

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

FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017
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, 2017, 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, 2017, 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, 2016, and our report dated March 13, 2017, 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, 2016, 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 January 23, 2018, 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
January 23, 2018

HILDALE/COLORADO CITY WATER DEPARTMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017

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, 2017. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets exceed total liabilities (net position) by \$1,360,395 at the close of the fiscal year.
- Total net position increased by \$77,752.
- Operating revenues and expenses are \$955,487 and \$888,172, respectively, resulting in an operating income of \$67,315 for the fiscal year.
- At the end of the fiscal year unrestricted net position is \$329,443.

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>6/30/2017</u>	<u>6/30/2016</u>
Current assets	\$ 376,717	\$ 422,187
Noncurrent assets	1,546,598	1,467,529
Total assets	<u>1,923,315</u>	<u>1,889,716</u>
Current liabilities	275,490	288,185
Long-term liabilities	287,430	318,888
Total liabilities	<u>562,920</u>	<u>607,073</u>
Total net position	<u>\$ 1,360,395</u>	<u>\$ 1,282,643</u>

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

	<u>6/30/2017</u>	<u>6/30/2016</u>
Total operating revenues	\$ 955,487	\$ 1,072,399
Total operating expenses	<u>888,172</u>	<u>1,043,372</u>
Operating income (loss)	67,315	29,027
Nonoperating revenues (expenses)	263	3,851
Capital contributions	10,174	71,630
Change in net position	<u>\$ 77,752</u>	<u>\$ 104,508</u>

As shown above, operating expenses for the year were \$888,172 and operating revenues were \$955,487. Operating income as percentage of operating revenues is 7.0%.

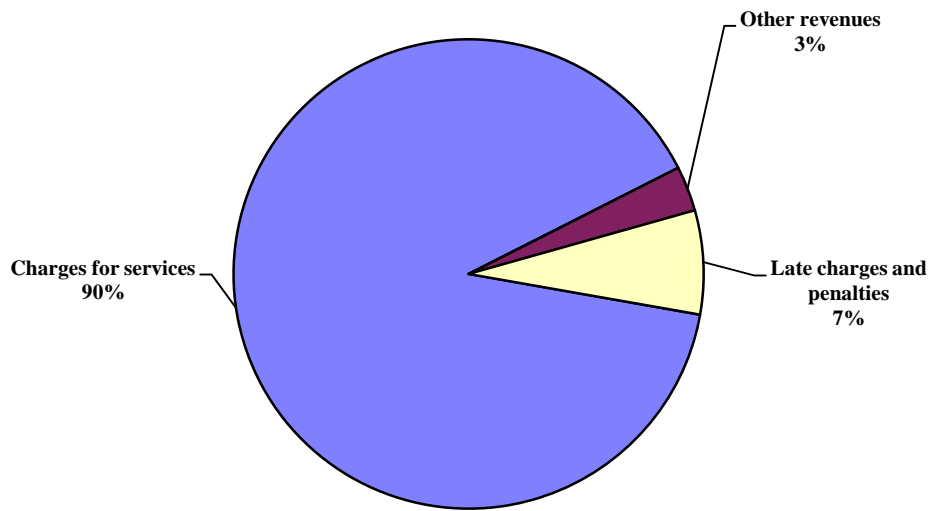
The Water Departments provide water services to customers. The Departments' net cost (total cost less revenues generated by the activities) is presented in the statement of revenues, expenses and changes in net position. For the year ended June 30, 2017, net position increased by \$77,752.

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, 2017 and 2016

	<u>6/30/2017</u>	<u>6/30/2016</u>
OPERATING REVENUES:		
Charges for services	\$ 857,533	\$ 986,568
Other revenues	29,612	42,524
Late charges and penalties	<u>68,342</u>	<u>43,307</u>
 Total revenues	 <u><u>\$ 955,487</u></u>	 <u><u>\$ 1,072,399</u></u>

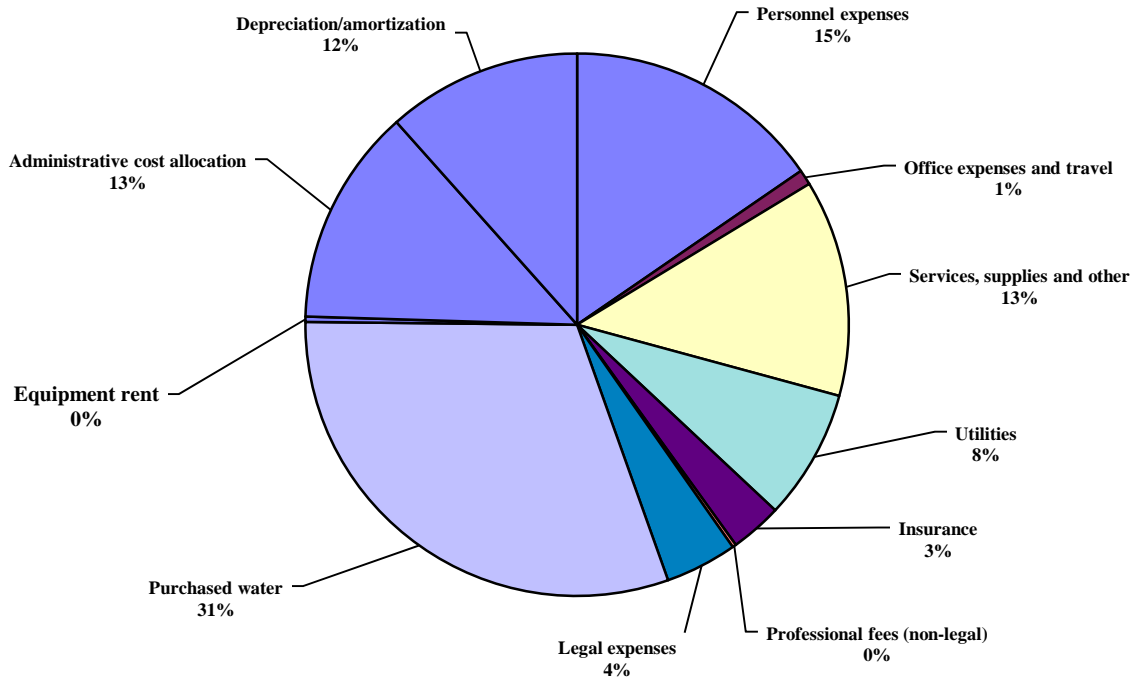
Revenues by Source - Current Year



HILDALE/COLORADO CITY WATER DEPARTMENTS' OPERATING EXPENSES (Combined)
Years ended June 30, 2017 and 2016

	<u>6/30/2017</u>	<u>6/30/2016</u>
OPERATING EXPENSES:		
Personnel expenses	\$ 136,825	\$ 139,415
Office expenses and travel	8,030	15,876
Services, supplies and other	114,715	190,142
Utilities	68,999	76,412
Insurance	27,325	34,277
Professional fees (non-legal)	1,975	65,453
Legal expenses	37,979	28,186
Purchased water	271,775	271,459
Equipment rent	2,808	3,364
Administrative cost allocation	115,000	115,000
Depreciation/amortization	102,741	103,788
Total operating expenses	<u>\$ 888,172</u>	<u>\$ 1,043,372</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 2017, net capital assets of the Water Departments totaled \$1,345,745.

Debt

At fiscal year-end the Water Departments had \$314,793 in long-term debt, which relates to a loan with the Gas Departments. During the current fiscal year the Water Departments' debt decreased by \$30,807. See the notes to the financial statements for details.

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the Departments budget for fiscal year 2017/2018, 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 2016/2017.

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 Raymond 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, 2017
(With Comparative Totals for June 30, 2016)

	6/30/2017	6/30/2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 209,486	\$ 236,336
Receivables, net of allowance	167,231	185,851
Total current assets	376,717	422,187
Non current assets:		
Restricted cash - deposits	200,853	171,931
Property and equipment	2,711,680	2,558,792
Accumulated depreciation	(1,365,935)	(1,263,194)
Total noncurrent assets	1,546,598	1,467,529
Total assets	1,923,315	1,889,716
Liabilities		
Current liabilities:		
Accounts payable	40,235	82,717
Customer deposits	200,853	171,931
Compensated absences	2,816	2,730
Notes payable - current portion	31,586	30,807
Total current liabilities	275,490	288,185
Non current liabilities:		
Compensated absences	4,223	4,095
Notes payable-net of current portion	283,207	314,793
Total non current liabilities	287,430	318,888
Total liabilities	562,920	607,073
Net position		
Net investment in capital assets	1,030,952	949,998
Unrestricted	329,443	332,645
Total net position	\$ 1,360,395	\$ 1,282,643

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, 2017
(With Comparative Totals for June 30, 2016)

	6/30/2017	6/30/2016
Operating revenues		
Charges for services	\$ 857,533	\$ 986,568
Other revenues	29,612	42,524
Late charges and penalties	68,342	43,307
Total operating revenues	955,487	1,072,399
Operating expenses		
Personnel expenses	136,825	139,415
Office expenses and travel	8,030	15,876
Services, supplies and other	114,715	190,142
Utilities	68,999	76,412
Insurance	27,325	34,277
Professional fees (non-legal)	1,975	65,453
Legal expenses	37,979	28,186
Purchased water	271,775	271,459
Equipment rent	2,808	3,364
Administrative cost allocation	115,000	115,000
Depreciation/amortization	102,741	103,788
Total operating expenses	888,172	1,043,372
Operating income (loss)	67,315	29,027
Nonoperating revenues (expenses)		
Interest income	3,330	2,157
Impact fees	-	110
Other revenues	5,222	1,584
Interest expense and fiscal charges	(8,289)	-
Total nonoperating revenues (expense)	263	3,851
Income (loss) before capital contributions	67,578	32,878
Capital contributions	10,174	71,630
Change in net position	77,752	104,508
Total net position, beginning of year	1,282,643	1,178,135
Total net position, end of year	\$ 1,360,395	\$ 1,282,643

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, 2017
(With Comparative Totals for June 30, 2016)

	6/30/2017	6/30/2016
Cash flows from operating activities		
Receipts from customers, service fees	\$ 876,153	\$ 965,436
Receipts from customers, other	126,876	91,937
Payments to suppliers and service providers	(827,699)	(926,881)
Cash flows from operating activities	175,330	130,492
Cash flows from capital and related financing activities		
Proceeds from long-term debt	-	345,600
Impact fees	-	110
Other revenues	5,222	1,584
Capital contributions	10,174	71,630
Acquisition of capital assets	(152,888)	(378,515)
Principal paid on capital debt	(30,807)	-
Interest paid on capital debt	(8,289)	-
Cash flows from capital and related financing activities	(176,588)	40,409
Cash flows from investing activities		
Interest received	3,330	2,157
Net change in cash and cash equivalents	2,072	173,058
Balances - beginning of the year, including restricted cash	408,267	235,209
Balances - end of the year, including restricted cash	\$ 410,339	\$ 408,267
Reconciliation of operating income to net cash flows from operating activities:		
Net operating income (loss)	\$ 67,315	\$ 29,027
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:		
Depreciation/amortization	102,741	103,788
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	18,620	(21,132)
Increase/(decrease) in accounts payable	(42,482)	13,646
Increase/(decrease) in accrued liabilities	214	(943)
Increase/(decrease) in customer deposits	28,922	6,106
Cash flows from operating activities	\$ 175,330	\$ 130,492

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

HILDALE/COLORADO CITY WATER DEPARTMENTS
Notes to the Financial Statements
June 30, 2017

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, 2017

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, 2017

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 and related late penalties and interest. Management periodically reviews accounts receivable and writes off uncollectible accounts. The Water Departments' allowance for uncollectible accounts as of June 30, 2017 is \$30,720.

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
Water system and improvements	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, 2017

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, 2017

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, 2016, from which the summarized information was derived. Certain reclassifications have been made to the June 30, 2016 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, 2017

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, 2017, the central treasury consists of the following:

State Treasurer's Investment Pool	\$ 1,976,974
U.S. Bank	54,491
Wells Fargo Bank	304,618
Less amounts to other HC and CC Joint Utilities/Hildale City	<u>(1,925,744)</u>
Total	<u><u>\$ 410,339</u></u>
Equity in central treasury	<u><u>\$ 410,339</u></u>

Cash and cash equivalents at June 30, 2017 are presented in the statement of net position as follows:

Cash and cash equivalents	\$ 209,486
Restricted cash*	<u>200,853</u>
Total	<u><u>\$ 410,339</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, 2017, \$46,769 of Hildale City's central treasury's bank balance of \$379,800 was exposed to custodial credit risk because it was uninsured and uncollateralized.

HILDALE/COLORADO CITY WATER DEPARTMENTS
Notes to the Financial Statements
June 30, 2017

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, 2017

NOTE 2. Deposits and Investments, Continued

As of June 30, 2017, 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	\$ 1,976,974	N/A	54.71
Total Fair Value	<u>\$ 1,976,974</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, 2017

NOTE 3. Capital Assets

The following summarizes the changes to capital assets for the year ended June 30, 2017:

	<u>Balance 6/30/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2017</u>
Capital assets not being depreciated:				
Land	\$ -	\$ 82,248	\$ -	\$ 82,248
Water rights	358,333	-	-	358,333
Construction in progress	-	46,221	-	46,221
Total capital assets, not being depreciated	<u>358,333</u>	<u>128,469</u>	<u>-</u>	<u>486,802</u>
Capital assets being depreciated				
Buildings and improvements	6,468	-	-	6,468
Automobiles and trucks	109,215	-	-	109,215
Water system and improvements	1,723,134	24,419	-	1,747,553
Machinery and equipment	361,642	-	-	361,642
Total capital assets, being depreciated	<u>2,200,459</u>	<u>24,419</u>	<u>-</u>	<u>2,224,878</u>
Less accumulated depreciation for:				
Buildings and improvements	(701)	(162)	-	(863)
Automobiles and trucks	(80,675)	(8,781)	-	(89,456)
Water system	(887,913)	(69,357)	-	(957,270)
Machinery and equipment	(293,905)	(24,441)	-	(318,346)
Total accumulated depreciation	<u>(1,263,194)</u>	<u>(102,741)</u>	<u>-</u>	<u>(1,365,935)</u>
Total capital assets, being depreciated, net	<u>937,265</u>	<u>(78,322)</u>	<u>-</u>	<u>858,943</u>
Total capital assets, net	<u>\$ 1,295,598</u>	<u>\$ 50,147</u>	<u>\$ -</u>	<u>\$ 1,345,745</u>

NOTE 4. Long-Term Liabilities

The following summarizes the changes in long-term liabilities for the year ended June 30, 2017:

	<u>Balance 6/30/2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2017</u>	<u>Current Portion</u>
Notes payable	\$ 345,600	\$ -	\$ 30,807	\$ 314,793	\$ 31,586
Compensated absences	<u>6,825</u>	<u>214</u>	<u>-</u>	<u>7,039</u>	<u>2,816</u>
Total long-term liabilities	<u>\$ 352,425</u>	<u>\$ 214</u>	<u>\$ 30,807</u>	<u>\$ 321,832</u>	<u>\$ 34,402</u>

HILDALE/COLORADO CITY WATER DEPARTMENTS
Notes to the Financial Statements
June 30, 2017

NOTE 4. Long-Term Liabilities, Continued

Long-term liabilities consist of the following at June 30, 2017:

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.	\$ 314,793
Compensated absences	<u>7,039</u>
Total long-term liabilities	321,832
Less current portion:	<u>(34,402)</u>
Net long-term liabilities	<u><u>\$ 287,430</u></u>

Notes payable debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest
2018	\$ 31,586	\$ 7,510
2019	32,385	6,711
2020	33,204	5,892
2021	34,043	5,053
2022	34,904	4,192
2023-2026	<u>148,671</u>	<u>7,713</u>
Total	<u><u>\$ 314,793</u></u>	<u><u>\$ 37,071</u></u>

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, 2017

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 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.

