Duchesne County Water Conservancy District

Duchesne County, Utah

GENERAL PURPOSE FINANCIAL STATEMENTS

Year Ended June 30, 2006

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Independent Auditors' Report

Duchesne County Water Conservancy District

We have audited the accompanying financial statements of the governmental activities, each major fund, aggregate remaining fund information, and budgetary comparison information of the District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, aggregate remaining fund information, and budgetary comparison information of the District as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, see Table of Contents for page numbers, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Aycock, Miles & Associates, CPAs

August 11, 2006

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Management's Discussion and Analysis

As management of the Duchesne County Water Conservancy District (the District), we offer readers of the District's financial statements this narrative overview and analysis of financial activities of the District for the fiscal year ended June 30, 2006.

Financial Highlights

- Assets exceeded liabilities at closest year-end: $1,539,586 - $350,690 = $1,188,896. Of this amount, $900,243 is unrestricted and available to meet the District's ongoing obligations.
- Net assets increased $237,840.
- Fund balances increased $153,351.
- Unrestricted net assets increased $164,566.
- The District had no long-term debt at the closest year-end.
- The District's total assets of $1,539,586 were 58% cash and receivables.
- The District's liabilities of $350,690 are mostly current due to large property tax deferred revenue. Current liabilities are $40,690 (4.5% of cash and receivable balance at year end).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements– The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets present information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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 (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District include water conservation and general administration. The District has no business-type activities.

Government-wide financial statements can be found later in this report, see the Table of Contents for page numbers.

Fund financial statements–A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds–Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of the revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital projects fund, both of which are considered to be major funds.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with its budget.

The basic governmental fund financial statements can be found later in this report, see the Table of Contents for page numbers.

Notes to the financial statements– The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are reported later in this report please see the Table of Contents for page numbers.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by $1,188,896 at the close of the most recent fiscal year.

The largest portion of the District's net assets were unrestricted net assets at 76%. Unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors. Capital assets (e.g., machinery, equipment, etc.) comprised 24% of total net assets, less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay any debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate any liabilities.

Net Assets	Governmental Activities 2006	Governmental Activities 2005
Current and other assets	$ 916,767	$ 1,312,645
Property tax receivable	334,166	271,328
Net capital assets	288,653	215,379
Total assets	1,539,586	1,799,352
Current liabilities	(40,690)	(591,027)
Deferred property tax revenue	(310,000)	(257,269)
Total liabilities	(350,690)	(848,296)
Net assets:		
Invested in capital assets, net of related debt	288,653	215,379
Restricted	-	-
Unrestricted	900,243	735,677
Total net assets	$ 1,188,896	$ 951,056

The District's net assets increased $237,840 during the most recent fiscal year. Capital projects are, for the most part, fully funded by grants and property tax revenues have exceeded operating and administration expenses in recent years.

Government activities–Governmental activities increased the District's net assets by $237,840; thereby accounting for 100% of the growth in total net assets. Key elements of this increase are as follows.

Change in Net Assets	Governmental Activities 2006	Governmental Activities 2005
Program revenues:		
Charges for services	$ 79,016	$ 5,097
Operating grants	2,643,010	11,364,860
Capital grants	-	-
General revenues:		
Property taxes	312,063	267,909
Earnings on investments	32,455	15,783
Total revenues	3,066,544	11,653,649
Expenses:		
Cloud seeding	20,264	14,076
Water source studies	63,499	112,195
Irrigation company legal fees	-	24,171
Conservation projects	2,569,883	11,241,406
Administration	175,058	198,724
Total expenses	2,828,704	11,590,572
Increase in net assets	$ 237,840	$ 63,077

Property taxes increased $44,154 (17%) because of property value growth in the County and charges for services (irrigation company and business payments) increased to $79,016. Charges for services will vary from year to year based on projects to supply water to citizens and businesses, etc. Operating grants for conservation projects decreased significantly; therefore, the conservation projects also decreased to a similar level. Operating grants will vary year to year based on project funding. Administration expenses remained consistent with the prior year.

Financial Analysis of the Government's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds– The focus of the District's governmental funds is to provide information on near-term flows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $876,703, an increase of $153,351 in comparison with the prior year. This entire total amount is unreserved fund balance, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was $305,374, while total general fund balance was the same balance. As a measure of the general fund's liquidity, it may be useful to compare both unreserved general fund balance and total fund balance to total fund expenditures–in this case, the same amount. Unreserved fund balance represents 79% of total general fund expenditures.

The fund balance of the District's general fund increased $60,217 for the recent fiscal year.

The capital project fund has a total fund balance of $571,328, an increase of $93,133 from the previous year. The increase is largely due from operating transfers and from reimbursements for work done on conservation projects in previous years; otherwise, the capital projects would have broke even.

