

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

FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018
WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS

Table of Contents

FINANCIAL SECTION

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Position	10
Statement of Revenues, Expenses and Changes in Net Position	11
Statement of Cash Flows	12
Notes to Financial Statements.....	13
Supplementary Information:	
Intergovernmental Cooperative Agreement and Proportionate Shares.....	24
Schedule of Net Position—Proportionate Shares	25
Schedule of Revenues, Expenses and Changes in Net Position—Proportionate Shares	26
OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS	
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 <i>Government Auditing Standards</i>	29
Findings and Recommendations	31

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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, 2018, 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, 2018, 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, 2017, and our report dated January 23, 2018, 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, 2017, 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 17, 2019, 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 17, 2019

HILDALE/COLORADO CITY GAS DEPARTMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

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, 2018. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets exceed total liabilities (net position) by \$2,341,150 at the close of the fiscal year.
- Total net position decreased by \$188,136.
- Operating revenues and expenses are \$680,246 and \$821,954, respectively, resulting in operating loss of \$141,708 for the fiscal year.
- At the end of the fiscal year unrestricted net position is \$828,231.

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>6/30/2018</u>	<u>6/30/2017</u>
Current assets	\$ 621,903	\$ 627,337
Noncurrent assets	1,763,741	1,927,077
Total assets	<u>2,385,644</u>	<u>2,554,414</u>
Current liabilities	43,741	21,416
Long-term liabilities	753	3,712
Total liabilities	<u>44,494</u>	<u>25,128</u>
Total net position	<u>\$ 2,341,150</u>	<u>\$ 2,529,286</u>

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

	<u>6/30/2018</u>	<u>6/30/2017</u>
Total operating revenues	\$ 680,246	\$ 795,932
Total operating expenses	821,954	955,858
Operating income (loss)	<u>(141,708)</u>	<u>(159,926)</u>
Nonoperating revenues (expenses)	(58,483)	14,462
Capital contributions	12,055	13,988
Change in net position	<u>\$ (188,136)</u>	<u>\$ (131,476)</u>

Operating expenses for the fiscal year were \$821,954 as shown above. Operating revenues were \$680,246. Operating income (loss) as a percentage of operating revenues for this year is -20.8% compared to -20.1% in the prior year.

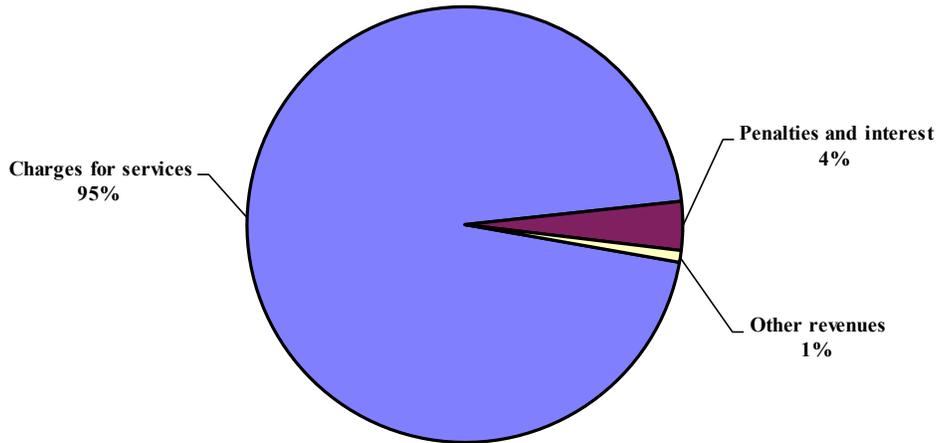
The Gas Departments provide propane and natural gas distribution to customers. The Gas Departments' net cost (total cost less revenues generated by the activities) is presented in the statement of revenues, expenses and changes in net position. For the year ended June 30, 2018, net position decreased by \$188,136.

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, 2018 and 2017

	<u>6/30/2018</u>	<u>6/30/2017</u>
OPERATING REVENUES:		
Charges for services	\$ 649,760	\$ 760,617
Penalties and interest	24,524	26,865
Other revenues	<u>5,962</u>	<u>8,450</u>
 Total revenues	 <u><u>\$ 680,246</u></u>	 <u><u>\$ 795,932</u></u>