NOTE 8. Internal Repair and Replacement Reserves

The Water Departments designate reserve funds for future repair and replacement activity. As of June 30, 2017, the Water Departments' internal repair and replacement reserves total \$280,774. These reserves are included in the unrestricted net position balance on the statement of net position.

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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, 2017 are 35.00% for Hildale City and 65.00% for Colorado City, respectively, which is the same as the prior fiscal year. Any such change results in an allocation percentage adjustment and is shown on the schedule of revenues, expenses and changes in net position—proportionate shares, if applicable. **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, 2017

	35.00%	65.00%	100.00%
	<u>Hildale City</u>	<u>Colorado City</u>	<u>Total</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 73,320	\$ 136,166	\$ 209,486
Receivables, net of allowance	58,531	108,700	167,231
Total current assets	<u>131,851</u>	<u>244,866</u>	<u>376,717</u>
Non current assets:			
Restricted cash - deposits	70,299	130,554	200,853
Property and equipment	949,088	1,762,592	2,711,680
Accumulated depreciation	(478,077)	(887,858)	(1,365,935)
Total noncurrent assets	<u>541,310</u>	<u>1,005,288</u>	<u>1,546,598</u>
Total assets	<u>673,161</u>	<u>1,250,154</u>	<u>1,923,315</u>
Liabilities			
Current liabilities:			
Accounts payable	14,082	26,153	40,235
Customer deposits	70,299	130,554	200,853
Compensated absences	987	1,829	2,816
Notes payable - current portion	11,055	20,531	31,586
Total current liabilities	<u>96,423</u>	<u>179,067</u>	<u>275,490</u>
Non current liabilities:			
Compensated absences	1,478	2,745	4,223
Notes payable-net of current portion	99,122	184,085	283,207
Total non current liabilities	<u>100,600</u>	<u>186,830</u>	<u>287,430</u>
Total liabilities	<u>197,023</u>	<u>365,897</u>	<u>562,920</u>
Net position			
Net investment in capital assets	360,833	670,119	1,030,952
Unrestricted	115,305	214,138	329,443
Total net position	<u>\$ 476,138</u>	<u>\$ 884,257</u>	<u>\$ 1,360,395</u>

HILDALE/COLORADO CITY WATER DEPARTMENTS
Schedule of Revenues, Expenses and Changes in Net Position—Proportionate Shares
For the Year Ended June 30, 2017

	35.00%	65.00%	100.00%
	<u>Hildale City</u>	<u>Colorado City</u>	<u>Total</u>
Operating revenues			
Charges for services	\$ 300,137	\$ 557,396	\$ 857,533
Other revenues	10,364	19,248	29,612
Late charges and penalties	23,920	44,422	68,342
Total operating revenues	<u>334,421</u>	<u>621,066</u>	<u>955,487</u>
Operating expenses			
Personnel expenses	47,889	88,936	136,825
Office expenses and travel	2,811	5,219	8,030
Services, supplies and other	40,151	74,564	114,715
Utilities	24,150	44,849	68,999
Insurance	9,564	17,761	27,325
Professional fees (non-legal)	691	1,284	1,975
Legal expenses	13,293	24,686	37,979
Purchased water	95,121	176,654	271,775
Equipment rent	983	1,825	2,808
Administrative cost allocation	40,250	74,750	115,000
Depreciation/amortization	35,959	66,782	102,741
Total operating expenses	<u>310,862</u>	<u>577,310</u>	<u>888,172</u>
Operating income (loss)	<u>23,559</u>	<u>43,756</u>	<u>67,315</u>
Nonoperating revenues (expenses)			
Interest income	1,166	2,164	3,330
Other revenues	1,828	3,394	5,222
Interest expense and fiscal charges	(2,901)	(5,388)	(8,289)
Total nonoperating revenues (expense)	<u>93</u>	<u>170</u>	<u>263</u>
Income (loss) before capital contributions	23,652	43,926	67,578
Capital contributions	<u>3,561</u>	<u>6,613</u>	<u>10,174</u>
Change in net position	27,213	50,539	77,752
Total net position, beginning of year	<u>448,925</u>	<u>833,718</u>	<u>1,282,643</u>
Total net position, end of year	<u>\$ 476,138</u>	<u>\$ 884,257</u>	<u>\$ 1,360,395</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, 2017, and the related notes to the financial statements, which collectively comprise the Water Departments' basic financial statements and have issued our report thereon dated January 23, 2018.

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*.

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
January 23, 2018



MEMBERS:

CHAD B. ATKINSON, CPA
KRIS J. BRAUNBERGER, CPA
MICHAEL K. SPILKER, CPA
KEVIN L. STEPHENS, CPA
MARK E. TICHENOR, CPA
MICHAEL J. TORGERSON, CPA
PHILLIP S. PEINE, CPA

STEVEN D. PALMER, CPA
ROBERT S. COX, CPA
TODD B. FELTNER, CPA
K. MARK FROST, CPA
MORRIS J. PEACOCK, CPA
JEFF C. HUNT, CPA

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, 2017, 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
January 23, 2018

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

FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017
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 Gas Departments of Hildale, Utah and Colorado City, Arizona (the Gas Departments) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Gas 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 Gas Departments, as of June 30, 2017, 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 Gas Departments' financial statements for the year ended June 30, 2016, and our report dated March 13, 2017, 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, 2016, 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 Gas 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 January 23, 2018, on our consideration of the Gas 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 Gas Departments' internal control over financial reporting and compliance.



HintonBurdick, PLLC
St. George, Utah
January 23, 2018

HILDALE/COLORADO CITY GAS DEPARTMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017

As management of the Gas Departments, we offer readers of the financial statements this narrative overview and analysis of the financial activities of the Gas Departments for the fiscal year ended June 30, 2017. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets exceed total liabilities (net position) by \$2,529,286 at the close of the fiscal year.
- Total net position decreased by \$131,476.
- Operating revenues and expenses are \$795,932 and \$955,858, respectively, resulting in operating loss of \$159,926 for the fiscal year.
- At the end of the fiscal year unrestricted net position is \$885,416.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Statement of Revenues, Expense, and Changes in Net Position - Presents information regarding the change in the Gas Departments' net position during the fiscal year. The Gas 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 change 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 GAS DEPARTMENTS

Statement of Net Position (Condensed)

	<u>6/30/2017</u>	<u>6/30/2016</u>
Current assets	\$ 627,337	\$ 659,967
Noncurrent assets	1,927,077	2,043,236
Total assets	<u>2,554,414</u>	<u>2,703,203</u>
Current liabilities	21,416	38,842
Long-term liabilities	3,712	3,599
Total liabilities	<u>25,128</u>	<u>42,441</u>
Total net position	<u>\$ 2,529,286</u>	<u>\$ 2,660,762</u>

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

	<u>6/30/2017</u>	<u>6/30/2016</u>
Total operating revenues	\$ 795,932	\$ 952,682
Total operating expenses	<u>955,858</u>	<u>1,041,395</u>
Operating income (loss)	(159,926)	(88,713)
Nonoperating revenues (expenses)	14,462	3,670
Capital contributions	13,988	46,492
Change in net position	<u>\$ (131,476)</u>	<u>\$ (38,551)</u>

Operating expenses for the fiscal year were \$955,858 as shown above. Operating revenues were \$795,932. Operating income (loss) as a percentage of operating revenues for this year is -20.1% compared to -9.3% in the prior year.

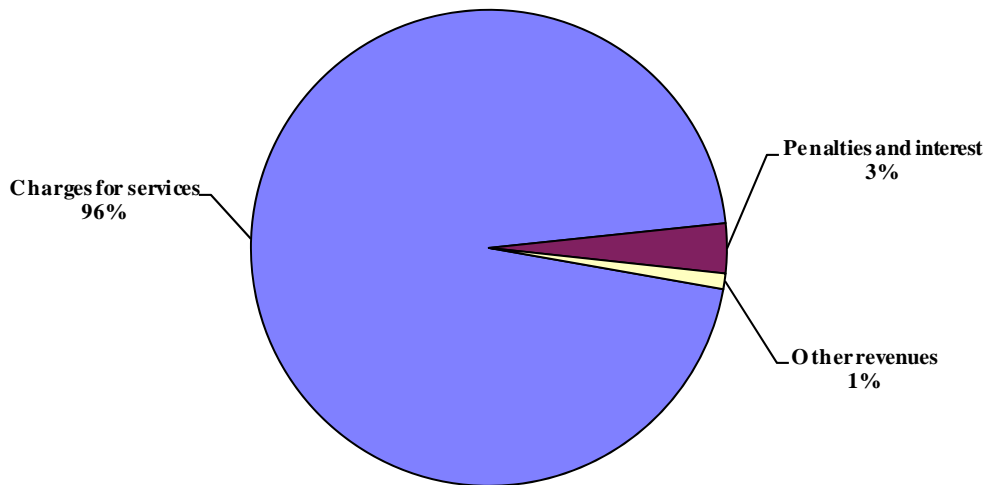
The Gas Departments provide propane and natural gas distribution to customers. The Gas Departments' net cost (total cost less revenues generated by the activities) is presented in the statement of revenues, expenses and changes in net position. For the year ended June 30, 2017, net position decreased by \$131,476.

A comparison of the operating revenues and operating expenses for the current and prior year is presented below:

HILDALE/COLORADO CITY GAS DEPARTMENTS' REVENUE BY SOURCE (Combined)
Years ended June 30, 2017 and 2016

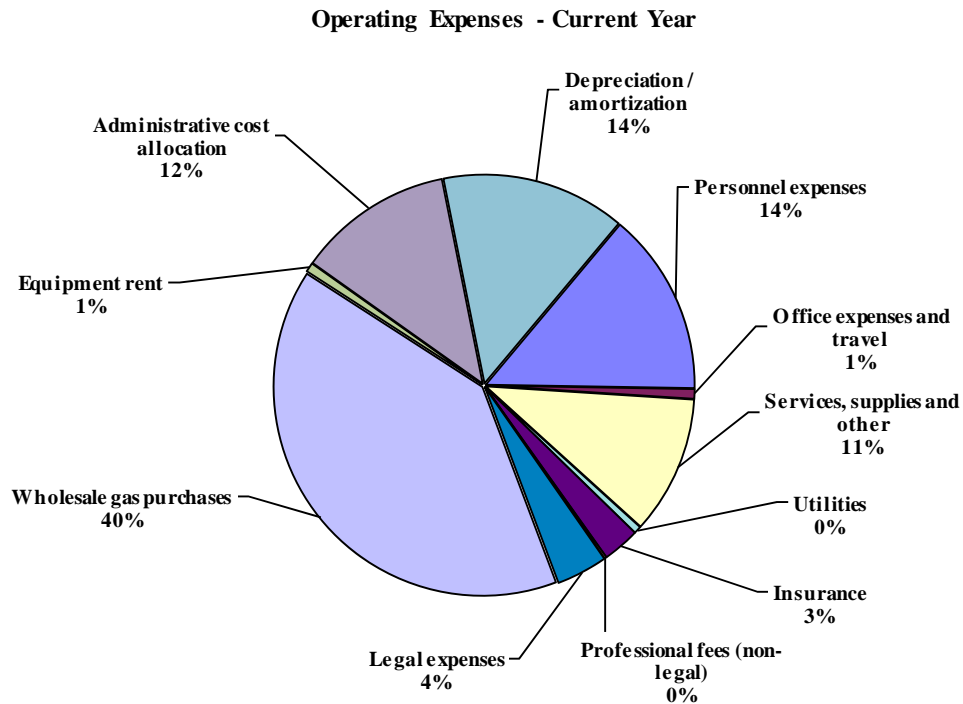
	<u>6/30/2017</u>	<u>6/30/2016</u>
OPERATING REVENUES:		
Charges for services	\$ 760,617	\$ 929,404
Penalties and interest	26,865	16,718
Other revenues	<u>8,450</u>	<u>6,560</u>
 Total revenues	 <u><u>\$ 795,932</u></u>	 <u><u>\$ 952,682</u></u>

Operating Revenues by Source - Current Year



HILDALE/COLORADO CITY GAS DEPARTMENTS' OPERATING EXPENSES (Combined)
Years ended June 30, 2017 and 2016

	<u>6/30/2017</u>	<u>6/30/2016</u>
OPERATING EXPENSES:		
Personnel expenses	\$ 135,281	\$ 128,168
Office expenses and travel	7,141	9,626
Services, supplies and other	102,306	142,442
Utilities	5,400	4,650
Insurance	27,325	32,263
Professional fees (non-legal)	1,555	1,174
Legal expenses	37,899	28,186
Wholesale gas purchases	380,873	429,003
Equipment rent	6,730	7,008
Administrative cost allocation	115,000	115,000
Depreciation / amortization	<u>136,348</u>	<u>143,875</u>
 Total operating expenses	 <u><u>\$ 955,858</u></u>	 <u><u>\$ 1,041,395</u></u>



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the Gas Departments are those assets that are used in performance of Gas Departments' functions including vehicles, equipment, buildings and the gas distribution system. At the end of fiscal year 2017, net capital assets of the Gas Departments activities totaled \$1,643,870.

Debt

During the current fiscal year, the Gas Departments' total debt decreased by \$5,410 for a total of \$0 at June 30, 2017 (excluding compensated absences). See notes to the financial statements for a details.

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the Gas Departments' budget for fiscal year 2017/2018, the board and management were cautious as to the growth of revenues and expenses. Operating revenues and expenses are expected to be relatively consistent with fiscal year 2016/2017. Overall operating expenses were budgeted so as to contain costs at approximately the same level as fiscal year 2016/2017.

