

HILDALE/COLORADO CITY WATER DEPARTMENTS
(UTILITY SYSTEMS MANAGEMENT, OPERATIONS & MAINTENANCE AGREEMENT)

FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

Executive Director and Members of the Board of
Hildale/Colorado City Utility Systems

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the major fund of the Water Departments of Hildale, Utah and Colorado City, Arizona (the Water Departments) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Water Departments' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major fund of the Water Departments, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Water Departments' financial statements for the year ended June 30, 2015, and our report dated April 12, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water Departments' basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2017, on our consideration of the Water Departments' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Departments' internal control over financial reporting and compliance.



HintonBurdick, PLLC
St. George, Utah
March 13, 2017

HILDALE/COLORADO CITY WATER DEPARTMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

As management of the Water Departments, we offer readers of the financial statements this narrative overview and analysis of the financial activities of the Water Departments for the fiscal year ended June 30, 2016. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets exceed total liabilities (net position) by \$1,282,643 at the close of the fiscal year.
- Total net position increased by \$104,508.
- Operating revenues and expenses were \$1,072,399 and \$1,043,372, respectively, resulting in an operating income of \$29,027 for the fiscal year.
- At the end of the fiscal year unrestricted net position was \$332,645.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements of the Water Departments' (a business-type activity) consist of the following:

Statement of Net Position – Presents information on all of the Water Departments' assets and liabilities, with the difference reported as "total net position." The total net position, when viewed over time, tracks the Water Departments' financial position.

Statement of Revenues, Expense, and Changes in Net Position - Presents information regarding the change in the Departments' net position during the year. The Water Departments use the accrual basis of accounting in which revenues and expenses are recognized when earned and incurred. Thus, revenues and expenses are reported in these statements for items that will affect future cash flows.

Statement of Cash Flows – Presents net cash flows for operating activities, investing activities, and capital and related financing activities. It also includes the net cash increase for the period, cash at the beginning of the period and cash at the end of the period.

FINANCIAL ANALYSIS

Condensed financial information derived from the basic financial statements is presented below followed by a brief narrative on selected items.

HILDALE/COLORADO CITY WATER DEPARTMENTS
Statement of Net Position (Condensed)

	<u>6/30/2016</u>	<u>6/30/2015</u>
Current assets	\$ 422,187	\$ 234,103
Noncurrent assets	1,467,529	1,186,696
Total assets	<u>1,889,716</u>	<u>1,420,799</u>
Current liabilities	288,185	238,003
Long-term liabilities	318,888	4,661
Total liabilities	<u>607,073</u>	<u>242,664</u>
 Total net position	 <u>\$ 1,282,643</u>	 <u>\$ 1,178,135</u>

Statement of Revenues, Expenses and Changes in Net Position (Condensed)

	<u>6/30/2016</u>	<u>6/30/2015</u>
Total operating revenues	\$ 1,072,399	\$ 966,416
Total operating expenses	1,043,372	1,056,645
Operating income (loss)	29,027	(90,229)
Nonoperating revenues (expenses)	3,851	40,873
Capital contributions	71,630	171,458
Change in net position	<u>\$ 104,508</u>	<u>\$ 122,102</u>

As shown above, operating expenses for the year were \$1,043,372 and operating revenues were \$1,072,399. Operating loss as percentage of operating revenues is 2.7%.

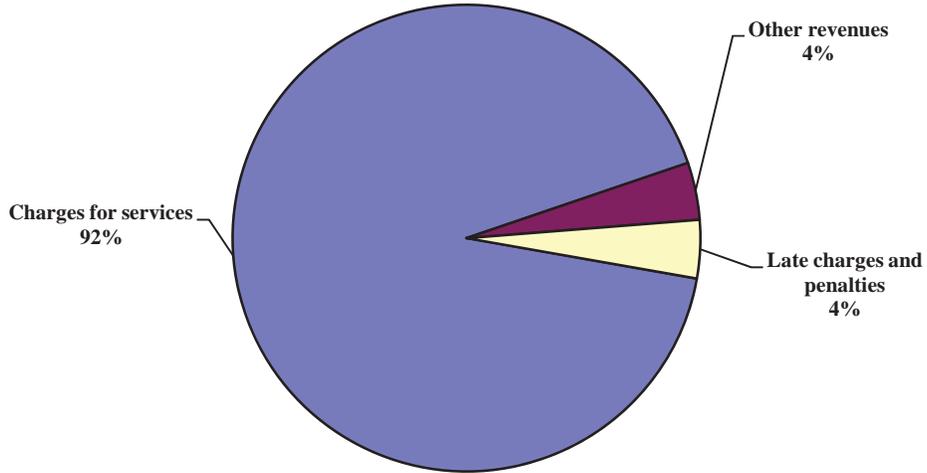
The Water Departments provide water services to customers. The Departments' net cost (total cost less revenues generated by the activities) is presented in the statement of revenues, expenses and changes in net position. For the year ended June 30, 2016, net position increased by \$104,508.