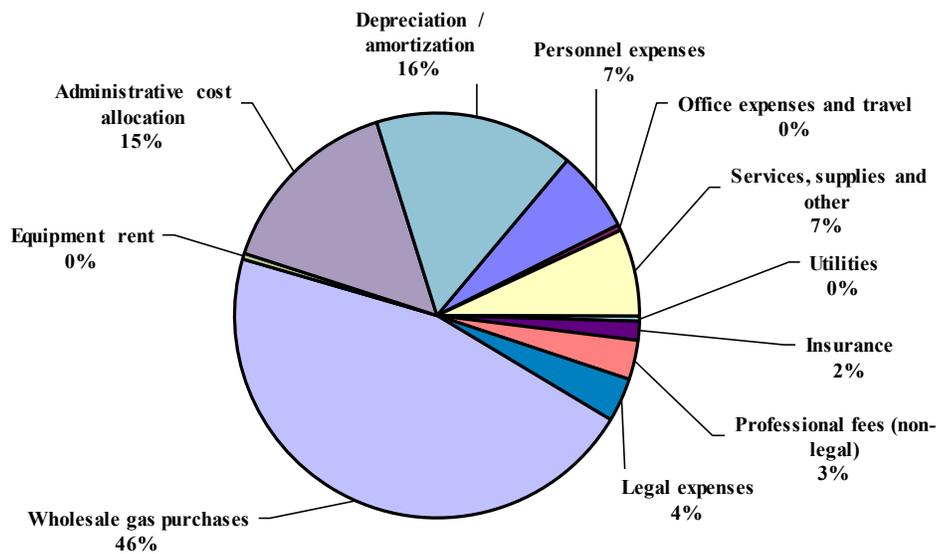
Operating Revenues by Source - Current Year



HILDALE/COLORADO CITY GAS DEPARTMENTS' OPERATING EXPENSES (Combined)
Years ended June 30, 2018 and 2017

	<u>6/30/2018</u>	<u>6/30/2017</u>
OPERATING EXPENSES:		
Personnel expenses	\$ 53,468	\$ 135,281
Office expenses and travel	3,855	7,141
Services, supplies and other	57,239	102,306
Utilities	3,303	5,400
Insurance	12,505	27,325
Professional fees (non-legal)	25,809	1,555
Legal expenses	28,712	37,899
Wholesale gas purchases	377,239	380,873
Equipment rent	3,873	6,730
Administrative cost allocation	125,000	115,000
Depreciation / amortization	<u>130,951</u>	<u>136,348</u>
 Total operating expenses	 <u>\$ 821,954</u>	 <u>\$ 955,858</u>

Operating Expenses - Current Year



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 2018, net capital assets of the Gas Departments activities totaled \$1,512,919.

Debt

The Gas Departments' had no debt at June 30, 2018 (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 2018/2019, 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 2017/2018. Overall operating expenses were budgeted so as to contain costs at approximately the same level as fiscal year 2017/2018.

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 Vincen 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, 2018
(With Comparative Totals for June 30, 2017)

	6/30/2018	6/30/2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 489,541	\$ 496,510
Receivables, net of allowance	70,468	69,732
Note receivable - current portion	32,385	31,586
Deposits	29,509	29,509
Total current assets	621,903	627,337
Noncurrent assets:		
Note receivable - net of current portion	250,822	283,207
Property and equipment	2,800,496	2,800,496
Accumulated depreciation	(1,287,577)	(1,156,626)
Total noncurrent assets	1,763,741	1,927,077
Total assets	2,385,644	2,554,414
Liabilities		
Current liabilities:		
Accounts payable	43,160	18,910
Accrued liabilities	79	32
Compensated absences	502	2,474
Total current liabilities	43,741	21,416
Long-term liabilities		
Compensated absences	753	3,712
Total long-term liabilities	753	3,712
Total liabilities	44,494	25,128
Net position		
Net investment in capital assets	1,512,919	1,643,870
Unrestricted	828,231	885,416
Total net position	\$ 2,341,150	\$ 2,529,286

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, 2018
(With Comparative Totals for June 30, 2017)

	6/30/2018	6/30/2017
Operating revenues		
Charges for services	\$ 649,760	\$ 760,617
Penalties and interest	24,524	26,865
Other revenues	5,962	8,450
Total operating revenues	680,246	795,932
Operating expenses		
Personnel expenses	53,468	135,281
Office expenses and travel	3,855	7,141
Services, supplies and other	57,239	102,306
Utilities	3,303	5,400
Insurance	12,505	27,325
Professional fees (non-legal)	25,809	1,555
Legal expenses	28,712	37,899
Gas purchases and transportation costs	377,239	380,873
Equipment rent	3,873	6,730
Administrative cost allocation	125,000	115,000
Depreciation/amortization	130,951	136,348
Total operating expenses	821,954	955,858
Operating income (loss)	(141,708)	(159,926)
Nonoperating revenues (expenses)		
Interest income	13,517	9,454
Other revenues	-	5,008
Legal settlements	(72,000)	-
Total nonoperating revenue (expense)	(58,483)	14,462
Income (loss) before capital contributions	(200,191)	(145,464)
Capital contributions	12,055	13,988
Change in net position	(188,136)	(131,476)
Total net position, beginning of year	2,529,286	2,660,762
Total net position, end of year	\$ 2,341,150	\$ 2,529,286