CONTACTING THE DEPARTMENTS' FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

HILDALE/COLORADO CITY GAS DEPARTMENTS
Statement of Net Position
June 30, 2017
(With Comparative Totals for June 30, 2016)

	6/30/2017	6/30/2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 496,510	\$ 504,403
Receivables, net of allowance	69,732	86,685
Inventories	-	8,563
Note receivable - current portion	31,586	30,807
Deposits	29,509	29,509
Total current assets	627,337	659,967
Noncurrent assets:		
Note receivable - net of current portion	283,207	314,793
Property and equipment	2,800,496	2,748,721
Accumulated depreciation	(1,156,626)	(1,020,278)
Total noncurrent assets	1,927,077	2,043,236
Total assets	2,554,414	2,703,203
Liabilities		
Current liabilities:		
Accounts payable	18,910	5,238
Accrued liabilities	32	25,795
Compensated absences	2,474	2,399
Notes payable - current portion	-	5,410
Total current liabilities	21,416	38,842
Long-term liabilities		
Compensated absences	3,712	3,599
Total long-term liabilities	3,712	3,599
Total liabilities	25,128	42,441
Net position		
Net investment in capital assets	1,643,870	1,723,033
Unrestricted	885,416	937,729
Total net position	\$ 2,529,286	\$ 2,660,762

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

HILDALE/COLORADO CITY GAS DEPARTMENTS
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2017
(With Comparative Totals for June 30, 2016)

	6/30/2017	6/30/2016
Operating revenues		
Charges for services	\$ 760,617	\$ 929,404
Penalties and interest	26,865	16,718
Other revenues	8,450	6,560
Total operating revenues	795,932	952,682
Operating expenses		
Personnel expenses	135,281	128,168
Office expenses and travel	7,141	9,626
Services, supplies and other	102,306	142,442
Utilities	5,400	4,650
Insurance	27,325	32,263
Professional fees (non-legal)	1,555	1,174
Legal expenses	37,899	28,186
Gas purchases and transportation costs	380,873	429,003
Equipment rent	6,730	7,008
Administrative cost allocation	115,000	115,000
Depreciation/amortization	136,348	143,875
Total operating expenses	955,858	1,041,395
Operating income (loss)	(159,926)	(88,713)
Nonoperating revenues (expenses)		
Interest income	9,454	3,670
Other revenues	5,008	-
Total nonoperating revenue (expense)	14,462	3,670
Income (loss) before capital contributions	(145,464)	(85,043)
Capital contributions	13,988	46,492
Change in net position	(131,476)	(38,551)
Total net position, beginning of year	2,660,762	2,699,313
Total net position, end of year	\$ 2,529,286	\$ 2,660,762

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

HILDALE/COLORADO CITY GAS DEPARTMENTS
Statement of Cash Flows
For the Year Ended June 30, 2017
(With Comparative Totals for June 30, 2016)

	<u>6/30/2017</u>	<u>6/30/2016</u>
Cash flows from operating activities:		
Receipts from customers, service fees	\$ 777,570	\$ 920,174
Receipts from customers, other	35,315	23,278
Payments to suppliers and service providers	<u>(822,850)</u>	<u>(909,424)</u>
Cash flows from operating activities	<u>(9,965)</u>	<u>34,028</u>
Cash flows from capital and related financing activities:		
Other revenues	5,008	-
Acquisition of property and equipment	(51,775)	(52,757)
Capital contributions	13,988	46,492
Principal paid on capital debt	<u>(5,410)</u>	<u>(11,000)</u>
Cash flows from capital and related financing activities	<u>(38,189)</u>	<u>(17,265)</u>
Cash flows from investing activities:		
Net change in note receivable	30,807	(345,600)
Interest received	<u>9,454</u>	<u>3,670</u>
Cash flows from investing activities	<u>40,261</u>	<u>(341,930)</u>
Net change in cash and cash equivalents	(7,893)	(325,167)
Cash and cash equivalents, beginning of year	<u>504,403</u>	<u>829,570</u>
Cash and cash equivalents, end of year	<u>\$ 496,510</u>	<u>\$ 504,403</u>
Reconciliation of operating income to net cash flows from operating activities:		
Net operating income (loss)	\$ (159,926)	\$ (88,713)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation/amortization	136,348	143,875
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	16,953	(9,230)
(Increase)/decrease in inventories	8,563	12,972
Increase/(decrease) in accounts payable	13,672	(23,709)
Increase/(decrease) in accrued liabilities	<u>(25,575)</u>	<u>(1,167)</u>
Cash flows from operating activities	<u>\$ (9,965)</u>	<u>\$ 34,028</u>

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

HILDALE/COLORADO CITY GAS DEPARTMENTS
Notes to the Financial Statements
June 30, 2017

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 Gas Distribution Systems, Operations and Maintenance Agreement or the Gas Departments of Hildale/Colorado City (the Gas Departments) was formalized on June 22, 2009, 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”) entered 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 Gas Departments and its component units, entities for which the government is considered to be financially accountable. There are no component units for the Gas Departments.

Basis of Presentation – Government-Wide Financial Statements

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

Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the Gas 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.

HILDALE/COLORADO CITY GAS DEPARTMENTS
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies, Continued

During the course of operations the Gas 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 use the *economic resources measurement focus* and the *accrual basis of accounting*.

Assets, Liabilities and Net Position

Cash and Cash Equivalents

The Gas 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.

Investments

The Gas 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 Gas Departments are reported at fair value (generally based on quoted market prices) with unrealized gains and losses recorded as adjustments to interest/investment earnings.

HILDALE/COLORADO CITY GAS DEPARTMENTS
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies, Continued

Receivables

Receivables consist primarily of accounts due for gas services provided and related late penalties and interest. Management periodically reviews accounts receivable and writes off uncollectible accounts. The Gas Departments' allowance for uncollectible accounts as of June 30, 2017 is \$8,665.

Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of system materials not placed in service.

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 Gas 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:

Equipment and automobiles/trucks	5-20 years
Buildings and improvements	10-40 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.

Net Position Flow Assumption

Sometimes the Gas 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 Gas 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.

HILDALE/COLORADO CITY GAS DEPARTMENTS
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies, Continued

Personnel, Payroll and Compensated Absences

The majority of Gas Departments' personnel are employed by the Town of Colorado City. The Gas 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.

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 Gas 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.

HILDALE/COLORADO CITY GAS DEPARTMENTS
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies, Continued

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 Gas 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, 2016, from which the summarized information was derived. Certain reclassifications have been made to the June 30, 2016 financial statement presentation to correspond to the current fiscal year's format. Equity and related changes in equity are unchanged due to these reclassifications.

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 Gas 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 Gas 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 Gas Departments participate in Hildale City's central treasury. The City's central treasury consists of the following at June 30, 2017:

State Treasurer's Investment Pool	\$ 1,976,974
U.S. Bank	54,491
Wells Fargo Bank	304,618
Less amounts to other HC and CC Joint Utilities/Hildale City	<u>(1,839,573)</u>
	<u>\$ 496,510</u>
Equity in central treasury	<u>\$ 496,510</u>

HILDALE/COLORADO CITY GAS DEPARTMENTS
Notes to the Financial Statements
June 30, 2017

NOTE 2. Deposits and Investments, Continued

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, 2017, \$46,769 of the Hildale City's central treasury's bank balance of \$379,800 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as an appropriate investment for the Gas 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 GAS DEPARTMENTS
Notes to the Financial Statements
June 30, 2017

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	\$1,976,974	N/A	54.71
Total Fair Value	<u>\$1,976,974</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 Gas 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 Gas 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 Gas Departments holds investments that are measured at fair value on a recurring basis. The Gas Departments categorizes its 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 GAS DEPARTMENTS
Notes to the Financial Statements
June 30, 2017

NOTE 3. Capital Assets

The following summarizes the changes to capital assets during the year ended June 30, 2017:

	<u>Balance 6/30/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2017</u>
Capital assets being depreciated:				
Machinery and equipment	\$ 435,671	\$ -	\$ -	\$ 435,671
Automobiles and trucks	239,849	51,775	-	291,624
Buildings and improvements	15,457	-	-	15,457
Distribution system	<u>2,057,744</u>	<u>-</u>	<u>-</u>	<u>2,057,744</u>
Total capital assets being depreciated	<u>2,748,721</u>	<u>51,775</u>	<u>-</u>	<u>2,800,496</u>
Less accumulated depreciation for:				
Machinery and equipment	(211,399)	(27,764)	-	(239,163)
Automobiles and trucks	(190,955)	(25,288)	-	(216,243)
Buildings and improvements	(4,875)	(986)	-	(5,861)
Distribution system	<u>(613,049)</u>	<u>(82,310)</u>	<u>-</u>	<u>(695,359)</u>
Total accumulated depreciation	<u>(1,020,278)</u>	<u>(136,348)</u>	<u>-</u>	<u>(1,156,626)</u>
Total capital assets, being depreciated, net	<u>1,728,443</u>	<u>(84,573)</u>	<u>-</u>	<u>1,643,870</u>
Hildale City activities capital assets, net	<u>\$ 1,728,443</u>	<u>\$ (84,573)</u>	<u>\$ -</u>	<u>\$ 1,643,870</u>

NOTE 4. Note Receivable

In fiscal year 2016, the Gas Departments loaned the Hildale/Colorado City Water Departments \$345,600 in connection with the Water Departments' acquisition of water rights. The terms of the note are as follows: bears interest at 2.50%, due in monthly principal and interest installments of \$3,258, and matures in June 2026. The principal amount due in the next fiscal year is included in the current portion on the statement of net position. Management believes an allowance is not considered necessary.

HILDALE/COLORADO CITY GAS DEPARTMENTS
Notes to the Financial Statements
June 30, 2017

NOTE 5. Long-Term Liabilities

The following summarizes the changes to long-term liabilities for the year ended June 30, 2017:

	<u>Balance 6/30/2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2017</u>	<u>Current Portion</u>
Notes payable	\$ 5,410	\$ -	\$ 5,410	\$ -	\$ -
Compensated absences	5,998	188	-	6,186	2,474
Total long-term liabilities	<u>\$ 11,408</u>	<u>\$ 188</u>	<u>\$ 5,410</u>	<u>\$ 6,186</u>	<u>\$ 2,474</u>

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 gas distribution systems through Hildale City's 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 employees are employed by Colorado City and covered by Colorado City's insurance policy.

NOTE 7. Contingencies

The Gas 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.

NOTE 8. Internal Repair and Replacement Reserves

The Gas Departments designate reserve funds for future repair and replacement activity. As of June 30, 2017, the Gas Departments' internal repair and replacement reserves total \$255,544. These reserves are included in the unrestricted net position balance on the statement of net position.

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SUPPLEMENTARY INFORMATION

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

The Gas Distribution Systems, Operations and Maintenance Agreement or the Gas Departments of Hildale/Colorado City (the Gas Departments) was formalized on June 22, 2009, 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”) entered into the “Inter-Governmental Agreement.” An updated intergovernmental cooperative agreement for utilities systems management, operation and maintenance became effective in May 2014.

The Gas Departments’ proportionate shares are based on the proportionate amount of gas system utility customers and usage for each of the municipalities. The proportionate shares as of and for the year ended June 30, 2017 are 40.00% for Hildale City and 60.00% for Colorado City, respectively, which is the same as the prior fiscal year. Any such change results in an allocation percentage adjustment and is shown on the schedule of revenues, expenses and changes in net position—proportionate shares, if applicable. **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 GAS DEPARTMENTS
Schedule of Net Position—Proportionate Shares
June 30, 2017

	40.00%	60.00%	100.00%
	<u>Hildale City</u>	<u>Colorado City</u>	<u>Total</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 198,604	\$ 297,906	\$ 496,510
Receivables, net of allowance	27,893	41,839	69,732
Note receivable - current portion	12,634	18,952	31,586
Deposits	11,804	17,705	29,509
Total current assets	<u>250,935</u>	<u>376,402</u>	<u>627,337</u>
Noncurrent assets:			
Note receivable - net of current portion	113,283	169,924	283,207
Property and equipment	1,120,198	1,680,298	2,800,496
Accumulated depreciation	(462,650)	(693,976)	(1,156,626)
Total noncurrent assets	<u>770,831</u>	<u>1,156,246</u>	<u>1,927,077</u>
Total assets	<u>1,021,766</u>	<u>1,532,648</u>	<u>2,554,414</u>
Liabilities			
Current liabilities:			
Accounts payable	7,564	11,346	18,910
Accrued liabilities	13	19	32
Compensated absences	990	1,484	2,474
Total current liabilities	<u>8,567</u>	<u>12,849</u>	<u>21,416</u>
Long-term liabilities:			
Compensated absences	1,485	2,227	3,712
Total long-term liabilities	<u>1,485</u>	<u>2,227</u>	<u>3,712</u>
Total liabilities	<u>10,052</u>	<u>15,076</u>	<u>25,128</u>
Net position			
Net investment in capital assets	657,548	986,322	1,643,870
Unrestricted	354,166	531,250	885,416
Total net position	<u>\$ 1,011,714</u>	<u>\$ 1,517,572</u>	<u>\$ 2,529,286</u>

HILDALE/COLORADO CITY GAS DEPARTMENTS
Schedule of Revenues, Expenses and Changes in Net Position—Proportionate Shares
For the Year Ended June 30, 2017

	40.00%	60.00%	100.00%
	<u>Hildale City</u>	<u>Colorado City</u>	<u>Total</u>
Operating revenues			
Charges for services	\$ 304,247	\$ 456,370	\$ 760,617
Penalties and interest	10,746	16,119	26,865
Other revenues	<u>3,380</u>	<u>5,070</u>	<u>8,450</u>
Total operating revenues	<u>318,373</u>	<u>477,559</u>	<u>795,932</u>
Operating expenses			
Personnel expenses	54,112	81,169	135,281
Office expenses and travel	2,856	4,285	7,141
Services, supplies and other	40,924	61,382	102,306
Utilities	2,160	3,240	5,400
Insurance	10,930	16,395	27,325
Professional fees (non-legal)	622	933	1,555
Legal expenses	15,160	22,739	37,899
Gas purchases and transportation costs	152,349	228,524	380,873
Equipment rent	2,692	4,038	6,730
Administrative cost allocation	46,000	69,000	115,000
Depreciation/amortization	<u>54,539</u>	<u>81,809</u>	<u>136,348</u>
Total operating expenses	<u>382,344</u>	<u>573,514</u>	<u>955,858</u>
Operating income (loss)	<u>(63,971)</u>	<u>(95,955)</u>	<u>(159,926)</u>
Nonoperating revenues (expenses)			
Interest income	3,782	5,672	9,454
Other revenues	<u>2,003</u>	<u>3,005</u>	<u>5,008</u>
Total nonoperating revenue (expense)	<u>5,785</u>	<u>8,677</u>	<u>14,462</u>
Income (loss) before capital contributions	(58,186)	(87,278)	(145,464)
Capital contributions	<u>5,595</u>	<u>8,393</u>	<u>13,988</u>
Change in net position	(52,591)	(78,885)	(131,476)
Total net position, beginning of year	<u>1,064,305</u>	<u>1,596,457</u>	<u>2,660,762</u>
Total net position, end of year	<u><u>\$ 1,011,714</u></u>	<u><u>\$ 1,517,572</u></u>	<u><u>\$ 2,529,286</u></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 the major fund of the Gas Departments of Hildale/Colorado City (the Gas Departments), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Gas Departments' basic financial statements and have issued our report thereon dated January 23, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Gas 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 Gas Departments' internal control. Accordingly, we do not express an opinion on the effectiveness of the Gas 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 Gas 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*.

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
January 23, 2018



MEMBERS:

CHAD B. ATKINSON, CPA
KRIS J. BRAUNBERGER, CPA
MICHAEL K. SPILKER, CPA
KEVIN L. STEPHENS, CPA
MARK E. TICHENOR, CPA
MICHAEL J. TORGERSON, CPA
PHILLIP S. PEINE, CPA

STEVEN D. PALMER, CPA
ROBERT S. COX, CPA
TODD B. FELTNER, CPA
K. MARK FROST, CPA
MORRIS J. PEACOCK, CPA
JEFF C. HUNT, CPA

Findings and Recommendations

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

During our audit of the Gas Departments of Hildale/Colorado City (the Gas Departments) for the year ended June 30, 2017, 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 Gas Departments' accounting system and control over its assets.

