

Kane County Water Conservancy District

Financial Statements With Government Reports

For the years ending June 30, 2014 and 2013

Kane County Water Conservancy District

TABLE OF CONTENTS

Financial Section	<u>Page</u>
Independent Auditors’ Report.....	1
Management Discussion & Analysis.....	3
Basic Financial Statements:	
Statement of Net position–Proprietary Fund.....	7
Statement of Revenues, Expenses, and Changes in Fund Assets.....	8
Statement of Cash Flows.....	9
Notes to Financial Statements.....	10
 Compliance & Government Reports	
Report on Compliance and on Internal Control Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19
Report on Utah State Legal Compliance.....	20
Schedule of Expenditure of Utah Awards.....	22

Aycock, Miles & Associates, CPAs, P.C.

Certified Public Accountants

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Independent Auditors' Report

To the Board of Directors
Kane County Water Conservancy District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activity, of Kane County Water Conservancy District, as of and for the year ended June 30, 2014, and 2013, and the related notes to the financial statements, which comprise the District'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 business-type activity, of Kane County Water Conservancy District, as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 3-6 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2014 on our consideration of Kane County Water Conservancy District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kane County Water Conservancy District's internal control over financial reporting and compliance.

Aycock, Miles & Associates, CPAs

October 15, 2014

Management's Discussion and Analysis

As management of the Kane County Water Conservancy District (KCWCD), we offer readers of the KCWCD's financial statements this narrative discussion, overview, and analysis of the financial activities for the fiscal years ending June 30, 2014 and 2013. We encourage readers to consider the information presented here as an overview of the operations of the KCWCD. This discussion and analysis is not intended to cover every aspect of the daily activities found at the KCWCD.

Financial Highlights

- The KCWCD revenues and non-operating revenues years ending June 30, 2014 and 2013 were \$2,693,489 and \$4,589,288. There was a significant decrease in impact fee revenues.
- Net position decreased \$733,492.
- Net position invested in net capital assets less related debt increased \$1,330,751.
- Long term debt increased by \$339,556.
- Assets exceeded liabilities at closest year-end: $\$61,550,134 - \$31,815,248 = \$29,734,886$. Of this amount, \$4,008,797 is unrestricted and available to meet the District's ongoing obligations.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the KCWCD's basic financial statements. The financial statements are comprised of three components; the Statement of Net position; the Statement of Revenues, Expenses, and Changes in Net position; and Statement of Cash Flows. This report also contains other supplementary information in addition to the basic financial statements themselves to give the reader an overall view of the KCWCD as a whole. The financial statements are designed to provide readers with a broad overview of the KCWCD's finances, in a manner similar to a private-sector business.

Statement of Net position

The statement of net position presents information on all of the assets and liabilities of the KCWCD, with the difference between the two reported as net position. Invested in capital assets are the fixed assets of the KCWCD reduced by accompanying debt and accumulated depreciation. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the KCWCD is improving or deteriorating.

Condensed Statement of Net Position and Comparison

	June 30, 2014	June 30, 2013	June 30, 2012
Assets:			
Current assets	\$ 1,199,356	\$ 1,143,471	\$ 920,901
Notes receivable, noncurrent portion	3,281,658	3,856,974	1,521,303
Capital assets, net of depreciation	<u>57,069,120</u>	<u>58,080,541</u>	<u>50,731,422</u>
Total assets	61,550,134	63,080,986	53,173,626
Liabilities:			
Current liabilities	1,292,766	2,162,517	1,318,345
Noncurrent liabilities	<u>30,522,482</u>	<u>30,450,092</u>	<u>22,592,573</u>
Total liabilities	<u>31,815,248</u>	<u>32,612,609</u>	<u>23,910,918</u>
Equity:			
Invested in fixed assets, net of related debt	23,382,303	22,051,553	26,207,308
Restricted	2,343,786	5,025,514	1,362,537
Unrestricted	<u>4,008,797</u>	<u>3,391,311</u>	<u>1,692,863</u>
Total net position	<u>\$ 29,734,886</u>	<u>\$ 30,468,378</u>	<u>\$ 29,262,708</u>

As noted earlier, net position may serve over time as a useful indicator of an institution's financial position. In the case of the KCWCD, net position decreased by \$733,492 or 2.4% at the close of the most recent fiscal year. The majority of KCWCD's net position, \$23,382,303 or 79% of total net position reflects its investment primarily in capital less related debt (e.g., land, buildings, water system improvements, furniture and equipment). The KCWCD uses these capital assets to provide services to customers so, consequently, the majority of these assets are not available for future spending. Although the KCWCD's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net position, \$4,008,797, may be used to meet the KCWCD's ongoing obligations to customers, employees, and creditors.