Fund Budgetary Highlights

Amendments were be made to the funds' original budgets to more accurately reflect the expected expenses and revenue as the year progressed.

Capital Asset and Debt Administration

Capital assets–The District's investment in capital assets for its governmental activities as of June 30, 2006 amounts to $288,653 (net of accumulated depreciation). These capital assets are land (restricted for mitigation purposes), transportation equipment, and office equipment. Net capital assets increased $73,274. Net capital assets increased because asset purchases of $85,819 (vehicle and water rights in a spring) exceeded the change in depreciation.

	Governmental Activities	
Net Capital Assets	2006	2005
Land and land improvements	$ 244,727	$ 195,427
Transportation equipment	36,080	17,361
Office equipment	7,846	2,590
Total	$ 288,653	$ 215,379

Long-term debt– At the end of current fiscal year, the District did not have any long-term debt. The District does not maintain a debt rating. State statutes do not limit the amount of general obligation or revenue bond debt the District may issue. In either case, an election must be held although there are some exceptions to revenue bond issuance.

Economic Factors and Next Year's Budgets and Rates

The general fund budget for next year is relatively similar to last year's actual expenses. Only a small change in budgeted tax revenues has been made for the next fiscal year. In year 2005, their rate was 0.00034 and their rate for 2006 is 0.00034 (or slightly lower to match their certified tax commission rate). These rates are set to reach similar budgeted revenues.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Duchesne County Water Conservancy Manager, 855 East 200 North, Roosevelt, Utah 84066.

Duchesne County Water Conservancy District
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities
ASSETS	
Current Assets:	
Cash (Note 2)	$ 22,711
Cash in savings (Note 2)	873,830
Property tax receivable	334,166
Other receivables	-
Grants receivable	20,226
Total Current Assets	1,250,933
Non Current Assets:	
Capital assets:	
Equipment	329,280
Accumulated depreciation	(40,627)
Total Non Current Assets	288,653
Total Assets	$ 1,539,586
LIABILITIES	
Current Liabilities:	
Accrued payroll, payroll taxes, sick time	$ 26,846
Accounts payable	13,844
Total Current Liabilities	40,690
Other Liabilities	
Deferred property tax revenue	310,000
Total Other Liabilities	310,000
Total Liabilities	350,690
NET ASSETS	
Invested in capital assets, net of related debt	288,653
Restricted	-
Unrestricted	900,243
Total Net Assets	1,188,896
Total Liabilities & Net Asset Balances	$ 1,539,586

Duchesne County Water Conservancy District
STATEMENT OF ACTIVITIES
For the year ending June 30, 2006

Functions	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants & Contributions	Program Revenues: Capital Grants & Contributions	Net (Expense) Revenue and Changes in Net Assets: Total Governmental Activities
Governmental Activities:					
Conservation projects	$ 2,569,884	$ -	$ 2,643,010	$ -	73,126
Cloud seeding	20,264	-	-	-	(20,264)
Water feasibility studies & engineering	63,499	-	-	-	(63,499)
Administration	175,058	79,016	-	-	(96,042)
Total	2,828,705	79,016	2,643,010	-	(106,679)
General Revenues:					
Property taxes					312,063
Earnings on investments					32,455
Total General Revenues					344,518
Change in Net Assets					237,840
Beginning Net Assets					951,056
Ending Net Assets					$ 1,188,896

See accompanying notes.

Duchesne County Water Conservancy District
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2006

Total Fund Balances for Governmental Funds		**$ 876,703**
Total net assets reported for governmental activities in the statement of net assets is different because:		
Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of the following:		
Land and equipment	329,280	
Accumulated depreciation	(40,627)	
		288,653
Deferred property tax revenue includes delinquent property taxes in the fund statements but not in the government-wide statements.		23,540
Total Net Assets of Governmental Activities		**$ 1,188,896**

Duchesne County Water Conservancy District

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the year ending June 30, 2006

Net Change in Fund Balances--Total Governmental Funds		$ 153,351
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with a material cost are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expenses.		
Capital outlays	85,819	
Depreciation	(12,545)	
		73,274
Government funds do not report delinquent taxes as revenue because these revenues are not available for current period expenses.		11,215
Governmental funds report debt services as an expenditure. However, repayment of debt does not affect the statement of activities but rather is a reduction of the statement of net assets' liability.		-
Change in Net Assets of Governmental Activities		$ 237,840

Duchesne County Water Conservancy District
BALANCE SHEET--GOVERNMENTAL FUNDS
June 30, 2006