Since the Gas 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 Gas 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
January 23, 2018

HILDALE CITY, UTAH
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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Independent Auditor's Report

The Honorable Mayor and City Council
Hildale City, Utah

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hildale City, Utah (the City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2017, 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, 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 City's basic financial statements. The accompanying combining statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



HintonBurdick, PLLC
St. George, Utah
January 23, 2018

HILDALE CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

As management of Hildale City, Utah (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2017. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total net position increased by \$1,728,285 for the fiscal year.
- Total governmental revenues exceeded total governmental expenses by \$1,654,485.
- Total business-type revenues exceeded total business-type expenses by \$73,800, which includes affiliate revenue and expense of \$667,828 and \$693,206, respectively.
- Total revenues from all sources were \$4,783,289, which includes revenue from affiliates of \$667,828.
- The total cost of all city programs was \$3,055,004, which includes expenses from affiliates of \$693,206.
- The general fund reported revenues under expenditures (including other financing sources and uses) of \$25,204.
- Actual resources received (including other financing sources) in the general fund were less than the final budget by \$1,240,043, while actual expenditures (including other financing uses) were \$1,287,039 less than the final budget.
- At the end of the fiscal year, unassigned fund balance for the general fund was \$228,642 or 12.2% of total general fund expenditures.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the statement of net position and the statement of activities. These statements provide information about the activities of the City as a whole. (2) Fund financial statements present how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. (3) Notes to the financial statements.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities (Government-wide)

A frequently asked question regarding the City's financial health is whether the year's activities contributed positively to the overall financial well-being. The statement of net position and the statement of activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes in them. Net position, essentially the difference between assets (and deferred outflows of resources) and liabilities (and deferred inflows of resources), is one way to measure the City's financial health, or financial position. Over time, increases or decreases in net position is an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the City's property tax base or condition of the City's roads to accurately assess the overall health of the City.

The statement of net position and the statement of activities present information about the following:

- Government activities – All of the City's basic services are considered to be governmental activities, including general government, public safety, public works, parks and recreation, highways and streets, and interest on long-term debt. Property taxes, sales tax, intergovernmental revenues and charges for services finance most of these activities.
- Proprietary activities/Business type activities – The City charges a fee to customers to cover all or most of the cost of the services provided.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, management establishes many other funds which aid in the management of money for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The City's two major kinds of funds, governmental and proprietary, use different accounting approaches as explained below.

- Governmental funds – Most of the City's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation included with the basic financial statements.
- Proprietary funds – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the City's financial position. The City's combined assets are greater than liabilities (and deferred inflows of resources) by \$9,008,227 (governmental and business-type activities) as of June 30, 2017 as shown in the following condensed statement of net position. The City accounts for its sewer operations in an enterprise fund, which is shown as business-type activities.

Hildale City Statement of Net Position

	Governmental activities		Business-type activities		Totals	
	6/30/2017	6/30/2016	6/30/2017	6/30/2016	6/30/2017	6/30/2016
Current and other assets	\$ 1,188,299	\$ 1,844,700	\$ 789,209	\$ 649,642	\$ 1,977,508	\$ 2,494,342
Capital assets	4,630,866	3,381,345	4,505,463	4,715,509	9,136,329	8,096,854
Investment in affiliates	-	-	1,487,852	1,513,230	1,487,852	1,513,230
Total assets	<u>5,819,165</u>	<u>5,226,045</u>	<u>6,782,524</u>	<u>6,878,381</u>	<u>12,601,689</u>	<u>12,104,426</u>
Long-term liabilities outstanding	662,000	734,797	2,300,994	2,444,091	2,962,994	3,178,888
Other liabilities	406,696	1,397,853	129,584	156,144	536,280	1,553,997
Total liabilities	<u>1,068,696</u>	<u>2,132,650</u>	<u>2,430,578</u>	<u>2,600,235</u>	<u>3,499,274</u>	<u>4,732,885</u>
Deferred inflows of resources	94,188	91,599	-	-	94,188	91,599
Net position:						
Net investment in capital assets	3,968,866	2,646,548	2,212,574	2,279,277	6,181,440	4,925,825
Invested in affiliates	-	-	1,487,852	1,513,230	1,487,852	1,513,230
Restricted	30,301	13,368	282,790	277,790	313,091	291,158
Unrestricted	657,114	341,880	368,730	207,849	1,025,844	549,729
Total net position	<u>\$ 4,656,281</u>	<u>\$ 3,001,796</u>	<u>\$ 4,351,946</u>	<u>\$ 4,278,146</u>	<u>\$ 9,008,227</u>	<u>\$ 7,279,942</u>

Governmental Activities

The cost of all governmental activities this year was \$1,528,329. As shown on the statement of changes in net position below, \$536,366 of this cost was paid for by those who directly benefited from the programs and \$1,677,905 was subsidized by grants and contributions received from other governmental organizations and others for both capital and operating activities. Overall governmental program revenues, including intergovernmental aid and fees for services, but excluding general revenues were \$2,214,271. General revenues totaled \$968,543.

The City's programs include: general government, public safety, highways and streets/public works, and parks and recreation. Each program's revenues and expenses are presented below.

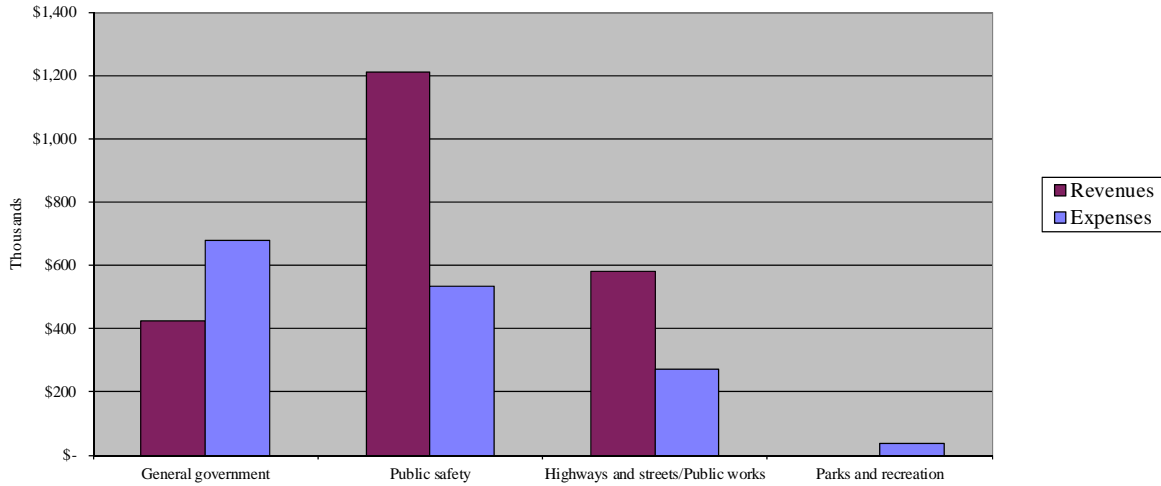
Hildale City Changes in Net Position

	Governmental activities		Business-type activities		Totals	
	6/30/2017	6/30/2016	6/30/2017	6/30/2016	6/30/2017	6/30/2016
Revenues:						
Program revenues:						
Charges for services	\$ 536,366	\$ 547,281	\$ 859,729	\$ 878,792	\$ 1,396,095	\$ 1,426,073
Operating grants and contributions	122,177	106,953	-	-	122,177	106,953
Capital grants and contributions	1,555,728	1,128,114	75,939	98,995	1,631,667	1,227,109
General revenues:						
Taxes	917,080	739,022	-	-	917,080	739,022
Other revenue/(expense)	51,463	27,795	6,135	5,066	57,598	32,861
Affiliate revenue	-	-	658,672	759,228	658,672	759,228
Total revenues	<u>3,182,814</u>	<u>2,549,165</u>	<u>1,600,475</u>	<u>1,742,081</u>	<u>4,783,289</u>	<u>4,291,246</u>
Expenses:						
General government	679,578	639,345	-	-	679,578	639,345
Public safety	532,486	493,591	-	-	532,486	493,591
Highways and streets/Public works	269,986	135,458	-	-	269,986	135,458
Parks and recreation	36,029	28,919	-	-	36,029	28,919
Interest on long-term debt	10,250	12,272	87,085	90,035	97,335	102,307
Sewer	-	-	746,384	735,847	746,384	735,847
Affiliate expenses	-	-	693,206	781,739	693,206	781,739
Total expenses	<u>1,528,329</u>	<u>1,309,585</u>	<u>1,526,675</u>	<u>1,607,621</u>	<u>3,055,004</u>	<u>2,917,206</u>
Increase (decrease) in net position	1,654,485	1,239,580	73,800	134,460	1,728,285	1,374,040
Net position, beginning	3,001,796	1,762,216	4,278,146	4,289,101	7,279,942	6,051,317
Affiliate proportionate share allocation adjustment	-	-	-	(145,415)	-	(145,415)
Net position, ending	<u>\$ 4,656,281</u>	<u>\$ 3,001,796</u>	<u>\$ 4,351,946</u>	<u>\$ 4,278,146</u>	<u>\$ 9,008,227</u>	<u>\$ 7,279,942</u>

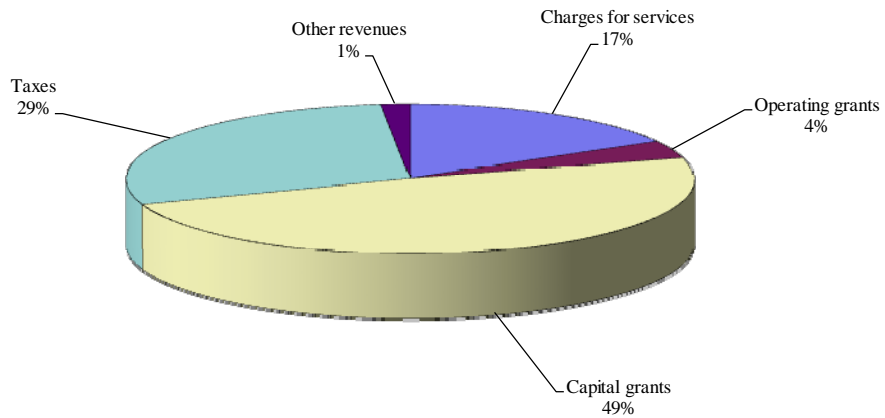
Total resources available during the year to finance governmental activities were \$6,184,610, consisting of net position at July 1, 2016 of \$3,001,796, program revenues of \$2,214,271 and general revenues of \$968,543. Total governmental activity expenses during the year were \$1,528,329; thus governmental net position increased by \$1,654,485 to \$4,656,281.

The following graphs compare program expenses to program revenues and provide a breakdown of revenues by source for all governmental activities:

Expenses and Program Revenues - Governmental Activities (in Thousands)



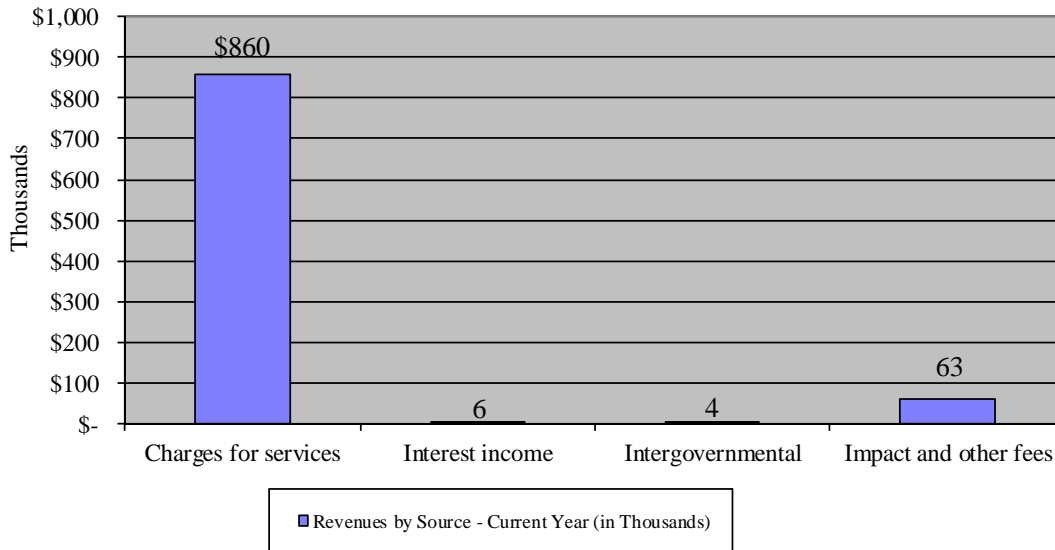
Revenue By Source - Governmental Activities



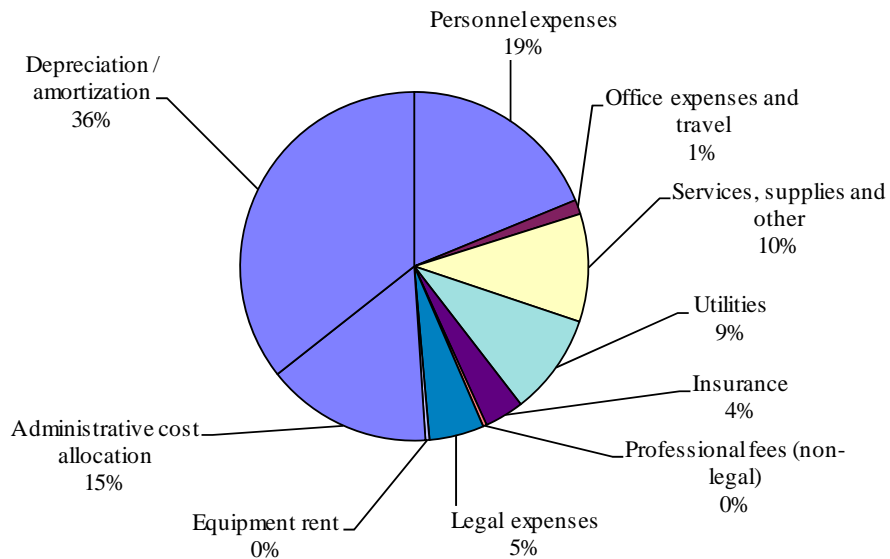
Business-Type Activities

Net position of the business-type activities at June 30, 2017, as reflected in the statement of net position, is \$4,351,946. The cost of providing all proprietary (business-type) activities this year was \$1,526,675, which includes \$693,206 of affiliate expenses. As shown in the statement of changes in net position, the amount paid by users of the system was \$859,729 (excluding affiliates). Interest earnings were \$6,135, impact fees, capital contributions and other nonoperating revenues were \$75,939 and revenues from affiliates were \$658,672. Net position increased by \$73,800.

Revenues by Source, excluding affiliates - Current Year (in Thousands)



Operating Expenses, excluding affiliates- Current Year



Financial Analysis of Government's Funds

Governmental funds: As of the end of the fiscal year, the City's general fund reported an ending fund balance of \$338,257, a decrease of \$25,204 from the prior fiscal year. All of the balance constitutes either assigned or unassigned fund balance except for \$26,736 of restricted debt reserves and \$3,565 restricted RAP taxes. An interfund transfer of \$356,606 was made from the general fund to the new capital projects fund in fiscal year 2017. All of the fund balance in the capital projects fund is assigned to repair and replacement reserves and Industrial Park improvements.

Proprietary funds: Total net position of the proprietary funds were a combined \$4,351,946, consisting of \$2,212,574 net investment in capital assets, \$1,487,852 invested in affiliates, \$69,150 restricted for debt repair and replacement, \$208,640 restricted for debt service, \$5,000 restricted for capital projects – impact fees and \$368,730 in unrestricted net position. The combined change in net position was an increase of \$73,800, consisting of a \$99,178 increase in the sewer fund and a \$25,378 decrease in affiliates.