Statement of Revenues, Expenses and Changes in Net position

This statement of revenues, expenses and changes in net position presents information showing how the net position of the KCWCD changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The breakdown of "Operating" and Non-operating" categories are defined by accounting standards. The KCWCD experienced a large portion of its revenue from state appropriations and federal grants, as described earlier, as well as in other grants and user fees. The largest portion of the District's expenses came from capital construction costs.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	FYE 2014	FYE 2013	FYE 2012
Operating revenues	\$ 882,679	\$ 558,676	\$ 713,865
Operating expenses	<u>(2,806,657)</u>	<u>(2,585,845)</u>	<u>(2,463,534)</u>
Operating loss	(1,923,978)	(2,027,169)	(1,749,669)
Non-operating revenues	1,810,810	4,030,611	3,002,456
Non-operating expenses	<u>(620,324)</u>	<u>(797,772)</u>	<u>(618,929)</u>
Non-operating income	<u>1,190,486</u>	<u>3,232,839</u>	<u>2,383,527</u>
Change in net position	(733,492)	1,205,670	633,858
Net position--beginning of year	<u>30,468,378</u>	<u>29,262,708</u>	<u>28,628,850</u>
Net position--end of year	<u>\$ 29,734,886</u>	<u>\$ 30,468,378</u>	<u>\$ 29,262,708</u>

Statement of Cash Flows

The Statement of Cash Flows provides an additional perspective of the KCWCD's financial results for the fiscal year. It provides a source and use of cash by a broad category of activity.

Condensed Statement of Cash Flows

	FYE 2014	FYE 2013	FYE 2012
Cash provided (used) by:			
Operating activities	\$ (169,334)	\$ (188,025)	\$ (271,222)
Non-capital financing activities	785,943	775,806	724,517
Capital financing activities	1,384,571	10,013,742	5,372,991
Capital investing activities	<u>(4,607,716)</u>	<u>(6,640,558)</u>	<u>(5,785,736)</u>
Net increase (decrease) in cash	(2,606,536)	3,960,965	40,550
Cash at beginning of year	<u>5,500,682</u>	<u>1,539,717</u>	<u>1,499,167</u>
Cash at end of year	<u>\$ 2,894,146</u>	<u>\$ 5,500,682</u>	<u>\$ 1,539,717</u>

Fund Budgetary Highlights

Year-end June 30, 2014	Original	Amended	Actual
Revenues	\$ 2,937,000	\$ 2,937,000	\$ 2,693,489
Expenses	<u>(4,048,500)</u>	<u>(4,048,500)</u>	<u>(3,426,981)</u>
Net Income	<u>\$ (1,111,500)</u>	<u>\$ (1,111,500)</u>	<u>\$ (733,492)</u>
Year-end June 30, 2015	Budget		
Revenues	\$ 3,360,400		
Expenses	<u>(4,309,200)</u>		
Net Income	<u>\$ (948,800)</u>		

Capital Assets and Debt Administration

The District has been actively expanding operations through the purchase of existing systems and the improvement of the water system. The District used long-term revenue bonds, grants and impact fees to financing these construction projects. The following summarizes capital asset and debt activity.

Debt & Assets	30-Jun-13	Additions	Deletions	30-Jun-14
Long-term debt, water revenue bonds	\$ 31,003,475	\$ 925,000	\$ (585,444)	\$ 31,343,031
Land, water rights, & easements	\$ 15,793,775	\$ 869,058	\$ (17,137)	\$ 16,645,696
Construction in progress	6,696,317	64,956	(5,857,354)	903,919
Water system, buildings & equipment	41,438,158	8,474,032	-	49,912,190
Less accumulated depreciation	(10,873,223)	(1,863,248)	-	(12,736,471)
Net capital assets	\$ 53,055,027	\$ 7,544,798	\$ (5,874,491)	\$ 54,725,334