A comparison of the operating revenues and operating expenses for the current and prior year is presented on the following two pages.

HILDALE/COLORADO CITY WATER DEPARTMENTS' REVENUE BY SOURCE (Combined)
Years ended June 30, 2016 and 2015

	<u>6/30/2016</u>	<u>6/30/2015</u>
OPERATING REVENUES:		
Charges for services	\$ 986,568	\$ 902,713
Other revenues	42,524	34,962
Late charges and penalties	<u>43,307</u>	<u>28,741</u>
 Total revenues	 <u><u>\$ 1,072,399</u></u>	 <u><u>\$ 966,416</u></u>

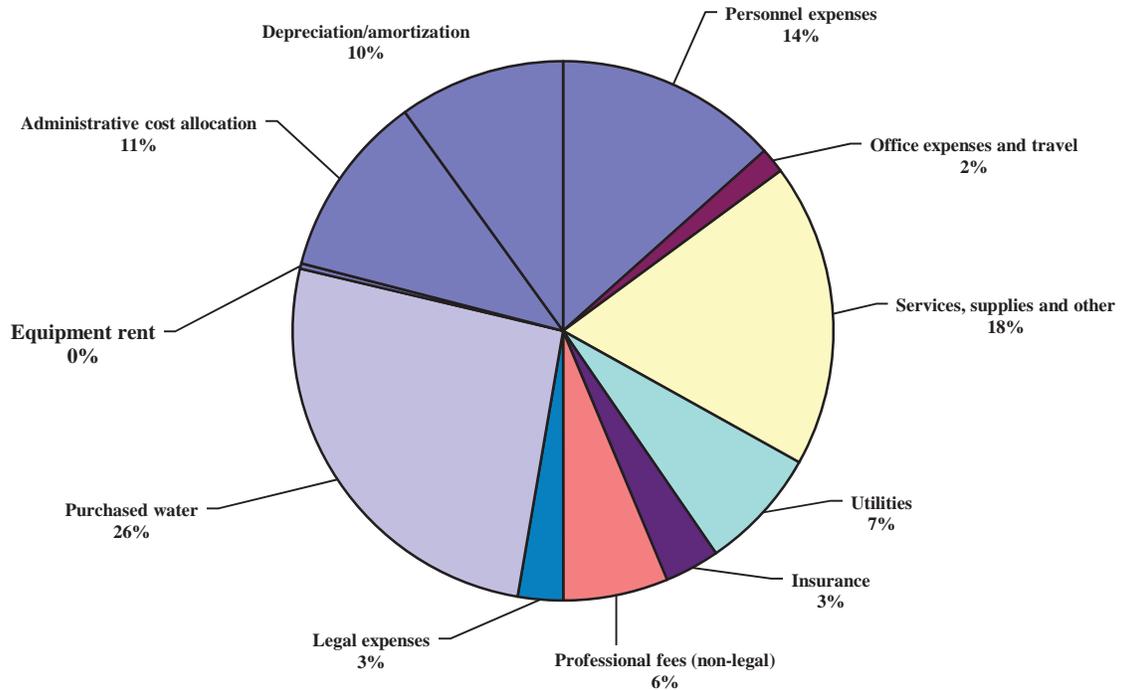
Revenues by Source - Current Year



HILDALE/COLORADO CITY WATER DEPARTMENTS' OPERATING EXPENSES (Combined)
Years ended June 30, 2016 and 2015