General Fund Budgetary Highlights

The final appropriations for the general fund at year-end were \$1,287,039 more than actual expenditures (including transfers out). The budget and actual variance in appropriations were across all departments (primarily in highways and streets/public works). Actual revenues (including other financing sources) were less than the final budget by \$1,240,043. Budget amendments and supplemental appropriations were made during the year in an effort to prevent budget overruns after adoption of the original budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the City are those assets that are used in performance of city functions including infrastructure assets. Capital assets include equipment, buildings, land, park facilities, roads, utility systems and other improvements. At the end of fiscal year 2017, net capital assets of the government activities totaled \$4,630,866 and the net capital assets of the business-type activities totaled \$4,505,463 (excluding affiliates). Depreciation on capital assets is recognized in the government-wide financial statements. See notes to the financial statements.

Debt

At fiscal year-end, the City had \$662,000 in governmental-type debt and \$2,292,889 in proprietary debt, excluding compensated absences and affiliate balances. The debt is a liability of the City. During the current fiscal year, the City's total debt decreased by \$216,140 (excluding affiliates).

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the City's budget for fiscal year 2017/2018, the city council and management were cautious as to the growth of revenues and expenditures. Overall, general fund operating expenditures were budgeted so as to contain costs at approximately the same level as fiscal year 2016/2017.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the resources it receives. If you have questions about this report or need additional financial information, contact Raymond Barlow, Hildale City, P.O. Box 840490, Hildale, UT, 84784.

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BASIC FINANCIAL STATEMENTS

HILDALE CITY, UTAH
Statement of Net Position
June 30, 2017

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 360,760	\$ 764,548	\$ 1,125,308
Receivables, net	407,830	116,219	524,049
Internal balances	392,973	(392,973)	-
Prepaid items	-	23,625	23,625
Restricted cash and cash equivalents	26,736	277,790	304,526
Investment in affiliates	-	1,487,852	1,487,852
Capital assets (net of accumulated depreciation):			
Land	41,711	364,661	406,372
Construction in progress	336,390	-	336,390
Buildings	564,703	544,453	1,109,156
Improvements other than buildings	938,633	3,420,869	4,359,502
Machinery and equipment	122,041	88,161	210,202
Office furniture and equipment	8,162	-	8,162
Automobiles and trucks	926,314	87,319	1,013,633
Infrastructure	1,692,912	-	1,692,912
Total assets	<u>5,819,165</u>	<u>6,782,524</u>	<u>12,601,689</u>
Liabilities			
Accounts payable and other accrued liabilities	399,248	121,584	520,832
Accrued interest payable	7,448	-	7,448
Unearned revenue	-	8,000	8,000
Noncurrent liabilities:			
Due within one year	69,000	150,691	219,691
Due in more than one year	593,000	2,150,303	2,743,303
Total liabilities	<u>1,068,696</u>	<u>2,430,578</u>	<u>3,499,274</u>
Deferred inflows of resources			
Deferred revenue - property taxes	94,188	-	94,188
Total deferred inflows of resources	<u>94,188</u>	<u>-</u>	<u>94,188</u>
Net position			
Net investment in capital assets	3,968,866	2,212,574	6,181,440
Invested in affiliates	-	1,487,852	1,487,852
Restricted for:			
Debt service	26,736	277,790	304,526
Capital outlay	-	5,000	5,000
Other purposes	3,565	-	3,565
Unrestricted	657,114	368,730	1,025,844
Total net position	<u>\$ 4,656,281</u>	<u>\$ 4,351,946</u>	<u>\$ 9,008,227</u>

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

HILDALE CITY, UTAH
Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 679,578	\$ 422,831	\$ -	\$ -	\$ (256,747)	\$ -	\$ (256,747)
Public safety	532,486	113,535	1,592	1,094,635	677,276	-	677,276
Highways and streets/Public works	269,986	-	120,585	461,093	311,692	-	311,692
Parks and recreation	36,029	-	-	-	(36,029)	-	(36,029)
Interest on long-term debt	10,250	-	-	-	(10,250)	-	(10,250)
Total governmental activities	1,528,329	536,366	122,177	1,555,728	685,942	-	685,942
Business-type activities:							
Sewer	833,469	859,729	-	66,783	-	93,043	93,043
Investment in affiliates	693,206	658,672	-	9,156	-	(25,378)	(25,378)
Total business-type activities	1,526,675	1,518,401	-	75,939	-	67,665	67,665
Total primary government	\$ 3,055,004	\$ 2,054,767	\$ 122,177	\$ 1,631,667	685,942	67,665	753,607
General Revenues:							
Taxes:							
Property taxes levied for general purposes					425,265	-	425,265
Sales and use taxes					387,165	-	387,165
Franchise taxes					104,650	-	104,650
Unrestricted investment earnings					8,579	6,135	14,714
Gain on sale of capital assets					42,884	-	42,884
Total general revenues					968,543	6,135	974,678
Change in net position					1,654,485	73,800	1,728,285
Net position - beginning					3,001,796	4,278,146	7,279,942
Net position - ending					\$ 4,656,281	\$ 4,351,946	\$ 9,008,227

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

HILDALE CITY, UTAH
Balance Sheet
Governmental Funds
June 30, 2017

	General Fund	Capital Projects Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 4,154	\$ 356,606	\$ 360,760
Restricted cash and cash equivalents	26,736	-	26,736
Receivables, net of allowance			
Services	54,411	-	54,411
Leases	8,930	-	8,930
Property taxes - subsequent year	94,188	-	94,188
Due from other governments	250,301	-	250,301
Due from other funds	447,660	-	447,660
Total assets	\$ 886,380	\$ 356,606	\$ 1,242,986
Liabilities, deferred inflows of resources, and fund balances			
Liabilities:			
Accounts payable	\$ 399,248	\$ -	\$ 399,248
Due to other funds	54,687	-	54,687
Total liabilities	453,935	-	453,935
Deferred inflows of resources:			
Deferred revenue - property taxes	94,188	-	94,188
Total deferred inflows of resources	94,188	-	94,188
Fund balances:			
Restricted:			
Debt reserves	26,736	-	26,736
RAP taxes	3,565	-	3,565
Assigned:			
Subsequent year's budget: appropriation of fund balance	50,000	-	50,000
Repair and replacement reserves:			
Admin capital improvement	-	20,831	20,831
Court	-	600	600
Fire	-	7,800	7,800
Building	-	2,400	2,400
Streets	-	30,877	30,877
Parks	-	5,200	5,200
Industrial Park improvements	-	288,898	288,898
Risk management	29,314	-	29,314
Unassigned	228,642	-	228,642
Total fund balances	338,257	356,606	694,863
Total liabilities, deferred inflows of resources, and fund balances	\$ 886,380	\$ 356,606	\$ 1,242,986

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

HILDALE CITY, UTAH
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position
June 30, 2017

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances - total governmental funds		\$	694,863
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>			
Cost of capital assets		\$	6,317,524
Accumulated depreciation			(1,686,658)
			4,630,866
<p>Some liabilities, including bonds payable and capital leases, are not due and payable in the current period and therefore are not reported in the funds.</p>			
Debt issued			(662,000)
Accrued interest payable			(7,448)
			(669,448)
Net position of governmental activities		\$	4,656,281

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

HILDALE CITY, UTAH
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues			
Property taxes	\$ 425,265	\$ -	\$ 425,265
Sales and use taxes	387,165	-	387,165
Franchise taxes	104,650	-	104,650
Licenses and permits	8,778	-	8,778
Intergovernmental revenue	597,949	-	597,949
Charges for services	21,340	-	21,340
Administrative service fees	345,000	-	345,000
Lease revenues	137,189	-	137,189
Other revenues	24,059	-	24,059
Interest income	8,579	-	8,579
Total revenues	<u>2,059,974</u>	<u>-</u>	<u>2,059,974</u>
Expenditures			
Current:			
General government	686,246	-	686,246
Public safety	348,418	-	348,418
Highways and streets/Public works	717,810	-	717,810
Parks and recreation	30,668	-	30,668
Debt service	83,812	-	83,812
Total expenditures	<u>1,866,954</u>	<u>-</u>	<u>1,866,954</u>
Excess (deficiency) of revenues over expenditures	<u>193,020</u>	<u>-</u>	<u>193,020</u>
Other financing sources (uses)			
Sales of general capital assets	138,382	-	138,382
Transfers in	-	356,606	356,606
Transfers out	<u>(356,606)</u>	<u>-</u>	<u>(356,606)</u>
Total financing sources (uses)	<u>(218,224)</u>	<u>356,606</u>	<u>138,382</u>
Net change in fund balance	(25,204)	356,606	331,402
Fund balance, beginning of year	<u>363,461</u>	<u>-</u>	<u>363,461</u>
Fund balance, end of year	<u><u>\$ 338,257</u></u>	<u><u>\$ 356,606</u></u>	<u><u>\$ 694,863</u></u>

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

HILDALE CITY, UTAH
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2017

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds		\$ 331,402
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlays	\$ 576,862	
Depreciation expense	<u>(311,799)</u>	265,063
<p>The net effect of various miscellaneous transactions involving capital assets (i.e. sales and donations) is to decrease net position.</p>		
		(95,498)
<p>Capital contributions do not provide current financial resources in the governmental funds; however, these contributions are recorded as revenue in the statement of activities.</p>		
		1,079,956
<p>The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>		
Principal repayments	<u>72,797</u>	72,797
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
Accrued interest	<u>765</u>	<u>765</u>
Change in net position of governmental activities		<u><u>\$ 1,654,485</u></u>

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

HILDALE CITY, UTAH
Statement of Net Position
Proprietary Funds
June 30, 2017

	Business-type Activities			
	Sewer	Affiliates	Total Enterprise Funds	Internal Service Funds
Assets				
Current assets:				
Cash and cash equivalents	\$ 733,054	\$ -	\$ 733,054	\$ 31,494
Receivables, net of allowance	116,219	-	116,219	-
Due from other funds	54,687	-	54,687	-
Prepaid items	23,625	-	23,625	-
Total current assets	<u>927,585</u>	<u>-</u>	<u>927,585</u>	<u>31,494</u>
Noncurrent assets:				
Restricted cash and cash equivalents	277,790	-	277,790	-
Investment in affiliates	-	1,487,852	1,487,852	-
Capital assets:				
Land	364,661	-	364,661	-
Buildings	1,061,392	-	1,061,392	456,806
Improvements other than buildings	6,914,246	-	6,914,246	-
Automobiles and trucks	418,204	-	418,204	68,522
Machinery and equipment	208,998	-	208,998	129,406
Less: accumulated depreciation	(4,976,933)	-	(4,976,933)	(139,839)
Total noncurrent assets	<u>4,268,358</u>	<u>1,487,852</u>	<u>5,756,210</u>	<u>514,895</u>
Total assets	<u>5,195,943</u>	<u>1,487,852</u>	<u>6,683,795</u>	<u>546,389</u>
Liabilities				
Current liabilities:				
Accounts payable	22,855	-	22,855	98,729
Due to other funds	-	-	-	447,660
Unearned revenue	8,000	-	8,000	-
Compensated absences - current	3,242	-	3,242	-
Bonds payable - current	147,449	-	147,449	-
Total current liabilities	<u>181,546</u>	<u>-</u>	<u>181,546</u>	<u>546,389</u>
Noncurrent liabilities:				
Compensated absences	4,863	-	4,863	-
Bonds payable	2,145,440	-	2,145,440	-
Total noncurrent liabilities	<u>2,150,303</u>	<u>-</u>	<u>2,150,303</u>	<u>-</u>
Total liabilities	<u>2,331,849</u>	<u>-</u>	<u>2,331,849</u>	<u>546,389</u>
Net position				
Net investment in capital assets	1,697,679	-	1,697,679	514,895
Invested in affiliates	-	1,487,852	1,487,852	-
Restricted:				
Debt reserves	277,790	-	277,790	-
Capital outlay - impact fees	5,000	-	5,000	-
Unrestricted	883,625	-	883,625	(514,895)
Total net position	<u>\$ 2,864,094</u>	<u>\$ 1,487,852</u>	<u>\$ 4,351,946</u>	<u>\$ -</u>

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

HILDALE CITY, UTAH
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2017

	Business-type Activities			
	Sewer	Affiliates	Total Enterprise Funds	Internal Service Funds
Operating revenues				
Charges for services	\$ 859,625	\$ -	\$ 859,625	\$ 745,645
Other revenues	104	-	104	-
Total operating revenues	<u>859,729</u>	<u>-</u>	<u>859,729</u>	<u>745,645</u>
Operating expenses				
Personnel expenses	140,340	-	140,340	397,991
Office expenses and travel	9,929	-	9,929	8,540
Services, supplies and other	74,759	-	74,759	42,464
Utilities	69,951	-	69,951	12,565
Insurance	27,325	-	27,325	81,976
Professional fees (non-legal)	2,558	-	2,558	4,664
Legal expenses	37,899	-	37,899	151,597
Equipment rent	2,808	-	2,808	8,423
Administrative cost allocation	115,000	-	115,000	-
Depreciation	265,815	-	265,815	37,425
Total operating expenses	<u>746,384</u>	<u>-</u>	<u>746,384</u>	<u>745,645</u>
Operating income (loss)	<u>113,345</u>	<u>-</u>	<u>113,345</u>	<u>-</u>
Nonoperating revenues (expenses)				
Interest income	6,135	-	6,135	-
Intergovernmental	3,952	-	3,952	-
Impact fees	49,075	-	49,075	-
Other revenues	6,114	-	6,114	-
Interest expense and fiscal charges	(87,085)	-	(87,085)	-
Net income (loss) from affiliates	-	(25,378)	(25,378)	-
Total nonoperating revenues (expenses)	<u>(21,809)</u>	<u>(25,378)</u>	<u>(47,187)</u>	<u>-</u>
Income (loss) before capital contributions	91,536	(25,378)	66,158	-
Capital contributions	<u>7,642</u>	<u>-</u>	<u>7,642</u>	<u>-</u>
Change in net position	99,178	(25,378)	73,800	-
Total net position, beginning of year	<u>2,764,916</u>	<u>1,513,230</u>	<u>4,278,146</u>	<u>-</u>
Total net position, end of year	<u>\$ 2,864,094</u>	<u>\$ 1,487,852</u>	<u>\$ 4,351,946</u>	<u>\$ -</u>

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

HILDALE CITY, UTAH
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017

	Business-type Activities		
	Sewer	Internal Service Funds	Combined Total (Memorandum Only)
Cash flows from operating activities			
Receipts from customers, service fees	\$ 856,029	\$ -	\$ 856,029
Receipts from customers, other	104	-	104
Receipts from interfund charges for services	-	745,645	745,645
Payments to suppliers and service providers	(216,058)	(348,261)	(564,319)
Payments to employees	(7,676)	(397,991)	(405,667)
Payments for interfund charges for services	(235,915)	-	(235,915)
Cash flows from operating activities	<u>396,484</u>	<u>(607)</u>	<u>395,877</u>
Cash flows from non-capital financing activities			
Transfers from (to) other funds	32,813	(6,817)	25,996
Cash flows from non-capital financing activities	<u>32,813</u>	<u>(6,817)</u>	<u>25,996</u>
Cash flows from capital and related financing activities			
Impact fees	49,075	-	49,075
Other revenues	6,114	-	6,114
Acquisition and construction of capital assets	(71,878)	(21,316)	(93,194)
Principal paid on capital debt	(143,343)	-	(143,343)
Capital contributions	7,642	-	7,642
Interest paid	(87,085)	-	(87,085)
Cash flows from capital and related financing activities	<u>(239,475)</u>	<u>(21,316)</u>	<u>(260,791)</u>
Cash flows from investing activities			
Interest received	6,135	-	6,135
Net change in cash and cash equivalents	195,957	(28,740)	167,217
Cash and cash equivalents, beginning of year, including restricted cash	<u>814,887</u>	<u>60,234</u>	<u>875,121</u>
Cash and cash equivalents, end of year, including restricted cash	<u>\$ 1,010,844</u>	<u>\$ 31,494</u>	<u>\$ 1,042,338</u>
Reconciliation of operating income to net cash flows from operating activities:			
Operating income (loss)	\$ 113,345	\$ -	\$ 113,345
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	265,815	37,425	303,240
Changes in operating assets and liabilities:			
(Increase)/decrease in receivables	(3,596)	-	(3,596)
(Increase)/decrease in prepaid items	5,250	-	5,250
Increase/(decrease) in accounts payable	15,424	(38,032)	(22,608)
Increase/(decrease) in compensated absences	246	-	246
Net cash flows from operating activities	<u>\$ 396,484</u>	<u>\$ (607)</u>	<u>\$ 395,877</u>

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

HILDALE CITY, UTAH
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies

Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities 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

Hildale City, Utah (the City) is a municipal corporation and political subdivision of the State of Utah, organized and existing as a third class city pursuant to Title 10, Utah Code Annotated 1953, as amended. The City is governed by a mayor and five council members elected for staggered four-year terms. The mayor presides over all meetings but casts no vote in the council except in case of a tie.