Debt & Assets	30-Jun-12	Additions	Deletions	30-Jun-13
Long-term debt, water revenue bonds	\$ 23,161,577	\$ 8,410,901	\$ (569,003)	\$ 31,003,475
Land, water rights, & easements	\$ 4,341,221	\$ 11,452,553	\$ -	\$ 15,793,774
Construction in progress	12,466,323	6,102,892	(11,872,898)	6,696,317
Water system, buildings & equipment	41,763,227	1,069,816	(1,394,884)	41,438,159
Less accumulated depreciation	(9,201,886)	(1,671,337)	-	(10,873,223)
Net capital assets	\$ 49,368,885	\$ 16,953,924	\$ (13,267,782)	\$ 53,055,027

KCWCD Statistical and Financial Information

The KCWCD's tax rate increased 3.7% from the previous year. The tax rate has steadily increased each year since 2009. The increase was due primarily to general property devaluation within Kane County, which required a higher rate to be assessed in order to collect the same level of taxes as the previous year. There were 2,993 customers served at June 30, 2014 by the KCWCD year round culinary water system of which 88% were from the Cedar Mountain area.

	2010	2011	2012	2013	2014	Average
Customer accounts served	2,685	2,700	2,708	2,710	2,993	2,759
Increase from prior year	180	15	8	2	283	98
Tax rate	0.000478	0.000527	0.000609	0.000621	0.000644	0.000576
Tax rate change from prior year	6.7%	10.3%	15.6%	2.0%	3.7%	7.6%
Grants received	\$ 2,745,971	\$ 4,096,810	\$ 1,776,373	\$ 601,637	\$ 488,124	1,941,783

Requests for Information

This financial report is designed to provide a general overview of the Kane County Water Conservancy District's finances for all those with an interest in government finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Randall Brown, Accountant/Office Manager, 190 W. Center St. #200 Kanab, Utah 84741, telephone: (435) 644-3997.

Kane County Water Conservancy District
Statement of Net Position
Proprietary Fund
June 30, 2014 and 2013

	2014	2013
Assets:		
Current assets:		
Cash & cash equivalents	\$ 550,360	\$ 475,168
Accounts receivable	136,494	70,481
Grants receivable	-	26,962
Accrued interest receivable	61	2,378
Property tax receivable	45,789	65,780
Notes receivable impact and connection fees, current portion	416,652	452,702
Notes receivable, current portion	50,000	50,000
Total current assets	1,199,356	1,143,471
Non-current assets:		
Notes receivable impact and connection fees, non-current portion	1,474,612	1,999,928
Notes receivable, non-current portion	1,807,046	1,857,046
Land, easements and water rights	16,645,696	15,793,774
Restricted cash for debt service and retainage	2,343,786	5,025,514
Construction in progress	903,919	6,696,318
Equipment, buildings, pipelines, etc.	49,912,190	41,438,158
(Less accumulated depreciation)	(12,736,471)	(10,873,223)
Total non-current assets	60,350,778	61,937,515
Total assets	\$ 61,550,134	\$ 63,080,986
Liabilities and net position:		
Current liabilities:		
Accounts payable	\$ 38,340	\$ 83,891
Accounts payable for construction	23,728	1,121,347
Accrued payroll payable	38,180	35,220
Accrued interest payable	153,882	135,709
Deferred revenue	218,087	232,966
Bonds payable--due within one year	820,549	553,383
Total current liabilities	1,292,766	2,162,516
Non-current liabilities:		
Bonds payable due after one year	30,522,482	30,450,092
Total non-current liabilities	30,522,482	30,450,092
Total liabilities	31,815,248	32,612,608
Net position:		
Invested in capital assets, net of related debt	23,382,303	22,051,552
Restricted assets for debt service and retainage	2,343,786	5,025,514
Unrestricted	4,008,797	3,391,312
Total net position	29,734,886	30,468,378
Total net position and liabilities	\$ 61,550,134	\$ 63,080,986

Kane County Water Conservancy District
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund

For the years ending June 30, 2014 and 2013

	2014	2013
Operating revenues:		
Water sales revenue	\$ 882,679	\$ 558,676
Total operating revenues	882,679	558,676
Operating expenses:		
Administrative	155,351	147,468
Wages	102,893	104,978
Employee benefits & health insurance	151,232	125,951
Insurance for liability	27,618	27,880
Travel and mileage	13,743	12,029
Meetings and public notices	9,812	10,342
Miscellaneous	3,556	6,214
Office supplies and utilities	53,330	55,621
Professional	43,639	19,649
Bad debt	-	-
Repairs, maintenance and operations	165,502	215,321
Depreciation	1,863,248	1,671,337
Water monitoring	22,951	23,100
Third party services, labor	193,782	165,955
Total operating expenses	2,806,657	2,585,845
Operating income (loss)	(1,923,978)	(2,027,169)
Nonoperating income (expense):		
Property tax revenues	788,952	801,096
Grant revenues	488,124	601,637
Investment earnings	122,008	101,369
Impact fees	261,197	2,072,798
Connection fees	50,914	396,223
Rental income	5,169	2,085
Other income	94,446	55,404
Connection expense	(9,609)	-
Project feasibility, studies, and engineering	-	(160,000)
Interest expense and fiscal charges	(587,715)	(614,772)
Orderville Irrigation agreement	(23,000)	(23,000)
Total nonoperating income	1,190,486	3,232,840
Net income, change in net position	(733,492)	1,205,671
Net position--beginning	30,468,378	29,262,707
Net position--ending	\$ 29,734,886	\$ 30,468,378

Kane County Water Conservancy District
Statement of Cash Flows
Proprietary Fund
For the years ending June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash received from customers	\$ 816,666	\$ 728,288
Cash payments to suppliers for goods and services	(579,484)	(545,201)
Cash payments for payroll and administration	(406,516)	(371,112)
Net cash provided (used) by operations	(169,334)	(188,025)
Cash flows from noncapital financing activities:		
Property tax revenue	808,943	798,806
Payment irrigation company	(23,000)	(23,000)
Net cash (used) by noncapital financing	785,943	775,806
Cash flows from capital and related financing activities:		
Cash received from impact and connection fees	863,868	1,923,672
Cash received from note receivables	50,000	50,000
Grant revenue for construction	500,207	847,368
Other receipts	99,615	57,489
Interest received from notes receivable	100,866	60,112
Payments for studies and engineering	-	(160,000)
Interest paid on capital debt	(569,542)	(592,798)
Proceeds from bonds issued	925,000	8,410,902
Principal paid on long-term bonds and notes payable	(585,443)	(583,003)
Net cash (used) from capital and related financing	1,384,571	10,013,742
Cash flows from investing activities:		
Acquisition of capital assets	(4,631,175)	(6,692,371)
Interest received	23,459	51,813
Net cash (used) by investing	(4,607,716)	(6,640,558)
Net increase in cash and cash equivalents	(2,606,536)	3,960,965
Cash and cash equivalents--beginning	5,500,682	1,539,717
Cash and cash equivalents--ending	2,894,146	5,500,682
Balance sheet reconciliation		
Cash & cash equivalents	550,360	475,168
Restricted cash for debt service and retainage	2,343,786	5,025,514
Cash totals	2,894,146	5,500,682
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	(1,923,978)	(2,027,169)
Adjustments to reconcile operating income:		
Depreciation	1,863,248	1,671,337
(Increase) decrease in accounts receivable	(66,013)	171,112
(Increase) decrease in prepaid assets	-	-
Increase (decrease) in accounts payable	(45,551)	(9,090)
Increase (decrease) in payroll taxes payable	2,960	7,285
Increase (decrease) in deposits payable	-	(1,500)
Net cash provided (used) by operations	\$ (169,334)	\$ (188,025)

Kane County Water Conservancy District
Notes to the Financial Statements
Year-ending June 30, 2014

NOTE 1 Summary of Significant Accounting Policies

The Kane County Water Conservancy District, a Utah political subdivision, (the District) is organized under the Utah Water Conservancy Act of the State of Utah. The District operates under a board of directors appointed by Kane County and provides conservation and development of water resources to the residents of the District. The District develops, purchases, treats, and sells water to retail and wholesale customers. The following summarizes the District's significant accounting policies.

Reporting Entity—The accounting policies of Kane County Water Conservancy District conform to generally accepted accounting principles as applicable to governmental units. The District has no component units and is not a component unit of another entity.

Fund Accounting—The District uses only one fund to account for its operations. The proprietary fund (enterprise fund) is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Basis of Accounting—The District records revenues and expenses using 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 District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operation. The District's principal operation is the sale and delivery of culinary water.

Deposits and Investments—The District'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. State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Receivables and Payables—All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 90 days comprise the trade accounts allowance for doubtful accounts when considered uncollectible by management. Eventual payment is received on most trade accounts receivable.