	<u>6/30/2016</u>	<u>6/30/2015</u>
OPERATING EXPENSES:		
Personnel expenses	\$ 139,415	\$ 170,906
Office expenses and travel	15,876	25,262
Services, supplies and other	190,142	108,141
Utilities	76,412	74,024
Insurance	34,277	39,649
Professional fees (non-legal)	65,453	93,106
Legal expenses	28,186	88,660
Purchased water	271,459	360,693
Equipment rent	3,364	-
Administrative cost allocation	115,000	-
Depreciation/amortization	<u>103,788</u>	<u>96,204</u>
 Total operating expenses	 <u><u>\$ 1,043,372</u></u>	 <u><u>\$ 1,056,645</u></u>

Operating Expenses - Current Year



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the Water Departments are those assets that are used in performance of the Water Departments' functions including vehicles, equipment, buildings and water system. At the end of fiscal year 2016, net capital assets of the Water Departments totaled \$1,295,598.

Debt

At fiscal year-end the Water Departments had \$345,600 in long-term debt, which relates to a loan with the Gas Departments. During the current fiscal year the Water Departments' debt increased by \$345,600. See the notes to the financial statements for details.

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the Departments budget for fiscal year 2016/2017, the board and management were cautious as to the growth of revenues and expenditures. Overall, operating revenues and expenses were budgeted so as to contain costs at approximately the same level as fiscal year 2015/2016.

CONTACTING THE DEPARTMENTS' FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Water Departments' finances for all those with an interest in the government's finances and to show the Water Departments' accountability for the resources it receives. If you have questions about this report or need additional financial information, contact Richard Barlow, P.O. Box 840490, Hildale, Utah 84784.

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BASIC FINANCIAL STATEMENTS

HILDALE/COLORADO CITY WATER DEPARTMENTS
Statement of Net Position
Enterprise Fund
June 30, 2016
(With Comparative Totals for June 30, 2015)

	6/30/2016	6/30/2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 236,336	\$ 69,384
Receivables	185,851	164,719
Total current assets	422,187	234,103
Non current assets:		
Restricted cash - deposits	171,931	165,825
Property and equipment	2,558,792	2,180,277
Accumulated depreciation	(1,263,194)	(1,159,406)
Total noncurrent assets	1,467,529	1,186,696
Total assets	1,889,716	1,420,799
Liabilities		
Current liabilities:		
Accounts payable	82,717	69,071
Customer deposits	171,931	165,825
Compensated absences	2,730	3,107
Notes payable - current portion	30,807	-
Total current liabilities	288,185	238,003
Non current liabilities:		
Compensated absences	4,095	4,661
Notes payable-net of current portion	314,793	-
Total non current liabilities	318,888	4,661
Total liabilities	607,073	242,664
Net position		
Net investment in capital assets	949,998	1,020,871
Unrestricted	332,645	157,264
Total net position	\$ 1,282,643	\$ 1,178,135

The accompanying notes are an integral part of the financial statements.

HILDALE/COLORADO CITY WATER DEPARTMENTS
Statement of Revenues, Expenses and Changes in Net Position
Enterprise Fund
For the Year Ended June 30, 2016
(With Comparative Totals for June 30, 2015)

	6/30/2016	6/30/2015
Operating revenues		
Charges for services	\$ 986,568	\$ 902,713
Other revenues	42,524	34,962
Late charges and penalties	43,307	28,741
	1,072,399	966,416
Operating expenses		
Personnel expenses	139,415	170,906
Office expenses and travel	15,876	25,262
Services, supplies and other	190,142	108,141
Utilities	76,412	74,024
Insurance	34,277	39,649
Professional fees (non-legal)	65,453	93,106
Legal expenses	28,186	88,660
Purchased water	271,459	360,693
Equipment rent	3,364	-
Administrative cost allocation	115,000	-
Depreciation/amortization	103,788	96,204
	1,043,372	1,056,645
Operating income (loss)	29,027	(90,229)
Nonoperating revenues (expenses)		
Interest income	2,157	873
Intergovernmental	-	40,000
Impact fees	110	-
Other revenues	1,584	-
	3,851	40,873
Total nonoperating revenues (expense)		
Income (loss) before capital contributions	32,878	(49,356)
Capital contributions	71,630	171,458
Change in net position	104,508	122,102
Total net position, beginning of year	1,178,135	1,056,033
Total net position, end of year	\$ 1,282,643	\$ 1,178,135

The accompanying notes are an integral part of the financial statements.

