Series 2005 water revenue bond proceeds. As part of the agreement, Sandy City will pay special assessments to cover the portion of the bond payments corresponding to the purchase. The expected flow of cash from these assessments is as follows:

June 30	Assessment Payments
2012	\$ 958,607
2013	982,859
2014	988,040
2015	1,006,729
2016	1,014,554
2017-2021	5,095,695
2022-2026	5,148,872
2027-2031	5,423,175
Total	\$ 20,618,531

The District has an agreement with Salt Lake City and Sandy City to pay special assessments related to capital improvements for the City's respective share of capacity in the Point of the Mountain Water Treatment Plant, Point of the Mountain Aqueduct, and improvements to Little Cottonwood Water Treatment Plant. The expected flow of cash from these assessments is as follows:

June 30	Assessment Payments
2012	\$ 11,232,214
2013	11,232,214
2014	11,232,214
2015	11,232,214
2016	11,232,214
2017-2021	56,161,070
2022-2026	56,161,070
2027-2031	56,161,070
2032-2036	39,312,749
Total	\$ 263,957,029

Major customers - The District has 2 major customers that make up 98.07% and 91.96% of the District's water sales for 2011 and 2010, respectively. For the years ended June 30, 2011 and 2010, the percentages of water sales are as follows:

	2011	2010
Salt Lake City	74.19%	69.12%
Sandy City	23.88%	22.84%
Total	98.07%	91.96%

Metropolitan Water District of Salt Lake & Sandy

Notes to Financial Statements (continued)

Note 11 - Prior period adjustment During 2011, the District determined that certain capital assets that had been previously transferred were not properly recorded. As a result, beginning net assets, and capital assets have been adjusted to restate the District's position for the year ended June 30, 2010. The effect of the adjustment is shown below.

	Capital assets, net	Invested in capital assets, net of debt	Beginning net assets
June 30, 2010, as reported	\$ 350,845,523	\$ 96,379,194	\$ 153,353,364
Adjustment to capital assets	(2,882,082)	(2,882,082)	(2,882,082)
June 30, 2010, as restated	\$ 347,963,441	\$ 93,497,112	\$ 150,471,282

Note 12 - Subsequent event The District evaluated all events or transactions that occurred after June 30, 2011 through November 21, 2011, the date the financial statements were available to be issued. During this period, the District did not have any material recognizable subsequent events.



**INDEPENDENT AUDITOR'S REPORT
ON STATE OF UTAH
LEGAL COMPLIANCE**

Jensen & Keddington, P.C.

Certified Public Accountants

Jeffery B. Jensen, CPA
Gary K. Keddington, CPA
Brent E. Christensen, CPA
Jeffrey B. Hill, CPA
Gregory B. White, CPA

Board of Trustees
Metropolitan Water District of Salt Lake & Sandy
Cottonwood Heights, Utah

We have audited Metropolitan Water District of Salt Lake & Sandy's (the District) compliance with general and major state program compliance requirements described in the *State of Utah Legal Compliance Guide* for the year ended June 30, 2011. The general compliance requirements applicable to the District are identified as follows:

Public Debt	Special Service and Local District
Cash Management	Other General Compliance Issues
Purchasing Requirements	Utah Retirement Systems
Budgetary Compliance	Fund Balance Limitation
Truth in Taxation and Property Tax Limitations	

The District did not receive any major or nonmajor State grants during the year ended June 30, 2011.

Compliance with the requirements referred to above is the responsibility of the District's management. 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; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the State of Utah Legal Compliance Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on the major assistance programs or general compliance requirements identified above. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District, complied, in all material respects, with the general compliance requirements identified above and the compliance requirements that are applicable to each of its major state programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with the State of Utah Legal Compliance Audit Guide and which are described in the accompanying *Schedule of Findings* as item 2011-1.

Management's response to the finding identified in our audit is described in the accompanying *Schedule of Findings*. We did not audit management's response, and accordingly, we express no opinion on it.

Our audit does not provide a legal determination on the District's compliance with these requirements.

This report is intended solely for the information and use of management of the District and is not intended to be and should not be used by anyone other than these parties. However, the report is a matter of public record and its distribution is not limited.

Jensen & Keddington

November 1, 2011

Metropolitan Water District of Salt Lake & Sandy

Schedule of Findings - Compliance - State of Utah

2011-1 Treasurer Fidelity Bond

Finding:

The State of Utah Legal Compliance Guide states: "The public treasurer shall secure a fidelity bond, based on the previous year's budgeted gross revenues". During our audit, we noted that the District is under-bonded for the 2011 fiscal year based off of fiscal year 2010's budgeted gross revenues.

Recommendation:

We recommend that the District ensure it is adequately bonded each year by calculating the minimum bonding requirements.

Management Response:

As part of the District's internal control procedures, a review of policies and procedures is performed. During its annual review in June 2011, the District became aware that the treasurer's fidelity bond should have been established at approximately \$1,080,000 instead of the then existing bond amount of \$1,000,000 (see Utah Money Management Council rule R628-4 Bonding for Public Treasurers). Upon identification and as part of the annual renewal of insurance, the bond was upgraded to \$1,100,000 with an effective date of August 8, 2011.



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

Jensen & Keddington, P.C.

Certified Public Accountants

Jeffery B. Jensen, CPA
Gary K. Keddington, CPA
Brent E. Christensen, CPA
Jeffrey B. Hill, CPA
Gregory B. White, CPA

Board of Trustees
Metropolitan Water District of Salt Lake & Sandy
Cottonwood Heights, Utah

We have audited the basic financial statements of Metropolitan Water District of Salt Lake & Sandy (the District) as of and for the year ended June 30, 2010 and 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 1, 2011. 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 opinions 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 management, the Board of Trustees, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Jensen & Keddington

November 1, 2011