Property Taxes—The property tax revenue of the District is collected and distributed by Kane County. Utah statutes establish the process by which taxes are levied and collected. Taxes are levied each January 1 and assessed the following November. Property taxes are recorded as revenue when they become measurable and available in the year for which the taxes are levied. Accordingly, taxes as levied on January 1 are deferred to the following fiscal year. Amounts available include those property tax receivables expected to be collected within sixty days after year-end.

Inventories—All inventories are valued at cost using the first-in/first-out method and recorded as expenditures when consumed rather than when purchased.

Kane County Water Conservancy District
Notes to the Financial Statements
Year-ending June 30, 2014

Restricted, Committed or Assigned Assets—At times, the District may have funds set aside that are legally restricted or their use is limited by certain contracts. Restricted funds will be expended first when possible. Assets that are committed or assigned will also be considered expended first when possible.

Capital Assets—Capital assets include property, plant, and equipment. Capital assets are defined by the District as assets with an initial cost of \$2,000 or more and an estimated useful life exceeding one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market 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. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives: Water system, 25 years; buildings, 25 to 40 years; and equipment, 5 to 10 years.

Water Stock, Land and Easements—The District owns water rights, land and easements. Irrigation water rights are also purchased and are converted to culinary usage upon approval from the State of Utah. The District records these investments at cost.

Compensated Absences—The District's policy is to permit employees to accumulate earned but unused personal leave and sick leave benefits. There is no liability for unpaid accumulated sick leave since it is the District's policy to record the cost of sick leave as paid time off (PTO). PTO time is accrued when incurred and reported as a liability at that time.

Long-term Obligations—The District reports long-term obligations as non-current liabilities in the District's statement of net position. Bond premiums and discounts, as well as bond issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

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

Exposure to Risks of Loss— The District minimizes its exposure to risks of loss through the purchase of commercial insurance. The District considers uninsured exposure to risks of loss as immaterial.

Net Position—The District's net position are classified in three categories.

Invested in capital assets, net of related debt: This represents the District's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets.

Restricted assets: Restricted net position include resources which the District is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted: Unrestricted net position represent available resources of the District. These resources may be used for legal purposes at the discretion of the board of directors.

Kane County Water Conservancy District
Notes to the Financial Statements
Year-ending June 30, 2014

NOTE 2 Cash & 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 District 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 District funds in a qualified depository. 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.

Summary of Deposits and Investments

Reconciliation to the Balance Sheet			
	Balance Sheet	Deposits & Investments	
Cash	\$ 550,360	Checking, St Bank of So. Utah	\$ 18,053
Restricted cash	2,343,786	Utah Public Investment Pool	2,876,093
Totals	\$ 2,894,146		\$ 2,894,146

Deposits

Custodial Credit Risk—Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. As of June 30, 2014, \$0 of the District's bank balances of \$24,478 (carrying balance of \$18,053) was uninsured or uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the District 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.

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United State Treasury including bills, notes, and bonds; 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; and the Utah State Public Treasurer's Investment Fund.

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

Kane County Water Conservancy District
Notes to the Financial Statements
Year-ending June 30, 2014

Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses (net of administration fees), of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2014, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	10 +
State of Utah Public Treasurer's Investment Fund	2,876,093	2,876,093	-	-	-

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District'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. Except for funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, the Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years. For funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, Rule 2 of the Money Management Council does not allow the dollar-weighted average maturity of fixed income securities to exceed ten years.

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

At June 30, 2014, the District had the following investments and quality ratings:

Investment Type	Fair Value	Quality Rating			
		AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	2,876,093	-	-	-	2,876,093

Concentration of Credit Risk—Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

Kane County Water Conservancy District
Notes to the Financial Statements
Year-ending June 30, 2014

NOTE 3 Long-term Debt & Related Restricted Cash

Changes in long-term debt and amounts due within one year are as follows:

Revenue Bonds	Maturity Year	Interest Rate	30-Jun-13	Additions	Deletions	30-Jun-14	Current
2000 A	2021	2.41%	\$ 125,000	\$ -	\$ 14,000	\$ 111,000	\$ 15,000
2002 A	2026	2.62%	530,000	-	35,000	495,000	36,000
2004 A	2045	4.25%	1,969,917	-	29,738	1,940,179	31,026
2005 A	2046	4.50%	2,317,833	-	31,340	2,286,493	32,778
2005 B	2046	4.50%	2,479,211	-	34,591	2,444,620	36,135
2006 A	2036	1.00%	3,970,000	-	20,000	3,950,000	20,000
2006 B	2046	4.25%	320,324	-	4,546	315,778	4,743
2007 A	2048	4.125%	514,423	-	7,260	507,163	7,566
2007 B	2049	4.25%	424,286	-	5,620	418,666	5,864
2009 A	2030	2.82%	905,000	-	42,000	863,000	43,000
2009 B	2050	2.75%	1,664,164	-	25,463	1,638,701	26,172
2010 A	2025	0.00%	310,907	-	36,150	274,757	36,150
2010 B	2028	0.00%	105,000	-	7,500	97,500	7,500
2011 A	2041	1.86%	2,657,000	-	73,000	2,584,000	75,000
2011 B	2052	1.00%	4,124,000	-	77,000	4,047,000	78,000
2011 C	2021	4.00%	275,000	-	23,000	252,000	24,000
2012 A	2014	1.93%	1,198,000	-	53,000	1,145,000	55,000
2012 B	2016	5.00%	38,410	-	11,736	26,674	12,793
2013 A	2017	4.71%	75,000	600,000	22,000	653,000	23,000
2013 B	2043	0.00%	7,000,000	-	-	7,000,000	241,000
2014	2021	4.00%	-	325,000	32,500	292,500	9,822
Totals			<u>\$ 31,003,475</u>	<u>\$ 925,000</u>	<u>\$ 585,444</u>	<u>\$ 31,343,031</u>	<u>\$ 820,549</u>

Summary of interest rates, annual payments, and debt service schedules are as follows. All loans are revenue bonds.

- 2000A \$273,000 Water Revenue Bond issued 8/29/2000, annual installments of \$16,000 to \$18,000 through year 2021, 2.41% APR.
- 2002A \$750,040 Water Revenue Bond issued 2/5/2002, annual installments of \$48,231 to \$49,104 through year 2026, 2.62% APR.
- 2004A \$2,167,400 Water Revenue Bond issued 6/14/2004, monthly installments of \$9,407 through year 2045, 4.25% APR.
- 2005A \$2,500,000 Water Revenue Bond issued 6/14/04, monthly installments of \$11,250 through 2046, 4.5% APR.

Kane County Water Conservancy District
Notes to the Financial Statements
Year-ending June 30, 2014

- 2005B \$2,660,000 Water Revenue Bond issued 2/5/2002, monthly installments of \$11,864 through year 2046, 4.5% APR.
- 2006A \$3,990,000 Water Revenue Bond issued 7/1/2006, annual installments of \$39,900 to \$300,580 (amounts increase significantly from year to year) through 2036, 1.00% APR.
- 2006B \$347,000 Water Revenue Bond issued 7/18/06, monthly installments of \$1,506 through 2046; 4.25% APR.
- 2007A \$548,000 Water Revenue Bond issued 3/23/07, monthly installments of \$2,362 through 2048; 4.125% APR.
- 2007B \$452,000 Water Revenue Bond issued 10/01/07, monthly installments of \$1,962 through 2049; 4.25% APR
- 2009A \$1,025,000 Water Revenue Bond, annual installments of \$67,905 to \$67,337 payment begins in 2011 through 2030; 2.82% APR.
- 2009B \$1,693,000 Water Revenue Bond, 40 year payment schedule not set until all proceeds received; 2.75% APR .
- 2010A \$455,507 Water Revenue Bond, cooperative agreement with Kanab Irrigation to take on note in exchange for land, site of Jackson Flat Reservoir 08/10/10, annual installments of \$36,150 through 2025; 0.00% APR.
- 2010B \$135,000 Water Revenue Bond, cooperative agreement with Kanab Irrigation to take on note in exchange for land, site of Jackson Flat Reservoir 08/10/10, annual installments of \$7,500 through 2028; 0.00% APR.
- 2011A \$2,800,000 Water Revenue Bond, annual installments of around \$122,500 payment begins in 2012 through 2041; 1.86% APR.
- 2011B \$4,200,000 Water Revenue Bond, 40 year payment schedule, annual installments of \$104,000 to \$116,420 payment begins in 2013; 1.00% APR.
- 2011C \$297,000 Water Revenue Bond, annual installments of \$40,813 to \$41,600; 4.00% APR.
- 2012A \$1,248,000 Utah DDW Note Payable, payments of \$53,000 to \$84,000 through 2030; 1.93% APR.
- 2012B \$50,000 Long-term Note Payable, four year annual payment schedule of \$11,590 to \$13,441; 5.00% APR.
- 2013A \$675,000 Water Revenue Bond, annual principle installments of \$22,000 to \$84,000, payment begins in 2014; 4.71% APR. All bond proceeds have not been received as of June 30, 2014.
- 2013B \$7,000,000 Water Revenue Bond, annual installments of \$241,000, with the last payment of \$252,000, payments begin in 2015; 0.00% APR.
- 2014 \$325,000 Utah SITLA Note Payable, annual installments of \$11,000, with the last payment of \$228,000 in year 2021, payments begin in 2014; 4.00% APR.