HILDALE/COLORADO CITY WATER DEPARTMENTS
Statement of Cash Flows
Enterprise Fund
For the Year Ended June 30, 2016
(With Comparative Totals for June 30, 2015)

	6/30/2016	6/30/2015
Cash flows from operating activities		
Receipts from customers, service fees	\$ 965,436	\$ 884,015
Receipts from customers, other	91,937	94,955
Payments to suppliers and service providers	(926,881)	(967,231)
Cash flows from operating activities	130,492	11,739
Cash flows from capital and related financing activities		
Proceeds from long-term debt	345,600	-
Capital grants	-	40,000
Impact fees	110	-
Other revenues	1,584	-
Capital contributions	71,630	171,458
Acquisition of capital assets	(378,515)	(225,574)
Principal paid on long-term debt	-	(49,497)
Cash flows from capital and related financing activities	40,409	(63,613)
Cash flows from investing activities		
Interest received	2,157	873
Net change in cash and cash equivalents	173,058	(51,001)
Balances - beginning of the year, including restricted cash	235,209	286,210
Balances - end of the year, including restricted cash	\$ 408,267	\$ 235,209
Reconciliation of operating income to net cash flows from operating activities:		
Net operating income (loss)	\$ 29,027	\$ (90,229)
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:		
Depreciation/amortization	103,788	96,204
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	(21,132)	(18,698)
Increase/(decrease) in accounts payable	13,646	(6,956)
Increase/(decrease) in accrued liabilities	(943)	166
Increase/(decrease) in customer deposits	6,106	31,252
Cash flows from operating activities	\$ 130,492	\$ 11,739

The accompanying notes are an integral part of the financial statements.

HILDALE/COLORADO CITY WATER DEPARTMENTS
Notes to the Financial Statements
June 30, 2016

NOTE 1. Summary of Significant Accounting Policies

Description of Government-Wide Financial Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities, if any, are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, when applicable, the *primary government* is reported separately from certain legally separate component units for which the primary government is financially accountable.

Reporting Entity

The Twin City Water Joint Management Operations and Maintenance Agreement or the Water Departments of Hildale/Colorado City (the Water Departments) was formed on February 22, 1997, by the Town of Colorado City, Arizona and Hildale City, Utah—the Town of Colorado City, Arizona, pursuant to the provisions of Title 11, Chapter 7, Article 3, Arizona Revised Statutes, as amended (the “Arizona Joint Exercise of Powers Act”) and the City of Hildale, Utah, pursuant to the provisions of Title 11, Chapter 13, Utah Code Annotated 1953, as amended (the “Utah Interlocal Co-operation Act”) intend to enter into the “Inter-Governmental Agreement.” An updated intergovernmental cooperative agreement for utilities systems management, operation and maintenance became effective in May 2014.

The board of trustees consists of nine members—four appointed by the mayor and council of Hildale City, four appointed by the mayor and council of Colorado City and one appointed by the joint designation of both municipalities. Each member is entitled to one vote. The Hildale City council consists of a mayor and five council members. The Colorado City council consists of a mayor and six council members. Budgeting and financing is done by the board and is ratified by each municipality’s council.

The accompanying financial statements present the Water Departments and its component units, entities for which the government is considered to be financially accountable. There are no component units for the Water Departments.

Basis of Presentation – Government-Wide Financial Statements

Separate government-wide and fund financial statements are not presented because the Water Departments only have business-type activities. The business-type activities incorporate data from the Water Departments’ enterprise funds. Financial statements are provided for proprietary funds.

HILDALE/COLORADO CITY WATER DEPARTMENTS
Notes to the Financial Statements
June 30, 2016

NOTE 1. Summary of Significant Accounting Policies, Continued

Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the Water Departments' funds. Statements for each fund category (i.e. proprietary) are presented. The emphasis of fund financial statements is on major enterprise funds. Major individual enterprise funds are reported as separate columns in the fund financial statements. The Departments' only fund is an enterprise fund.

During the course of operations the Water Departments have activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity may occur during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

Assets, Liabilities and Net Position

Cash and Cash Equivalents

The Water Departments' cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

HILDALE/COLORADO CITY WATER DEPARTMENTS
Notes to the Financial Statements
June 30, 2016

NOTE 1. Summary of Significant Accounting Policies, Continued

Investments

The Water Departments' investment policy allows for the investment of funds in the state treasurer's pool and other investments as allowed by the State of Utah's Money Management Act. Investments for the Water Departments are reported at fair value (generally based on quoted market prices) with unrealized gains and losses recorded as adjustments to interest/investment earnings.