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, 2018
(With Comparative Totals for June 30, 2017)

	6/30/2018	6/30/2017
Cash flows from operating activities:		
Receipts from customers, service fees	\$ 649,024	\$ 777,570
Receipts from customers, other	30,486	35,315
Payments to suppliers and service providers	(671,637)	(822,850)
Cash flows from operating activities	7,873	(9,965)
Cash flows from capital and related financing activities:		
Other revenues	-	5,008
Acquisition of property and equipment	-	(51,775)
Capital contributions	12,055	13,988
Legal settlements	(72,000)	-
Principal paid on capital debt	-	(5,410)
Cash flows from capital and related financing activities	(59,945)	(38,189)
Cash flows from investing activities:		
Net change in note receivable	31,586	30,807
Interest received	13,517	9,454
Cash flows from investing activities	45,103	40,261
Net change in cash and cash equivalents	(6,969)	(7,893)
Cash and cash equivalents, beginning of year	496,510	504,403
Cash and cash equivalents, end of year	\$ 489,541	\$ 496,510
Reconciliation of operating income to net cash flows from operating activities:		
Net operating income (loss)	\$ (141,708)	\$ (159,926)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation/amortization	130,951	136,348
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	(736)	16,953
(Increase)/decrease in inventories	-	8,563
Increase/(decrease) in accounts payable	24,250	13,672
Increase/(decrease) in accrued liabilities	(4,884)	(25,575)
Cash flows from operating activities	\$ 7,873	\$ (9,965)

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

HILDALE/COLORADO CITY GAS DEPARTMENTS
Notes to the Financial Statements
June 30, 2018

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, 2018

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, 2018

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, 2018 is \$8,665.

Inventories

Inventories, if any, 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, 2018

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, 2018

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, 2017, from which the summarized information was derived. Certain reclassifications have been made to the June 30, 2017 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, 2018:

State Treasurer's Investment Pool	\$ 2,648,061
Cash in bank	261,839
Less amounts to other HC and CC Joint Utilities/Hildale City	<u>(2,420,359)</u>
	<u>\$ 489,541</u>
 Equity in central treasury	 <u>\$ 489,541</u>

HILDALE/COLORADO CITY GAS DEPARTMENTS
Notes to the Financial Statements
June 30, 2018

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, 2018, none of Hildale City's central treasury's bank balance 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, 2018

NOTE 2. Deposits and Investments, Continued

As of June 30, 2018, Hildale City had the following investments, ratings, and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating (1)</u>	<u>Weighted Average Maturity (2)</u>
State of Utah Public Treasurer's Investment Fund	\$ 2,648,061	N/A	51.96
Total Fair Value	<u>\$ 2,648,061</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, 2018

NOTE 3. Capital Assets

The following summarizes the changes to capital assets during the year ended June 30, 2018:

	<u>Balance 6/30/2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2018</u>
Capital assets being depreciated:				
Machinery and equipment	\$ 435,671	\$ -	\$ -	\$ 435,671
Automobiles and trucks	291,624	-	-	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>2,800,496</u>	<u>-</u>	<u>-</u>	<u>2,800,496</u>
Less accumulated depreciation for:				
Machinery and equipment	(239,163)	(26,302)	-	(265,465)
Automobiles and trucks	(216,243)	(21,353)	-	(237,596)
Buildings and improvements	(5,861)	(986)	-	(6,847)
Distribution system	<u>(695,359)</u>	<u>(82,310)</u>	<u>-</u>	<u>(777,669)</u>
Total accumulated depreciation	<u>(1,156,626)</u>	<u>(130,951)</u>	<u>-</u>	<u>(1,287,577)</u>
Total capital assets, being depreciated, net	<u>1,643,870</u>	<u>(130,951)</u>	<u>-</u>	<u>1,512,919</u>
Hildale City activities capital assets, net	<u>\$ 1,643,870</u>	<u>\$ (130,951)</u>	<u>\$ -</u>	<u>\$ 1,512,919</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, 2018

NOTE 5. Long-Term Liabilities

The following summarizes the changes to long-term liabilities for the year ended June 30, 2018:

	<u>Balance 6/30/2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2018</u>	<u>Current Portion</u>
Compensated absences	\$ 6,186	\$ -	\$ 4,931	\$ 1,255	\$ 502
Total long-term liabilities	<u>\$ 6,186</u>	<u>\$ -</u>	<u>\$ 4,931</u>	<u>\$ 1,255</u>	<u>\$ 502</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. The majority of employees are employed by Colorado City and covered by Colorado City's insurance policy.