Kane County Water Conservancy District
Notes to the Financial Statements
Year-ending June 30, 2014

The District's debt service for the next forty year period is as follows.

Year	Principal	Interest	Total
2015	820,549	629,678	\$ 1,450,227
2016	838,000	614,630	1,452,630
2017	837,751	599,199	1,436,950
2018	905,663	583,812	1,489,475
2019	939,867	567,044	1,506,911
2020-24	5,169,368	2,539,868	7,709,236
2025-29	5,322,901	2,052,350	7,375,251
2030-34	5,321,885	1,541,179	6,863,064
2035-39	4,972,990	1,045,474	6,018,464
2040-44	3,989,553	543,855	4,533,408
2045-49	1,716,865	112,511	1,829,376
2050-54	507,639	10,803	518,442
	<u>\$ 31,343,031</u>	<u>\$ 10,840,403</u>	<u>\$ 42,183,434</u>

The District has set up reserve and redemption accounts for these bond contracts. As of June 30, 2014, the District has reserved \$1,640,105 for this purpose.

NOTE 4 Fixed Asset Activity

Fixed Asset Activity	30-Jun-13	Increase	Decrease	30-Jun-14
Capital assets not depreciated:				
Land, water rights & easements	\$ 15,793,775	\$ 869,058	\$ (17,137)	\$ 16,645,696
Construction in progress	<u>6,696,317</u>	<u>64,956</u>	<u>(5,857,354)</u>	<u>903,919</u>
Total nondepreciable assets	22,490,092	934,014	(5,874,491)	17,549,615
Capital assets depreciated:				
Water system	40,054,578	8,438,812	-	48,493,390
Buildings	95,590	-	-	95,590
Equipment	<u>1,287,990</u>	<u>35,220</u>	<u>-</u>	<u>1,323,210</u>
Total depreciable assets	41,438,158	8,474,032	-	49,912,190
Accumulated depreciation				
Water system	(10,037,870)	(1,799,086)	-	(11,836,956)
Buildings	(24,860)	(3,828)	-	(28,688)
Equipment	<u>(810,493)</u>	<u>(60,334)</u>	<u>-</u>	<u>(870,827)</u>
Total accumulated depreciation	<u>(10,873,223)</u>	<u>(1,863,248)</u>	<u>-</u>	<u>(12,736,471)</u>
Total assets net of depreciation	<u>\$ 53,055,027</u>	<u>\$ 7,544,798</u>	<u>\$ (5,874,491)</u>	<u>\$ 54,725,334</u>

Kane County Water Conservancy District
Notes to the Financial Statements
Year-ending June 30, 2014

NOTE 5 Construction Commitments

The District has many construction projects in the planning stage or in progress. The District's goal for these projects is to finance the capital outlay with a mix of connection fees, impact fees, loans and grants. The District has \$703,681 cash restricted for the completion of ongoing projects.

NOTE 6 Joint Venture Agreement—Orderville Irrigation Company

On September 10, 1998, the District entered into a water development agreement with the Orderville Irrigation Company. The agreement provided for an expansion of the pipeline which carries water from the East Fork of the Virgin River to the Cove Reservoir. This expanded water pipeline is used jointly by the District and Orderville Irrigation Company. The agreement provides for an annual payment by the District to the Irrigation Company for the District's pro-rata portion of the water development project and related operating and maintenance costs.