Receivables

Receivables consist primarily of accounts due for water services provided. Management regularly reviews accounts receivable and writes off any uncollectible accounts. Given the write-offs and the nature of the accounts receivable in the business-type activities of the Water Departments, management does not consider an allowance for uncollectible accounts receivable necessary or material. Therefore, no allowance has been recorded.

Inventories

Inventories are considered immaterial and are not recorded.

Capital Assets

Capital assets in the proprietary funds are carried at cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation. Capital assets are defined by the Water Departments as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of two years. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	40 years
Office equipment	5-7 years
Automobiles and trucks	5 years
System equipment	5-7 years
Distribution system	25 years

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in change in net position for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

HILDALE/COLORADO CITY WATER DEPARTMENTS
Notes to the Financial Statements
June 30, 2016

NOTE 1. Summary of Significant Accounting Policies, Continued

Net Position Flow Assumption

Sometimes the Water Departments will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Water Departments’ policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Revenues and Expenses

Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment.

Personnel, Payroll and Compensated Absences

The majority of Water Departments’ personnel are employed by the Town of Colorado City. The Water Departments reimburse Colorado City for wages, payroll taxes and benefits for these contracted employees. Some of the personnel are not full-time employees. Given that the majority of the Departments’ personnel are actually employed by Colorado City, accruals for compensated absences are based on Colorado City’s related policies.

Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

HILDALE/COLORADO CITY WATER DEPARTMENTS
Notes to the Financial Statements
June 30, 2016

NOTE 1. Summary of Significant Accounting Policies, Continued

Budgets and Budgetary Accounting

Annual budgets are prepared and adopted by each of the city councils on or before June 22 for the fiscal year commencing the following July 1, in accordance with state law. The operating budget includes proposed expenditures and the proposed sources of financing for such expenditures. Prior to June 22, a public hearing is conducted to obtain taxpayer input. Budgets are adopted and control of budget appropriations is exercised, under State law, at the department level. Budget amendments are required to increase expenditure budgets. The Water Departments' board adopts or ratifies, by resolution, the budgets passed by each city council. Budgets for the proprietary fund types are prepared using the accrual basis of accounting.

Use of Estimates

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

Summarized Comparative Information

Comparative total data for the prior fiscal year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Water Departments' financial position and operations. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Departments' financial statements for the year ended June 30, 2015, from which the summarized information was derived. Certain reclassifications have been made to the June 30, 2015 financial statement presentation to correspond to the current fiscal year's format. Equity and related changes in equity are unchanged due to these reclassifications.

HILDALE/COLORADO CITY WATER DEPARTMENTS
Notes to the Financial Statements
June 30, 2016

NOTE 2. Deposits and Investments

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The Water Departments follow the requirements of the Utah Money Management Act (*Utah code*, Section 51, chapter 7) in handling its depository and investment transactions. The Act requires the depositing of the Water Departments' funds in qualified depositories. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Water Departments participate in Hildale City's central treasury. As of June 30, 2016, the central treasury consists of the following:

State Treasurer's Investment Pool	\$ 2,783,329
U.S. Bank	54,488
Wells Fargo Bank	63,239
Less amounts to other HC and CC Joint Utilities/Hildale City	<u>(2,492,789)</u>
Total	<u><u>\$ 408,267</u></u>
Equity in central treasury	<u><u>\$ 408,267</u></u>

Cash and cash equivalents at June 30, 2016 are presented in the statement of net position as follows:

Cash and cash equivalents	\$ 236,336
Restricted cash*	<u>171,931</u>
Total	<u><u>\$ 408,267</u></u>

*Restricted cash relates to customer deposits.

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. Hildale City does not have a formal policy for custodial credit risk. As of June 30, 2016, \$250,561 of Hildale City's central treasury's bank balance of \$583,547 was exposed to custodial credit risk because it was uninsured and uncollateralized.

HILDALE/COLORADO CITY WATER DEPARTMENTS
Notes to the Financial Statements
June 30, 2016

NOTE 2. Deposits and Investments, Continued

Investments

The Money Management Act defines the types of securities authorized as an appropriate investment for the Water Departments' and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

The Act authorizes investments in negotiable or nonnegotiable deposits of qualified depositories and permitted depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by U.S. government sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), and Federal National Mortgage Association (Fannie Mae); bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; the Utah Public Treasurer's Investment Fund; and reciprocal deposits subject to rules of the State Money Management Council.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

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 gain or losses on investments. Financial statements for the PTIF funds can be obtained by contacting the Utah State Treasurer's office.