The accompanying financial statements present the City and its component units—entities for which the City is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

There are no separate component units combined to form the reporting entity. However, the City has an equity interest in Twin City Water Joint Management, Operations and Maintenance Agreement (the Water Departments) and the Gas Distribution Systems, Operations and Maintenance Agreement (the Gas Departments). See Note 6 for further details.

Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise funds and internal service funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds (when applicable), even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

HILDALE CITY, UTAH
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies, Continued

Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category—governmental and proprietary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

The **Capital Projects Fund** accounts for the acquisition and construction of the City's major capital facilities and other capital projects (including repair and replacement activity), other than those financed by proprietary funds.

The City reports the following major enterprise fund:

The **Sewer Fund** accounts for the activities of the City's wastewater collection and treatment facilities.

Additionally, the City reports the following fund type:

Internal service funds account for risk management (litigation defense) and administration (basic shared utility department expenses) services provided to other departments or agencies of the City, or to other governments on a cost-reimbursement basis.

During the course of operations the City has 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 governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise and internal service funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs 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 governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances 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.

HILDALE CITY, UTAH
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies, Continued

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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

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

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and Cash Equivalents

The City's 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 CITY, UTAH
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies, Continued

Investments

The City's 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 City are reported at fair value (generally based on quoted market prices) with unrealized gains and losses recorded as adjustments to interest/investments earnings.

Receivables

Receivables consist primarily of accounts due for services provided and related late penalties and interest. Management periodically reviews accounts receivable and writes off uncollectible accounts. The general fund's and sewer fund's allowances for uncollectible accounts as of June 30, 2017 are \$4,959 and \$8,823, respectively.

Inventories and Prepaid Items

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. Inventories of the business type activities are valued at cost using the first-in/first-out (FIFO) method. Inventories in all fund types are immaterial and are not recorded.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	7-40 years
Improvements other than buildings	7-30 years
Automobiles and trucks	5-7 years
Machinery and equipment	3-10 years
Infrastructure	15-30 years

HILDALE CITY, UTAH
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies, Continued

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The City does not have any such items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has one type of item that qualifies for reporting in this category. Accordingly, the item, *deferred revenue – property taxes* is reported in both the governmental funds balance sheet and the statement of net position. The governmental funds report deferred revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period for which they are levied and/or intended.

Net Position Flow Assumptions

Sometimes the City 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 government-wide and 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 City’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

HILDALE CITY, UTAH
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies, Continued

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The city council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The city council is authorized to assign amounts to a specific purpose in accordance with the City's budget policy. The city council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenditures/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. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property Taxes

Property taxes are collected by the Washington County Treasurer and remitted to the City in multiple installments. Taxes are levied each October on the taxable value listed as of the prior January 1 (lien date) for all real property located in the City. Taxable values are established by the county assessor at a percent of the fair value on primary residential property and 100 percent of the fair value on non-primary residential property. A revaluation of all property is required to be completed no less than every five years. Taxes are due and payable on November 1 and delinquent after November 30 of each year, at which time they become liens if not paid.

An accrual of uncollected *delinquent* property taxes has not been made since the amounts are not measurable and cannot be reasonably estimated. The delinquent amounts may be material.

HILDALE CITY, UTAH
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies, Continued

City Personnel, Payroll and Compensated Absences

The majority of the City's personnel are employed by the Town of Colorado City. The City reimburses Colorado City for wages, payroll taxes and benefits for these contracted employees. Because the majority of the City's personnel are employed by Colorado City, accruals for compensated absences are based on Colorado City's related policies. Some of the personnel on the City's payroll are not full-time employees. Hildale City does not currently have a separate policy relating to compensated absences, so there is no accrual in addition to the accrual relating to Colorado City's 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 funds and internal service funds 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.

Budgets and Budgetary Accounting

Annual budgets are prepared and adopted by the city council 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 General Fund budget is prepared using the modified accrual basis of accounting. Budgets for the proprietary fund types are prepared using the accrual basis of accounting, except that depreciation for all proprietary fund types was not budgeted. During the current fiscal year there were various amendments to the budget. Procedures for amending the budget were done in accordance with state law.

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

Risk Management

The City maintains insurance for general liability, auto liability, employee dishonesty and worker's compensation through various insurance companies. The City has had difficulty in recent years securing insurance coverage due to various legal matters; consequently, the City's liability coverage is limited.

HILDALE CITY, UTAH
Notes to the Financial Statements
June 30, 2017

NOTE 2. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net position of governmental activities as reported in the government-wide statement of net position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheets. The details of these differences are reported in the reconciliation on page 15.

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. These differences are the result of converting from the current resources measurement focus and modified accrual basis for governmental fund statements to the economic resources measurement focus and full accrual basis used for government-wide statements. The details of these differences are reported in the reconciliation on page 17.

NOTE 3. 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 City follows 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 Hildale City 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 City's central treasury consists of the following at fiscal year-end:

State Treasurer's Investment Pool	\$ 1,976,974
U.S. Bank	54,491
Wells Fargo Bank	304,618
Less amounts to Hildale and Colorado City Joint Utilities	<u>(906,849)</u>
Total	<u><u>\$ 1,429,234</u></u>

HILDALE CITY, UTAH
Notes to the Financial Statements
June 30, 2017

NOTE 3. Deposits and Investments, Continued

The City's cash in the City's central treasury and cash on hand at fiscal year-end are as follows:

Equity in central treasury	\$ 1,429,234
Cash on hand	600
Total	<u><u>\$ 1,429,834</u></u>

The City's deposits and investments are shown in the statement of net position as follows:

Cash and cash equivalents	\$ 1,125,308
Restricted cash and cash equivalents	304,526
	<u><u>\$ 1,429,834</u></u>

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a formal policy for custodial credit risk. As of June 30, 2017, \$46,769 of the City's central treasury's bank balance of \$379,800 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investment for Hildale City 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.

HILDALE CITY, UTAH
Notes to the Financial Statements
June 30, 2017

NOTE 3. Deposits and Investments, Continued

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.

As of June 30, 2017 the City had the following investments, ratings and maturities:

Investment Type	Fair Value	Credit Rating (1)	Weighted Average Maturity (2)
State of Utah Public Treasurer's Investment Fund	\$ 1,976,974	N/A	54.71
Total Fair Value	<u>\$ 1,976,974</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. Hildale City's 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 risk that an issuer or other counterparty to an investment will not fulfill its obligations. Hildale City's policy for reducing exposure to credit risk is to comply with the State's Money Management Act.

Fair value measurements

As noted above, the City holds investments that are measured at fair value on a recurring basis. The City categorizes its 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 CITY, UTAH
Notes to the Financial Statements
June 30, 2017

NOTE 4. Capital Assets

The following is a summary of the changes to capital assets for governmental activities during the year:

Governmental activities:	Balance 6/30/2016	Additions	Deletions	Balance 6/30/2017
Capital assets, not being depreciated:				
Land	\$ 64,883	\$ -	\$ (23,172)	\$ 41,711
Construction in progress	1,380,543	771,147	(1,815,300)	336,390
Total capital assets, not being depreciated	<u>1,445,426</u>	<u>771,147</u>	<u>(1,838,472)</u>	<u>378,101</u>
Capital assets, being depreciated:				
Buildings	775,733	-	-	775,733
Improvements other than buildings	137,422	876,740	-	1,014,162
Machinery and equipment	738,867	-	(9,520)	729,347
Office furniture and equipment	94,962	8,930	(10,838)	93,054
Automobiles and trucks	1,833,030	239,801	(564,901)	1,507,930
Infrastructure	243,697	1,575,500	-	1,819,197
Total capital assets, being depreciated	<u>3,823,711</u>	<u>2,700,971</u>	<u>(585,259)</u>	<u>5,939,423</u>
Less accumulated depreciation for:				
Buildings	(191,592)	(19,438)	-	(211,030)
Improvements other than buildings	(52,364)	(23,165)	-	(75,529)
Machinery and equipment	(562,515)	(54,311)	9,520	(607,306)
Office furniture and equipment	(93,032)	(2,698)	10,838	(84,892)
Automobiles and trucks	(925,245)	(148,946)	492,575	(581,616)
Infrastructure	(63,044)	(63,241)	-	(126,285)
Total accumulated depreciation	<u>(1,887,792)</u>	<u>(311,799)</u>	<u>512,933</u>	<u>(1,686,658)</u>
Total capital assets, being depreciated, net	<u>1,935,919</u>	<u>2,389,172</u>	<u>(72,326)</u>	<u>4,252,765</u>
Governmental activities capital assets, net	<u>\$ 3,381,345</u>	<u>\$ 3,160,319</u>	<u>\$ (1,910,798)</u>	<u>\$ 4,630,866</u>

Depreciation expense was charged to the functions/programs of the City as follows:

Governmental activities:	
General government	\$ 18,847
Public safety	184,068
Highways and streets/Public works	103,523
Parks and recreation	5,361
Total depreciation expense - governmental activities	<u>\$ 311,799</u>

HILDALE CITY, UTAH
Notes to the Financial Statements
June 30, 2017

NOTE 4. Capital Assets, Continued

The following is a summary of the changes to capital assets for business-type activities during the year:

Business-type activities:	Balance 6/30/2016	Additions	Deletions	Balance 6/30/2017
Capital assets not being depreciated:				
Land	\$ 364,661	\$ -	\$ -	\$ 364,661
Construction in progress	405,243	21,316	(426,559)	-
Total capital assets, not being depreciated	<u>769,904</u>	<u>21,316</u>	<u>(426,559)</u>	<u>364,661</u>
Capital assets being depreciated:				
Buildings	1,091,639	426,559	-	1,518,198
Sewer treatment plant and system lines	6,889,634	24,612	-	6,914,246
Machinery and equipment	338,404	-	-	338,404
Automobiles and trucks	439,460	47,266	-	486,726
Total capital assets, being depreciated	<u>8,759,137</u>	<u>498,437</u>	<u>-</u>	<u>9,257,574</u>
Less accumulated depreciation for:				
Buildings	(945,117)	(28,628)	-	(973,745)
Sewer treatment plant and system lines	(3,304,898)	(188,479)	-	(3,493,377)
Machinery and equipment	(202,054)	(48,189)	-	(250,243)
Automobiles and trucks	(361,463)	(37,944)	-	(399,407)
Total accumulated depreciation	<u>(4,813,532)</u>	<u>(303,240)</u>	<u>-</u>	<u>(5,116,772)</u>
Total capital assets, being depreciated, net	<u>3,945,605</u>	<u>195,197</u>	<u>-</u>	<u>4,140,802</u>
Business-type activities capital assets, net	<u>\$ 4,715,509</u>	<u>\$ 216,513</u>	<u>\$ (426,559)</u>	<u>\$ 4,505,463</u>

HILDALE CITY, UTAH
Notes to the Financial Statements
June 30, 2017

NOTE 5. Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2017:

	Balance 6/30/2016	Additions	Retirements	Balance 6/30/2017	Current Portion
Business-type activities:					
Sewer Revenue Bonds, Series 1979	\$ 75,657	\$ -	\$ 25,969	\$ 49,688	\$ 27,408
Sewer Revenue Bonds, Series 2000A	479,000	-	79,000	400,000	80,000
Sewer Revenue Bonds, Series 2000B	1,583,469	-	32,271	1,551,198	33,673
Sewer Revenue Bonds, Series 2000C	298,106	-	6,103	292,003	6,368
Compensated absences	7,859	246	-	8,105	3,242
Total business-type activities	<u>2,444,091</u>	<u>246</u>	<u>143,343</u>	<u>2,300,994</u>	<u>150,691</u>
Governmental activities:					
Capital leases payable	4,797	-	4,797	-	-
Sales Tax Revenue Bonds, Series 2015	730,000	-	68,000	662,000	69,000
Total governmental activities	<u>734,797</u>	<u>-</u>	<u>72,797</u>	<u>662,000</u>	<u>69,000</u>
Total long-term liabilities	<u>\$ 3,178,888</u>	<u>\$ 246</u>	<u>\$ 216,140</u>	<u>\$ 2,962,994</u>	<u>\$ 219,691</u>

HILDALE CITY, UTAH
Notes to the Financial Statements
June 30, 2017

NOTE 5. Long-Term Liabilities, Continued

Long-term liabilities consist of the following at June 30, 2017:

Revenue bonds:

Sewer Revenue Bonds, Series 1979, due in monthly principal and interest installments of \$2,435, bearing interest at 5.00%, maturing March 15, 2019, secured by the sewer building and distribution lines.	\$ 49,688
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Parity Sewer Revenue Bond, Series 2000A, due in annual principal installments ranging from \$79,000 - \$80,000, non-interest bearing, maturing April 1, 2022.	400,000
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Parity Sewer Revenue Bond, Series 2000B, due in annual principal installments ranging from \$18,000 - \$99,000, bearing interest at 4.5%, maturing November 25, 2042.	1,551,198
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Parity Sewer Revenue Bond, Series 2000C, due in annual principal installments ranging from \$3,400 - \$18,800, bearing interest at 4.5%, maturing November 25, 2042.	292,003
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Sales Tax Revenue Bonds, Series 2015, due in annual principal and interest installments ranging from \$78,950 - \$79,605, bearing interest at 1.5%, maturing October 1, 2025.	662,000
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Total revenue bonds payable	2,954,889
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Compensated absences	<u>8,105</u>
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Total long-term liabilities	<u>2,962,994</u>
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Less current portion:

Business-type activities	(150,691)
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Governmental activities	<u>(69,000)</u>
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Total long-term liabilities, net of current portion	<u><u>\$ 2,743,303</u></u>
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HILDALE CITY, UTAH
Notes to the Financial Statements
June 30, 2017

NOTE 5. Long-Term Liabilities, Continued

Revenue bonds and notes payable debt service requirements to maturity are as follows:

Ending June 30,	Sewer Revenue Bonds		Sales Tax Revenue Bonds	
	Principal	Interest	Principal	Interest
2018	\$ 147,449	\$ 83,979	\$ 69,000	\$ 9,930
2019	144,160	80,771	70,000	8,895
2020	123,804	78,404	71,000	7,845
2021	125,816	76,392	72,000	6,780
2022	127,921	74,287	73,000	5,700
2023-2027	274,724	336,316	307,000	11,610
2028-2032	343,898	267,142	-	-
2033-2037	430,492	180,548	-	-
2038-2042	538,888	72,152	-	-
2043	35,737	323	-	-
Totals	<u>\$ 2,292,889</u>	<u>\$ 1,250,314</u>	<u>\$ 662,000</u>	<u>\$ 50,760</u>

HILDALE CITY, UTAH
Notes to the Financial Statements
June 30, 2017

NOTE 6. Investment in Affiliates

The City has the following investments that are accounted for using the equity method:

Water Departments of Hildale/Colorado City

The Twin City Water Joint Management, Operations and Maintenance Agreement (the Water Departments) was formed on February 22, 1996 by the Town of Colorado City, Arizona and Hildale City, Utah (the municipalities). 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”) entered into the “Inter-Governmental Agreement.” An updated intergovernmental cooperative agreement for utilities systems management, operations and maintenance became effective in May 2014.