NOTE 7 Employer Contributing to a Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

The District contributes to the Local Governmental Noncontributory Retirement System cost-sharing multiple-employer defined pension plans administered by the Utah Retirement Systems. Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System and Public Safety Retirement System for employers with Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. For July 2013 to June 2014, plan members in the Local Governmental Noncontributory Retirement System are required to contribute 0.00% of their annual coverage salary (0.00% is paid by the District for the employee) and the District is required to contribute 17.290% of their annual coverage salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Funding Policy. For July 2013 to June 2014, plan members in the Local Governmental Contributory Retirement System are required to contribute 0.00% of their annual coverage salary (0.00% is paid by the District for the employee) and the District is required to contribute 13.990% of their annual coverage salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Contributions. The District's contributions to the Local Governmental Noncontributory Retirement System for the years ending June 30, 2014, 2013, and 2012 were as follows. The contributions were equal to the required contributions for each year.

Kane County Water Conservancy District
Notes to the Financial Statements
Year-ending June 30, 2014

Salary Subject to Retirement Contributions		Year-end June 30	Employer Paid for		
			Employee Paid Contributions	Employee Contributions	Employer Contributions
\$	336,298	2014	n/a	-	\$ 60,976
	341,291	2013	n/a	-	55,768
	306,598	2012	n/a	-	42,219

Contributions. The District's contributions to the Local Governmental Contributory Retirement System for the years ending June 30, 2014, 2013, and 2012 were as follows. The contributions were equal to the required contributions for each year.

Salary Subject to Retirement Contributions		Year-end June 30	Employer Paid for		
			Employee Paid Contributions	Employee Contributions	Employer Contributions
\$	51,553	2014	n/a	-	\$ 4,382
	24,530	2013	n/a	-	2,100
	8,016	2012	n/a	-	608

The District allows participates to participate in a 401(k) plan. These assets are in the employees name and the District has no right to the 401(k) contributions. For the years ending 2014, 2013 and 2012, the employees contributed \$18,800, \$5,500 and \$0 respectively, and the employer contributed \$820, \$390 and \$193 respectively.

Aycock, Miles & Associates, CPAs, P.C.

Certified Public Accountants

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Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Trustees
Kane County Water Conservancy District

We have audited the financial statements of Kane County Water Conservancy District as of and for the year ended June 30, 2014, and have issued our report thereon dated October 15, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, others within the entity, and applicable regulatory entities and is not intended to be and should not be used by anyone other than these specified parties.

Aycock, Miles & Associates, CPAs

October 15, 2014

Aycock, Miles & Associates, CPAs, P.C.

Certified Public Accountants

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Report On Utah Compliance with General Requirements and for Each Major State Program

Board of Directors
Kane County Water Conservancy District

We have audited Kane County Water Conservancy District's compliance with the applicable general state and major state program compliance 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 District or each of its major state programs for the year ended June 30, 2014.

General state compliance requirements were tested for the year ended June 30, 2014 in the following areas: budgetary compliance, fund balance, retirement systems, cash management, impact fees, nepotism, public finance website, and district board members.

The District received funding from the State of Utah. Many of these programs are considered major and have been tested in accordance with Utah State Compliance Guide.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on the District's compliance based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and the State 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 District or its major state programs occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on General State Compliance Requirements and Each Major State Program

In our opinion, the Kane County Water Conservancy District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the District or on each of its major state programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures did not disclose any instances of noncompliance which are required to be reported in accordance with the State Compliance Audit Guide.

Report On Internal Control Over Compliance

Management of the District 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 District's internal control over compliance with the compliance requirements that

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Certified Public Accountants

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could have a direct and material effect on the District or on each major state program 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 for each major state program 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 District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a general state or major state program 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 or major state program 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 or major state program 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 of Utah Compliance Audit Guide. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of State Awards as Required by the State Compliance Audit Guide

We have audited the financial statements of the District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 15, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis as required by the State Compliance Audit Guide and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state awards is fairly stated in all material respects in relation to the financial statements as a whole.

Aycock, Miles & Associates, CPAs

October 15, 2014

Schedule of Expenditures of State Awards
For the year ended June 30, 2014

<u>Grant or Loan</u>	<u>Contract</u>	<u>Last Audit</u>	<u>Amount Expended</u>
Utah Division of Drinking Water grant	J.C. water rights	n/a	\$ 324,795
Utah Division of Drinking Water loan	Zions View	n/a	600,000
Utah Water Quality Board grant	Waste Water	n/a	38,484
Utah SITLA loan	Jackson Reservoir	n/a	325,000
			<u>\$ 1,288,279</u>