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.

HILDALE/COLORADO CITY WATER DEPARTMENTS
Notes to the Financial Statements
June 30, 2016

NOTE 2. Deposits and Investments, Continued

As of June 30, 2016, Hildale City had the following investments, ratings and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating (1)</u>	<u>Weighted Average Maturity (2)</u>
State of Utah Public Treasurer's Investment Fund	\$2,783,329	N/A	53.38
Total Fair Value	<u>\$2,783,329</u>		

(1) Ratings are provided where applicable to indicate associated credit risk. N/A indicates not applicable.

(2) Interest rate risk is estimated using the weighted average days to maturity.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Water Departments' policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Water Departments' policy for reducing exposure to credit risk is to comply with the State's Money Management Act.

Fair value measurements

As noted above, the Water Departments hold investments that are measured at fair value on a recurring basis. The Water Departments categorize their fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The State of Utah Public Treasurer's Investment Fund, as listed above, is valued using significant other observable inputs (Level 2 inputs).

HILDALE/COLORADO CITY WATER DEPARTMENTS
Notes to the Financial Statements
June 30, 2016

NOTE 3. Capital Assets

The following summarizes the changes to capital assets for the year ended June 30, 2016:

	<u>Balance 6/30/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2016</u>
Capital assets not being depreciated:				
Water rights	\$ -	\$ 358,333	\$ -	\$ 358,333
Total capital assets, not being depreciated	<u>-</u>	<u>358,333</u>	<u>-</u>	<u>358,333</u>
Capital assets being depreciated				
Buildings and improvements	6,468	-	-	6,468
Automobiles and trucks	109,215	-	-	109,215
Water distribution system	1,706,936	16,198	-	1,723,134
Machinery and equipment	357,658	3,984	-	361,642
Total capital assets, being depreciated	<u>2,180,277</u>	<u>20,182</u>	<u>-</u>	<u>2,200,459</u>
Less accumulated depreciation for:				
Buildings and improvements	(539)	(162)	-	(701)
Automobiles and trucks	(71,894)	(8,781)	-	(80,675)
Water distribution system	(818,692)	(69,221)	-	(887,913)
Machinery and equipment	(268,281)	(25,624)	-	(293,905)
Total accumulated depreciation	<u>(1,159,406)</u>	<u>(103,788)</u>	<u>-</u>	<u>(1,263,194)</u>
Total capital assets, being depreciated, net	<u>1,020,871</u>	<u>(83,606)</u>	<u>-</u>	<u>937,265</u>
Total capital assets, net	<u>\$ 1,020,871</u>	<u>\$ 274,727</u>	<u>\$ -</u>	<u>\$ 1,295,598</u>

NOTE 4. Long-Term Liabilities

The following summarizes the changes in long-term liabilities for the year ended June 30, 2016:

	<u>Balance 6/30/2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2016</u>	<u>Current Portion</u>
Notes payable	\$ -	\$ 345,600	\$ -	\$ 345,600	\$ 30,807
Compensated absences	<u>7,768</u>	<u>-</u>	<u>943</u>	<u>6,825</u>	<u>2,730</u>
Total long-term liabilities	<u>\$ 7,768</u>	<u>\$ 345,600</u>	<u>\$ 943</u>	<u>\$ 352,425</u>	<u>\$ 33,537</u>

HILDALE/COLORADO CITY WATER DEPARTMENTS
Notes to the Financial Statements
June 30, 2016

NOTE 4. Long-Term Liabilities, Continued

Long-term liabilities consist of the following at June 30, 2016:

Notes payable:

Note payable to Hildale City/Colorado City Gas Departments, bearing interest at 2.50 percent, due in monthly principal and interest installments of \$3,258, maturing June 25, 2026.	\$ 345,600
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Compensated absences	6,825
Total long-term liabilities	352,425
Less current portion:	(33,537)
Net long-term liabilities	\$ 318,888

Notes payable debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest
2017	\$ 30,807	\$ 8,289
2018	31,586	7,510
2019	32,385	6,711
2020	33,204	5,892
2021	34,043	5,053
2022-2026	183,575	11,905
Total	\$ 345,600	\$ 45,360