The Water Departments’ proportionate shares are based on the proportionate amount of water system utility customers and usage for each of the municipalities. The proportionate shares allocation did not change as of and for the year ended June 30, 2017 resulting in no proportionate shares allocation adjustment. There is an offsetting adjustment in the financial statements of the Town of Colorado City, Arizona, when applicable. See further details in the Water Departments’ financial statements for the year ended June 30, 2017.

The board of trustees consists of nine members—four members appointed by the mayor and council of Hildale City, four members appointed by the mayor and council of Colorado City and one member 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 Water Departments' audited financial statements as of June 30, 2017, can be obtained at the following address:

Hildale City
P.O. Box 840490
320 E. Newel Avenue
Hildale, Utah 84784

HILDALE CITY, UTAH
Notes to the Financial Statements
June 30, 2017

NOTE 6. Investment in Affiliates, Continued

Water Departments, (Continued)

The following is a summary of the total assets, liabilities, revenues, and expenses associated with the Water Departments and the allocation between the municipalities for the year ended June 30, 2017:

	Hildale City	Colorado City	Total
Total assets	\$ 673,161	\$ 1,250,154	\$ 1,923,315
Current liabilities	\$ 96,423	\$ 179,067	\$ 275,490
Long-term liabilities	100,600	186,830	287,430
Total liabilities	197,023	365,897	562,920
Net position	476,138	884,257	1,360,395
Total net position	476,138	884,257	1,360,395
Total liabilities and net assets	\$ 673,161	\$ 1,250,154	\$ 1,923,315
Total operating revenues	\$ 334,421	\$ 621,066	\$ 955,487
Total operating expenses	310,862	577,310	888,172
Operating income (loss)	23,559	43,756	67,315
Nonoperating revenues (expenses)	93	170	263
Capital contributions	3,561	6,613	10,174
Change in net position	\$ 27,213	\$ 50,539	\$ 77,752

HILDALE CITY, UTAH
Notes to the Financial Statements
June 30, 2017

NOTE 6. Investment in Affiliates, Continued

Gas Departments of Hildale/Colorado City

The Gas Distribution Systems Management, Operations and Maintenance Agreement (the Gas Departments) was formalized on June 22, 2009 by the Town of Colorado City, Arizona and Hildale City, Utah (the municipalities). 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”) entered into the “Inter-Governmental Agreement.” An updated intergovernmental cooperative agreement for utilities systems management, operations and maintenance became effective in May 2014.

The Gas Departments’ proportionate shares are based on the proportionate amount of gas system utility customers and usage for each of the municipalities. The proportionate shares allocation did not change as of and for the year ended June 30, 2017 resulting in no proportionate shares allocation adjustment. There is an offsetting adjustment in the financial statements of the Town of Colorado City, Arizona, when applicable. See further details in the Gas Departments’ financial statements for the year ended June 30, 2017.

The board of trustees consists of nine members—four members appointed by the mayor and council of Hildale City, four members appointed by the mayor and council of Colorado City and one member 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 Gas Departments' audited financial statements as of June 30, 2017 can be obtained at the following address:

Hildale City
P.O. Box 840490
320 E. Newel Avenue
Hildale, Utah 84784

HILDALE CITY, UTAH
Notes to the Financial Statements
June 30, 2017

NOTE 6. Investment in Affiliates, Continued

Gas Departments, (Continued)

The following is a summary of the total assets, liabilities, revenues, and expenses associated with the Gas Departments and the allocation between the municipalities for the year ended June 30, 2017:

	Hildale City	Colorado City	Total
Total assets	\$ 1,021,766	\$ 1,532,648	\$ 2,554,414
Current liabilities	\$ 8,567	\$ 12,849	\$ 21,416
Long-term liabilities	1,485	2,227	3,712
Total liabilities	10,052	15,076	25,128
Net position	1,011,714	1,517,572	2,529,286
Total net position	1,011,714	1,517,572	2,529,286
Total liabilities and net position	\$ 1,021,766	\$ 1,532,648	\$ 2,554,414
Total operating revenues	\$ 318,373	\$ 477,559	\$ 795,932
Total operating expenses	382,344	573,514	955,858
Operating income (loss)	(63,971)	(95,955)	(159,926)
Nonoperating revenues (expenses)	5,785	8,677	14,462
Capital contributions	5,595	8,393	13,988
Change in net position	\$ (52,591)	\$ (78,885)	\$ (131,476)

NOTE 7. Individual Fund Disclosures – Segment Information

The sewer fund accounts for the operation and maintenance of the sewer collection and treatment system. The segment information for the sewer fund is available in the basic financial statements. The equity joint venture interest in the gas and water utilities are available in Note 6.

HILDALE CITY, UTAH
Notes to the Financial Statements
June 30, 2017

NOTE 8. Restricted Equity

At June 30, 2017 the City's restricted equity balances are as follows:

General Fund:

Debt reserves:

Sales Tax Revenue Bonds, Series 2015

Reserve account	\$ 26,736
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RAP taxes	\$ 3,565
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Sewer Fund:

Debt reserves:

Sewer bonds - series 2000 A, B, C

Bond Fund	\$ 7,432
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Reserve Fund A	79,000
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Reserve Fund B, C	122,208
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Emergency repair and replacement	40,000
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Sewer bonds - series 1979:

Emergency repair and replacement	29,150
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Total sewer debt reserves	\$ 277,790
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Restricted for repair and replacement	\$ 69,150
---------------------------------------	-----------

Restricted for debt service	208,640
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Total sewer debt reserves	\$ 277,790
---------------------------	------------

Capital outlay - impact fees	\$ 5,000
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NOTE 9. Internal Repair and Replacement Reserves—Sewer Fund

The sewer fund designates reserve funds for future repair and replacement activity. As of June 30, 2017, the sewer fund's internal repair and replacement reserves total \$364,117. These reserves are included in the unrestricted net position balance on the statement of net position.

HILDALE CITY, UTAH
Notes to the Financial Statements
June 30, 2017

NOTE 10. Interfund Balances and Transfers

Interfund balances at June 30, 2017 are as follows:

		Due From		
		General Fund	Internal Service Funds	Total
Due To	Sewer Fund	\$ 54,687	\$ -	\$ 54,687
	General Fund	-	447,660	447,660
	Total	\$ 54,687	\$ 447,660	\$ 502,347

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Additionally, in November 2013 the sewer fund loaned \$175,000 to the general fund (fire department) in connection with a ladder truck acquisition. The loan will be repaid monthly through February 2019, bearing interest at .5385%.

Interfund transfers for the year ended June 30, 2017 are as follows:

		Transfers In	
		Capital Project Fund	Total
Transfers Out	General Fund	\$ 356,606	\$ 356,606
	Total	\$ 356,606	\$ 356,606

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and (2) move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 11. Contingencies

The City, in connection with the Town of Colorado City, Arizona and the utility departments of Hildale City, Utah and Colorado City, Arizona, are involved with various matters of litigation. It is deemed possible that the City 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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REQUIRED SUPPLEMENTARY INFORMATION

HILDALE CITY, UTAH
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 213,199	\$ 282,199	\$ 425,265	\$ 143,066
Sales and use taxes	365,300	387,400	387,165	(235)
Franchise taxes	101,700	101,700	104,650	2,950
Licenses and permits	14,000	17,500	8,778	(8,722)
Intergovernmental revenue	1,146,600	1,068,700	597,949	(470,751)
Charges for services	169,200	137,200	21,340	(115,860)
Administrative service fees	345,000	345,000	345,000	-
Lease revenues	179,100	154,500	137,189	(17,311)
Other revenues	41,200	73,200	24,059	(49,141)
Interest income	1,500	3,000	8,579	5,579
Total revenues	<u>2,576,799</u>	<u>2,570,399</u>	<u>2,059,974</u>	<u>(510,425)</u>
Expenditures				
Current:				
General government	1,232,099	830,199	686,246	143,953
Public safety	422,900	521,300	348,418	172,882
Highways and streets/Public works	1,279,800	1,473,800	717,810	755,990
Parks and recreation	36,600	37,600	30,668	6,932
Debt service	83,900	145,000	83,812	61,188
Total expenditures	<u>3,055,299</u>	<u>3,007,899</u>	<u>1,866,954</u>	<u>1,140,945</u>
Excess (deficiency) of revenues over expenditures	<u>(478,500)</u>	<u>(437,500)</u>	<u>193,020</u>	<u>630,520</u>
Other financing sources (uses)				
Debt issued	-	336,000	-	(336,000)
Sales of general capital assets	532,000	532,000	138,382	(393,618)
Transfers out	(124,900)	(502,700)	(356,606)	146,094
Total other financing sources (uses)	<u>407,100</u>	<u>365,300</u>	<u>(218,224)</u>	<u>(583,524)</u>
Net change in fund balance	(71,400)	(72,200)	(25,204)	46,996
Fund balance, beginning of year	<u>363,461</u>	<u>363,461</u>	<u>363,461</u>	<u>-</u>
Fund balance, end of year	<u>\$ 292,061</u>	<u>\$ 291,261</u>	<u>\$ 338,257</u>	<u>\$ 46,996</u>

COMBINING STATEMENTS

INTERNAL SERVICE FUNDS

Internal service funds are used to account for services provided to other departments or agencies of the government, or to other governments on a cost-reimbursement basis.

The **Risk Management Fund** accounts for the activities of litigation defense relating primarily to the joint utility systems of Hildale City and Colorado City.

The **Administration Fund** accounts for the activities of basic shared expenses relating only to the joint utility systems of Hildale City and Colorado City. Beginning with the the year ended June 30, 2017, general fund expenditures are no longer recorded in this fund and the general fund no longer participates in this fund.

HILDALE CITY
Internal Service Funds
Combining Statement of Net Position
June 30, 2017

	<u>Risk Management</u>	<u>Administration</u>	<u>Total Internal Service Funds</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 31,494	\$ -	\$ 31,494
Total current assets	<u>31,494</u>	<u>-</u>	<u>31,494</u>
Noncurrent assets:			
Capital assets:			
Buildings	-	456,806	456,806
Automobiles and trucks	-	68,522	68,522
Machinery and equipment	-	129,406	129,406
Less: accumulated depreciation	-	(139,839)	(139,839)
Total noncurrent assets	<u>-</u>	<u>514,895</u>	<u>514,895</u>
Total assets	<u>31,494</u>	<u>514,895</u>	<u>546,389</u>
Liabilities			
Current liabilities:			
Accounts payable	31,494	67,235	98,729
Due to other funds	-	447,660	447,660
Total current liabilities	<u>31,494</u>	<u>514,895</u>	<u>546,389</u>
Net position			
Net investment in capital assets	-	514,895	514,895
Unrestricted	<u>-</u>	<u>(514,895)</u>	<u>(514,895)</u>
Total net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

HILDALE CITY
Internal Service Funds
Combining Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2017

	<u>Risk Management</u>	<u>Administration</u>	<u>Total Internal Service Funds</u>
Operating revenues			
Charges for services:			
Risk management	\$ 151,597	\$ -	\$ 151,597
Administration	-	594,048	594,048
Total operating revenues	<u>151,597</u>	<u>594,048</u>	<u>745,645</u>
Operating expenses			
Personnel expenses	-	397,991	397,991
Office expenses and travel	-	8,540	8,540
Services, supplies and other	-	42,464	42,464
Utilities	-	12,565	12,565
Insurance	-	81,976	81,976
Professional fees (non-legal)	-	4,664	4,664
Legal expenses	151,597	-	151,597
Equipment rent	-	8,423	8,423
Depreciation	-	37,425	37,425
Total operating expenses	<u>151,597</u>	<u>594,048</u>	<u>745,645</u>
Operating income (loss)	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	-	-	-
Total net position, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Total net position, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

HILDALE CITY
Internal Service Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2017

	Risk Management	Administration	Total Internal Service Funds
Cash flows from operating activities			
Receipts from interfund charges for services	\$ 151,597	\$ 594,048	\$ 745,645
Payments to suppliers and service providers	(180,337)	(167,924)	(348,261)
Payments to employees	-	(397,991)	(397,991)
Cash flows from operating activities	<u>(28,740)</u>	<u>28,133</u>	<u>(607)</u>
Cash flows from non-capital financing activities			
Transfers from (to) other funds	-	(6,817)	(6,817)
Cash flows from non-capital financing activities	<u>-</u>	<u>(6,817)</u>	<u>(6,817)</u>
Cash flows from capital and related financing activities			
Acquisition and construction of capital assets	-	(21,316)	(21,316)
Cash flows from capital and related financing activities	<u>-</u>	<u>(21,316)</u>	<u>(21,316)</u>
Net change in cash and cash equivalents	(28,740)	-	(28,740)
Cash and cash equivalents, beginning of year	<u>60,234</u>	<u>-</u>	<u>60,234</u>
Cash and cash equivalents, end of year	<u>\$ 31,494</u>	<u>\$ -</u>	<u>\$ 31,494</u>
Reconciliation of operating income to net cash flows from operating activities:			
Operating income (loss)	\$ -	\$ -	\$ -
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	-	37,425	37,425
Changes in operating assets and liabilities:			
Increase/(decrease) in accounts payable	(28,740)	(9,292)	(38,032)
Net cash flows from operating activities	<u>\$ (28,740)</u>	<u>\$ 28,133</u>	<u>\$ (607)</u>

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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***

The Honorable Mayor and City Council
Hildale City, Utah

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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hildale City, Utah (the City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 23, 2018.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and recommendations, 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 accompanying schedule of findings and recommendations 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 accompanying schedule of findings and recommendations 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 City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



HintonBurdick, PLLC
St. George, Utah
January 23, 2018



**Independent Auditor’s Report on Compliance and
Report on Internal Control over Compliance
As Required by the *State Compliance Audit Guide***

Honorable Mayor and City Council
Hildale City, Utah

Report on Compliance with General State Compliance Requirements

We have audited Hildale City, Utah’s compliance with the applicable general state requirements described in the *State Compliance Audit Guide*, issued by the Office of the Utah State Auditor, that could have a direct and material effect on the City for the year ended June 30, 2017.

General state compliance requirements were tested for the year ended June 30, 2017 in the following areas:

- | | |
|----------------------|------------------------------|
| Budgetary Compliance | Restricted Taxes |
| Fund Balance | Open and Public Meetings Act |
| Justice Courts | Treasurer’s Bond |
| Impact Fees | |

Management’s Responsibility

Management is responsible for compliance with the general state requirements referred to above.