NOTE 7. Internal Repair and Replacement Reserves

The Gas Departments designate reserve funds for future repair and replacement activity. As of June 30, 2018, the Gas Departments' internal repair and replacement reserves total \$441,548. 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 of 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 “Intergovernmental 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, 2018 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, 2018

	40.00%	60.00%	100.00%
	<u>Hildale City</u>	<u>Colorado City</u>	<u>Total</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 195,816	\$ 293,725	\$ 489,541
Receivables, net of allowance	28,187	42,281	70,468
Note receivable - current portion	12,954	19,431	32,385
Deposits	11,804	17,705	29,509
Total current assets	<u>248,761</u>	<u>373,142</u>	<u>621,903</u>
Noncurrent assets:			
Note receivable - net of current portion	100,330	150,492	250,822
Property and equipment	1,120,198	1,680,298	2,800,496
Accumulated depreciation	(515,031)	(772,546)	(1,287,577)
Total noncurrent assets	<u>705,497</u>	<u>1,058,244</u>	<u>1,763,741</u>
Total assets	<u>954,258</u>	<u>1,431,386</u>	<u>2,385,644</u>
Liabilities			
Current liabilities:			
Accounts payable	17,264	25,896	43,160
Accrued liabilities	32	47	79
Compensated absences	201	301	502
Total current liabilities	<u>17,497</u>	<u>26,244</u>	<u>43,741</u>
Long-term liabilities:			
Compensated absences	301	452	753
Total long-term liabilities	<u>301</u>	<u>452</u>	<u>753</u>
Total liabilities	<u>17,798</u>	<u>26,696</u>	<u>44,494</u>
Net position			
Net investment in capital assets	605,168	907,751	1,512,919
Unrestricted	331,292	496,939	828,231
Total net position	<u>\$ 936,460</u>	<u>\$ 1,404,690</u>	<u>\$ 2,341,150</u>

HILDALE/COLORADO CITY GAS DEPARTMENTS
Schedule of Revenues, Expenses and Changes in Net Position—Proportionate Shares
For the Year Ended June 30, 2018

	40.00%	60.00%	100.00%
	<u>Hildale City</u>	<u>Colorado City</u>	<u>Total</u>
Operating revenues			
Charges for services	\$ 259,904	\$ 389,856	\$ 649,760
Penalties and interest	9,810	14,714	24,524
Other revenues	2,385	3,577	5,962
	<u>272,099</u>	<u>408,147</u>	<u>680,246</u>
Operating expenses			
Personnel expenses	21,387	32,081	53,468
Office expenses and travel	1,542	2,313	3,855
Services, supplies and other	22,896	34,343	57,239
Utilities	1,321	1,982	3,303
Insurance	5,002	7,503	12,505
Professional fees (non-legal)	10,324	15,485	25,809
Legal expenses	11,485	17,227	28,712
Gas purchases and transportation costs	150,896	226,343	377,239
Equipment rent	1,549	2,324	3,873
Administrative cost allocation	50,000	75,000	125,000
Depreciation/amortization	52,380	78,571	130,951
	<u>328,782</u>	<u>493,172</u>	<u>821,954</u>
Operating income (loss)	<u>(56,683)</u>	<u>(85,025)</u>	<u>(141,708)</u>
Nonoperating revenues (expenses)			
Interest income	5,407	8,110	13,517
Legal settlements	(28,800)	(43,200)	(72,000)
	<u>(23,393)</u>	<u>(35,090)</u>	<u>(58,483)</u>
Income (loss) before capital contributions	(80,076)	(120,115)	(200,191)
Capital contributions	4,822	7,233	12,055
Change in net position	(75,254)	(112,882)	(188,136)
Total net position, beginning of year	1,011,714	1,517,572	2,529,286
Total net position, end of year	<u>\$ 936,460</u>	<u>\$ 1,404,690</u>	<u>\$ 2,341,150</u>

OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS

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HINTONBURDICK
CPAs & ADVISORS

**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, 2018, 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 17, 2019.

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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the schedule of findings and recommendations in the Hildale City's financial statements that we consider to be significant deficiencies.

- 2014-001. Misstatements and Reconciliations
- 2007-002. Capital and Other Assets—Accounting and Controls
- 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 17, 2019



HINTONBURDICK
CPAs & ADVISORS

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, 2018, 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 17, 2019