NOTE 5. Commitments

The Water Departments have entered into agreements with Twin City Water Works (TCWW) for bulk water purchases and the maintenance of the water distribution system. The Water Departments purchase bulk water from TCWW at rates that are reviewed and adjusted annually. The bulk water purchase agreement is for a term of 100 years, expiring in the year 2110. TCWW provides for some of the repairs and routine maintenance of the system and bills the Water Departments monthly based on hourly rates for labor and equipment use as provided in the agreement. The maintenance agreement is for a term of two years beginning April 1, 1996, with an automatic one year extension unless canceled in writing by either party.

HILDALE/COLORADO CITY WATER DEPARTMENTS
Notes to the Financial Statements
June 30, 2016

NOTE 6. Risk Management

The Departments are 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 disaster. The Departments maintain insurance for the water distribution systems through Hildale City and Colorado City's insurance policies. Hildale City and Colorado City have had difficulty in recent years securing insurance coverage due to various legal matters; consequently, liability coverage is limited. The majority of the employees are employed by Colorado City and covered by Colorado City's insurance policy.

NOTE 7. Contingencies

The Water Departments, in connection with the other utility departments of Hildale City, Utah and Colorado City, Arizona, are involved with various matters of litigation. It is deemed possible that the Departments may experience negative financial impacts as a result of the litigation; however, the effects of any pending or threatened litigation are not measurable and cannot be estimated as of the date of the financial statements or will be covered by insurance.

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SUPPLEMENTARY INFORMATION

HILDALE/COLORADO CITY WATER DEPARTMENTS
Intergovernmental Cooperative Agreement and Proportionate Shares

The Twin City Water Joint Management Operations and Maintenance Agreement or the Water Departments of Hildale/Colorado City (the Water Departments) was formed on February 22, 1997, by the Town of Colorado City, Arizona and Hildale City, Utah—the Town of Colorado City, Arizona, pursuant to the provisions of Title 11, Chapter 7, Article 3, Arizona Revised Statutes, as amended (the “Arizona Joint Exercise of Powers Act”) and the City of Hildale, Utah, pursuant to the provisions of Title 11, Chapter 13, Utah Code Annotated 1953, as amended (the “Utah Interlocal Co-operation Act”) intend to enter into the “Inter-Governmental Agreement.” An updated intergovernmental cooperative agreement for utility systems management, operation and maintenance became effective in May 2014.

The Water Departments’ proportionate shares are based on the proportionate amount of water system customers and water usage for each of the municipalities. The proportionate shares as of and for the year ended June 30, 2016 are 35.00% for Hildale City and 65.00% for Colorado City, which is a change from the prior year percentages of 35.36% and 64.64%, respectively. This change results in an allocation percentage adjustment as shown on the schedule of revenues, expenses and changes in net position—proportionate shares. **The following supplementary schedules include a schedule of net position and schedule of revenues, expenses and changes in net position presenting the proportionate shares of Hildale City and Colorado City.**

HILDALE/COLORADO CITY WATER DEPARTMENTS
Schedule of Net Position—Proportionate Shares
June 30, 2016

	35.00%	65.00%	100.00%
	<u>Hildale City</u>	<u>Colorado City</u>	<u>Total</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 82,718	\$ 153,618	\$ 236,336
Receivables	65,048	120,803	185,851
Total current assets	<u>147,766</u>	<u>274,421</u>	<u>422,187</u>
Non current assets:			
Restricted cash - deposits	60,176	111,755	171,931
Property and equipment	895,577	1,663,215	2,558,792
Accumulated depreciation	(442,118)	(821,076)	(1,263,194)
Total noncurrent assets	<u>513,635</u>	<u>953,894</u>	<u>1,467,529</u>
Total assets	<u>661,401</u>	<u>1,228,315</u>	<u>1,889,716</u>
Liabilities			
Current liabilities:			
Accounts payable	28,951	53,766	82,717
Customer deposits	60,176	111,755	171,931
Compensated absences	956	1,774	2,730
Notes payable - current portion	10,782	20,025	30,807
Total current liabilities	<u>100,865</u>	<u>187,320</u>	<u>288,185</u>
Non current liabilities:			
Compensated absences	1,433	2,662	4,095
Notes payable-net of current portion	110,178	204,615	314,793
Total non current liabilities	<u>111,611</u>	<u>207,277</u>	<u>318,888</u>
Total liabilities	<u>212,476</u>	<u>394,597</u>	<u>607,073</u>
Net position			
Net investment in capital assets	332,499	617,499	949,998
Unrestricted	<u>116,426</u>	<u>216,219</u>	<u>332,645</u>
Total net position	<u>\$ 448,925</u>	<u>\$ 833,718</u>	<u>\$ 1,282,643</u>