Auditor’s Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance with general state compliance requirements. However, our audit does not provide a legal determination of the City’s compliance.

Opinion on General State Compliance Requirements

In our opinion, Hildale City, Utah, complied, in all material aspects, with the compliance requirements referred to above for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *State Compliance Audit Guide* and which are described in the accompanying schedule of findings and recommendations as items 2017-001, 2016-001, and 2015-001. Our opinion on compliance is not modified with respect to these matters.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the compliance requirements that could have a direct and material effect on the City to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with general state compliance requirements and to test and report on internal control over compliance in accordance with the *State Compliance Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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



HintonBurdick, PLLC
January 23, 2018
St. George, Utah



HILDALE CITY
Findings and Recommendations
For the Year Ended June 30, 2017

Honorable Mayor and City Council
Hildale City, Utah

Professional standards require that we communicate, in writing, deficiencies in internal control over financial reporting that are considered significant deficiencies or material weaknesses that are identified during the audit of the financial statements. During our audit of Hildale City for the year ended June 30, 2017, we noted several areas needing corrective action for the City to be in compliance with laws and regulations, and we found several circumstances that, if improved, would strengthen the City's accounting system and control over its assets. These items are discussed below for your consideration.

INTERNAL CONTROL OVER FINANCIAL REPORTING:

Material Weaknesses:

2014-001. Misstatements and Reconciliations

Criteria: Auditing standards indicate that the identification by the auditor of misstatements in the financial statements may be a deficiency in the City's internal controls.

Condition: A number of significant adjustments to the general ledger were required that were not initially identified by the City's internal control. Furthermore, we noted reconciliations for some general ledger accounts, including certain cash balances, intergovernmental agreement related accounts, receivables and payables, are not being accurately and/or timely performed, which is contributing to the misstatements. We have provided additional details on reconciliation issues in a separate communication to management.

Cause: Timing restraints and/or changes in accounting personnel may be the cause for various adjustments. Procedures for year-end adjustments may also need to be revised or improved in order to properly identify certain adjustments.

Effect: The City's financial statements would not have been fairly stated in all material respects without the adjustments. Regular and complete reconciliations of general ledger accounts, such as bank reconciliations, provide important safeguards and controls to ensure the proper recording, deposit and disposition of the City's funds.

Recommendation: We recommend that management continue to review and understand the adjustments proposed by the auditor. We also recommend that the City continue to develop a plan to ensure that all significant and material adjustments are posted to the general ledger before the annual audit takes place. The plan should address the need to perform accurate and timely reconciliations of various general ledger accounts. The City should continue to improve its internal controls to a level where they will at least identify significant misstatements.

Significant Deficiencies:

2007-002. Capital Asset Accounting

Criteria: The City should maintain a complete record of capital asset additions and deletions for each fiscal year. The City should also perform a regular (e.g. annually), physical inventory of capital assets and reconcile it to the City's capital asset listings. The City should also have policies and procedures in place to track and monitor significant assets that do not meet the City's capitalization policy.

Condition: We noted during our audit that a complete record of capital asset additions and deletions is not being maintained throughout the year. We also noted that the City did not perform a complete, physical inventory of capital assets during the year under audit or in recent years. There are a number of old, fully depreciated assets that may need to be removed from the City's capital asset listings. The City does not have policies and procedures to track and monitor significant assets that do not meet the City's capitalization policy.

Cause: Timing restraints and/or changes in accounting personnel may be the cause for incomplete records and physical inventories of capital assets and insufficient policies and procedures for tracking and monitoring assets. Procedures for year-end reconciliations may also need to be revised or improved in order to properly identify certain capital asset activity.

Effect: The City's financial statements would not have been fairly stated in all material respects without capital asset adjustments. Furthermore, capital asset disposals may not be accounted for in the correct period without performing physical inventories of capital assets. The lack of policies and procedures over the use and tracking of significant assets may create opportunities for misappropriations.

Recommendation: We recommend that the City do the following:

1. Maintain throughout the year a detail list of capital asset additions and deletions for the fiscal year that shows a description, date of purchase and cost for each item. The list should be maintained for each capital asset general ledger account and should be maintained in such a way as to allow reconciliations to the general ledger. The City should consider using certain accounts (expense or asset, as applicable) for items that management intends to add to its depreciation listing.

2. Conduct complete, year-end physical asset inventories and when practical, tagging of assets with an inventory tag/identification number.
3. Reconcile the year-end physical inventory of capital assets to the depreciation listing and the general ledger control accounts.
4. Establish policies and procedures regarding the use and tracking of significant assets that do not meet the City's capitalization policy.

2007-004. Segregation of Duties

Criteria: Proper segregation of duties provides important safeguards and controls to ensure the proper recording, deposit and disposition of the City's funds. For a complete and proper segregation of duties within the accounting function, no one person should have duties in more than one of the following areas: custody of assets, recording functions and authorization abilities.

Condition: There appears to be a lack of segregation of duties with certain city accounting personnel. The City has some mitigating controls in place such that this is not deemed to be a material weakness.

Cause: The turnover in accounting and administrative personnel in recent years has caused, in general, an increased lack of segregation of duties and a decrease in mitigating controls. Furthermore, the City often times gives certain duties (or at least the ability to perform certain duties) to multiple personnel, which decreases segregation of duties.

Effect: There is a potential for the misuse of assets or the possibility that if fraud were to occur, it would not be detected and corrected in a timely manner.

Recommendation: We realize that the size of the City and its administration staff prohibit a complete and proper segregation of duties within its accounting functions. However, particularly as the City continues to adjust for recent and upcoming changes in personnel, the City should ensure that the duties of city personnel are adequately segregated. Furthermore, city personnel with cash receipting duties should typically not have significant recording duties. The City should consider decreasing the number of personnel who can perform certain duties (e.g. receipt/handle cash, record transactions in the system, prepare or review bank reconciliations). The City should consider establishing additional mitigating controls such as independent reviews of non-routine journal entries and bad debt adjustments.

COMPLIANCE AND OTHER MATTERS:

Compliance:

2017-001. Impact Fees

Criteria: Utah Code 11-36a-601 requires the City to prepare and submit an annual impact fee report to the state that includes the following details:

- 1) the year in which the impact fees were received,
- 2) the project from which the funds were collected,
- 3) the capital projects for which the funds are budgeted, and
- 4) the projected schedule for expenditure.

Condition: For the year ended June 30, 2017, the City did not timely submit a report that included all of the required information. The City's report did not include information for items 3) and 4) above.

Cause: In years prior to fiscal year 2017, the City spent all impact fees in the year they were received and there were no unspent impact fees at fiscal year-end. Consequently, the City deemed the report not applicable in prior fiscal years.

Effect: The City is not in compliance with state law.

Recommendation: We recommend the City establish additional procedures for preparing and submitting the annual impact fee report to ensure that the City is in compliance with state law.

2016-001. Treasurer's Bond

Criteria: Utah Administrative Code Rule R628-4 requires public treasurers to secure a fidelity bond in the amount shown in the table of R628-4-4.

Condition: For the year ended June 30, 2017, the City was required to be bonded for approximately \$379,000. The City was only bonded for \$300,000.

Cause: Procedures for monitoring and/or adjusting the fidelity bond amount were not adequately designed or followed. The City's budget increased significantly.

Effect: The City is not in compliance with state law.

Recommendation: We recommend the City establish procedures for monitoring and adjusting the fidelity bond amount to ensure that the City is in compliance with state law.

2015-001. Open and Public Meetings Act

Criteria: As of January 1, 2015, 5th class cities and towns are required by state law to post governing body meeting minutes to the Utah Public Notice Website within three days of the meeting minutes being approved.

Condition: The City has not been posting meeting minutes to the website within three days of the meeting minutes being approved.

Cause: Procedures for complying with the Open and Public Meetings Act were not adequately designed or followed.

Effect: The City is not in compliance with state law.

Recommendation: We recommend that the City establish a policy and procedures that will allow the City to comply with this state requirement.

Responses

Please respond to the above findings and recommendations in letter form for submission to the State Auditor's office as required by state law.

This letter is intended solely for the use of the mayor, city council, management and various federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

It has been a pleasure to be of service to the City this past year. We would like to express special thanks to each of you 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
January 23, 2018



HILDALE CITY
Other Items Communicated to Management
For the Year Ended June 30, 2017

Management
Hildale City, Utah

The following are findings and recommendations that have not been included with our finding and recommendations letter to the governing body since they include additional details of those findings, are only related to suggestions for improvements to accounting functions, or they may be deemed to be less significant and/or management is aware of the findings and are working on resolutions.

2017-001. Purchase Orders

Purchase orders, with the proper approvals, are not always used on purchases that require purchase orders in accordance with the City's purchasing policies.

Recommendation

We recommend the City follow its current policies and procedures and ensure that purchase orders, with proper approvals, are used when required.

2017.002. Accounts Receivable—Write Offs and Contracts

It's our understanding that the City adopted a formal collection and write-off policy in April 2010. The policy mentions sending all accounts over 90 days to collections and that write-offs are considered separately and should be formally approved. The City has an increasing number of accounts that are past due and has made some write-offs that may have not been done in accordance with the City's policy. Furthermore, there appears to be some uncertainty surrounding the City's collection and write-off policy.

We also noted that the City has some receivables on a contract basis (i.e. working with past due customers to establish a payment plan). It's our understanding that management discussed this relatively new process with the city council but there are no formal policy and procedures.

Recommendation

We recommend the City revisit its collection and write-off policy and determine if changes or updates are needed. The write-off policy should ensure that write-offs are appropriately approved and documented. The City should establish procedures to ensure that the City is following its policy.

We recommend the City formalize its process for establishing contract receivables. The City should ensure that contract receivables are being regularly monitored, tracked and reconciled.

2017-003. Accounts Receivable—Allocation of Penalties and Interest

The City allocates interest and penalties revenue from water, wastewater and solid waste accounts receivable balances only to the water fund.

Recommendation

Since the interest and penalties charged are based on outstanding accounts receivable balances, we recommend the related revenues be allocated to the funds based on the respective accounts receivable balances.

2017-004. Gas Department Operating Losses

As you are aware, the operations relating to the gas department fund has been generating significant losses in recent years. We realize the City is dealing with significant changes in its customer base.

Recommendation

We know that management is aware of these circumstances and are dealing with them on a daily basis. We have included this issue in this other letter to simply remind and reemphasize the importance of monitoring the situation on a regular basis. We recommend that management continue its efforts to improve operations and become more efficient in this area as the City continues to adjust to a changing customer base. We recommend the City continue to improve controls over the accuracy of rate setting and customer information relating to gas utility billings.

2014-001. Bank Reconciliations and Cash Clearing Issues

We noted that the June 2017 bank reconciliations had been completed when we arrived for onsite fieldwork in November 2017. However, there were some significant reconciliation discrepancies mainly due to incorrect outstanding items (deposits and checks) on the bank reconciliations. We also noted that the returned checks – clearing (111400) and cash – clearing (111750) accounts had not been reconciled. We proposed significant adjustments relating to the June 30, 2017 cash clearing accounts. It's our understanding that these accounts are not being reconciled and monitored on a regular basis.

Recommendation

Management should ensure that monthly bank reconciliations are being completed accurately and timely. The process should include reconciling to the applicable general ledger accounts. Management should review outstanding items on the bank reconciliations for accuracy and correctness. These bank reconciliation issues should continue to be a priority for the City. The process should include the reconciliation and monitoring of the returned checks and cash

clearing accounts. Management should continue to have someone independent of the preparation process review the bank reconciliations. If discrepancies exist, they should be investigated and resolved in a timely manner.

2014-002. Reconciliation of Subsidiary Schedules

The utility customer deposit report at June 30, 2017 did not reconcile with the related general ledger control accounts. The difference appears to primarily relate to prior years and using incorrect subsidiary reports. After fiscal year 2013 investigation of the reconciling discrepancy by city personnel, it is uncertain what is causing the discrepancy and there is uncertainty regarding the accuracy of the subsidiary reports. However, it's our understanding that city personnel now know which subsidiary report to use to reconcile with the general ledger accounts.

We also noted that the relatively new pre account holding account (65-41-630), which is used to hold funds until new customer accounts are set up, is not being adequately monitored or reconciled. Furthermore, this account should be a balance sheet account so it carries over each year.

Some of the utility accounts receivable balances are reconciled to the general ledger control accounts; however, at June 30, 2017 there were differences between the accounts receivable by service report as compared to the respective general ledger accounts.

We noted that the unpaid invoice report at June 30, 2017 did not reconcile to the general ledger accounts (accounts payable) in total. We also noted several significant unrecorded liabilities as of June 30, 2017. Furthermore, we noted that accounts payable had not been allocated across the funds.

Recommendation

We recommend that the accounts receivable and customer deposits differences be addressed and that accounts receivable, accounts payable and customer deposits subsidiary ledgers be reconciled to the general ledger control accounts regularly and timely (i.e. monthly). We also recommend that any future differences be investigated and adjusted appropriately in order to facilitate future monthly reconciliations.

2013-001. Intergovernmental Agreements

The City often enters into agreements with other local governments in the area, and we've found that these arrangements are not always well documented. Following are arrangements with the Town of Colorado City, Arizona to consider.

Public Works Agreement with Colorado City: In reviewing the details of the activity of the public works agreement with Colorado City, it appears that the tracking process is still relatively informal; however, we have noted improvement in recent years. We also noticed that any outstanding balances at

fiscal year-end are typically not properly recognized in the financial statements (i.e. the activity is recorded on the cash basis).

We noted that the City started a similar reconciliation process between the Utility Departments and Colorado City. However, it's not always clear whether certain Colorado City costs be covered by the public works department of the Town of Colorado City or by the Utility Departments (Hildale City and Colorado City).

Ambulances/Other Vehicle Agreements with Colorado City Fire District: The City allows the District to use certain ambulances and other vehicles in exchange for monthly payments to cover the related debt service payments. It's our understanding that there is not always a formal written agreement or understanding on these arrangements aside from the payment schedule. We've also noted some uncertainty over the years surrounding various interlocal cooperation agreements with the District for various services. City personnel often have a difficult time locating the current agreements (e.g. updated agreement due to rate changes) in force or knowing which agreements are current.

Recommendation

We recommend that the City ensure that such arrangements are formalized, properly approved and adequately documented. If the public works intergovernmental agreement continues to be necessary, we recommend that the City continue to formalize the process and ensure that the details of the transactions are adequately and timely documented. The items on the monthly reconciliation should continue to include detailed information, such as the date of each item and where it is coded in the respective accounting systems. The City should ensure that all payments made on this agreement are properly considered on the monthly reconciliations to avoid overpayments. Furthermore, any outstanding balances at fiscal year-end should be reflected in the City's financial statements to ensure that the activity is recognized in the correct period. To simplify the process, we recommend that any outstanding balances be reimbursed in a timely manner. We recommend that the City consider simplifying the Police agreement and/or establish procedures to ensure that expenses under the Police agreement are recorded in the correct fiscal year.

2010-001. Fraud Risk Management Program

The City has apparently not formally developed a fraud risk management program that is appropriate for the size and complexity of the City, including identifying fraud risks and taking appropriate action to reduce or eliminate risks.

Recommendation

We recommend that the City formally develop and adopt a fraud risk management program that is appropriate for the size and complexity of the City, including identifying fraud risks and taking appropriate action to reduce or eliminate the risks.

Sincerely,

HintonBurdick, PLLC

HintonBurdick, PLLC

January 23, 2018