HILDALE/COLORADO CITY WATER DEPARTMENTS
Schedule of Revenues, Expenses and Changes in Net Position—Proportionate Shares
For the Year Ended June 30, 2016

	35.00%	65.00%	100.00%
	<u>Hildale City</u>	<u>Colorado City</u>	<u>Total</u>
Operating revenues			
Charges for services	\$ 345,299	\$ 641,269	\$ 986,568
Other revenues	14,883	27,641	42,524
Late charges and penalties	15,157	28,150	43,307
Total operating revenues	<u>375,339</u>	<u>697,060</u>	<u>1,072,399</u>
Operating expenses			
Personnel expenses	48,795	90,620	139,415
Office expenses and travel	5,557	10,319	15,876
Services, supplies and other	66,549	123,593	190,142
Utilities	26,744	49,668	76,412
Insurance	11,997	22,280	34,277
Professional fees (non-legal)	22,909	42,544	65,453
Legal expenses	9,865	18,321	28,186
Purchased water	95,011	176,448	271,459
Equipment rent	1,177	2,187	3,364
Administrative cost allocation	40,250	74,750	115,000
Depreciation/amortization	36,326	67,462	103,788
Total operating expenses	<u>365,180</u>	<u>678,192</u>	<u>1,043,372</u>
Operating income (loss)	<u>10,159</u>	<u>18,868</u>	<u>29,027</u>
Nonoperating revenues (expenses)			
Interest income	755	1,402	2,157
Impact fees	39	71	110
Other revenues	554	1,030	1,584
Total nonoperating revenues (expense)	<u>1,348</u>	<u>2,503</u>	<u>3,851</u>
Income (loss) before capital contributions	11,507	21,371	32,878
Capital contributions	<u>25,071</u>	<u>46,559</u>	<u>71,630</u>
Change in net position	36,578	67,930	104,508
Total net position, beginning of year	416,589	761,546	1,178,135
Allocation percentage adjustment	<u>(4,242)</u>	<u>4,242</u>	<u>-</u>
Total net position, end of year	<u>\$ 448,925</u>	<u>\$ 833,718</u>	<u>\$ 1,282,643</u>

OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS

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

Executive Director and Members of the Board of
Hildale/Colorado City Utility Systems

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of the Water Departments of Hildale/Colorado City (the Water Departments), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Water Departments' basic financial statements and have issued our report thereon dated March 13, 2017.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the schedule of findings and recommendations in the Hildale City financial statements, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the schedule of findings and recommendations in the Hildale City financial statements to be a material weakness.

2014-001. Misstatements and Reconciliations

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the schedule of findings and recommendations in the Hildale City financial statements to be significant deficiencies.

- 2007-002. Capital Asset Accounting
- 2007-004. Segregation of Duties

Compliance and Other Matters

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

Response to Findings

The Water Departments' response to the findings identified in our audit is described in a separate schedule of responses. The Water Departments' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



HintonBurdick, PLLC
St. George, Utah
March 13, 2017

Findings and Recommendations

Executive Director and Members of the Board of
Hildale/Colorado City Utility Systems

During our audit of the funds of the Water Departments of Hildale/Colorado City (the Water Departments) for fiscal year ended June 30, 2016, we noted a few areas that need corrective action in order to be in compliance with laws and regulations and we found a few circumstances that, if improved, would strengthen the Water Departments' accounting system and control over its assets.

Since the Water Departments' accounting system is fully integrated with Hildale City's accounting system, we have included all of our findings and recommendations in the Hildale City management letter which is made available to each participating governing body.

It has been a pleasure to be of service to the Water Departments this past year. We would like to express special thanks to all those who assisted us in this year's audit. We invite you to ask questions of us throughout the year as you feel it necessary and we look forward to a continued pleasant professional relationship.

Sincerely,



HintonBurdick, PLLC
St. George, Utah
March 13, 2017