	Major Funds		Total Governmental Funds
	General Fund	Capital Projects	
ASSETS			
Cash (Note 2)	$ 22,711	$ -	$ 22,711
Cash in savings (Note 2)	313,586	560,244	873,830
Property tax receivable	334,166	-	334,166
Other receivables	-	-	-
Grants receivable	6,887	13,339	20,226
Total Assets	$ 677,350	$ 573,583	$ 1,250,933
LIABILITIES			
Accrued payroll, payroll taxes, sick time	$ 26,846	$ -	$ 26,846
Accounts payable	11,589	2,255	13,844
Deferred property tax revenue	333,540	-	333,540
Total Liabilities	371,976	2,255	374,231
FUND BALANCES			
Unreserved:			
General fund	305,374	-	305,374
Capital projects fund	-	571,328	571,328
Total Fund Balances	305,374	571,328	876,703
Total Liabilities & Fund Balances	$ 677,350	$ 573,583	$ 1,250,933

Duchesne County Water Conservancy District
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES--GOVERNMENTAL FUNDS
For the year ending June 30, 2006

	Major Funds		Total
	General Fund	Capital Projects	Governmental Funds
REVENUES			
Property tax	$ 300,848	$ -	$ 300,848
Grant income	82,388	2,560,622	2,643,010
Interest income	32,455	-	32,455
Miscellaneous	73,516	-	73,516
Total Revenues	489,207	2,560,622	3,049,829
EXPENDITURES			
Wages & payroll taxes	45,759	90,708	136,467
Directors fees & expenses	14,051		14,051
Employee benefits: health insurance & retirement	49,982	-	49,982
Space rental	5,850	1,950	7,800
Conferences & workshops	10,772	-	10,772
Insurance	5,120	-	5,120
Office supplies	4,139	1,131	5,270
Telephone	2,308	2,020	4,328
Professional fees: legal & accounting	10,320	-	10,320
Repairs & maintenance	5,916	-	5,916
Dues & memberships	1,600	-	1,600
Public relations	435	-	435
Miscellaneous	6,262	6,040	12,302
Cloud seeding	20,264	-	20,264
Feasibility studies, engineering	63,499	-	63,499
Capital outlay:			
Mitigation or depletion	48,343	-	
Property & water rights	50,000	-	50,000
Machinery & equipment	35,819	-	35,819
Green River	4,052	-	4,052
River heading automation	-	58,112	58,112
River diversions	-	444,477	444,477
Conservation projects, canals	-	1,913,051	1,913,051
Total expenditures	384,490	2,517,489	2,901,979
Excess of revenue over (under) expenditures	104,717	43,133	147,851
OTHER FINANCING SOURCES & USES			
Sale of assets	5,500	-	
Operating transfers	(50,000)	50,000	-
Total Other Sources & Uses	(44,500)	50,000	5,500
Excess revenues & other financing sources over (under) expenditures & other financing uses	60,217	93,133	153,351
Beginning fund balance	245,157	478,195	723,352
Ending fund balance	$ 305,374	$ 571,328	$ 876,703

Duchesne County Water Conservancy District
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES--BUDGET AND ACTUAL--GENERAL FUND
For the year ending June 30, 2006

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Property tax	$ 275,000	$ 300,000	$ 300,848	$ 848
Grant income	42,500	45,000	82,388	37,388
Interest income	-	-	32,455	32,455
Miscellaneous	-	60,900	73,516	12,616
Total Revenues	317,500	405,900	489,207	83,307
EXPENDITURES				
Wages & payroll taxes	90,000	90,000	45,759	44,241
Directors fees	18,000	18,000	14,051	3,949
Employee benefits: health insurance & retirement	45,000	45,000	49,982	(4,982)
Space rental	8,000	8,000	5,850	2,150
Conferences & workshops	15,000	15,000	10,772	4,228
Insurance	5,500	5,500	5,120	380
Office supplies	6,000	8,000	4,139	3,861
Telephone	5,500	5,500	2,308	3,192
Professional fees: legal & accounting	20,000	20,000	10,320	9,681
Repairs & maintenance	5,000	5,000	5,916	(916)
Dues & memberships		-	1,600	(1,600)
Public relations	1,500	1,500	435	1,065
Miscellaneous	10,000	10,000	6,262	3,738
Cloud seeding	14,000	14,000	20,264	(6,264)
Feasibility studies, engineering	38,200	48,200	63,499	(15,299)
Capital outlay:				
Mitigation property or depletion	-	48,400	48,343	57
Property & water rights	30,000	30,000	50,000	
Machinery & equipment	26,000	26,000	35,819	(9,819)
Green River	-	2,500	4,052	(1,552)
River heading automation	-	-	-	-
River diversions	-	-	-	-
Conservation projects	-	-	-	-
Total expenditures	337,700	400,600	384,490	16,110
Excess of revenue over (under) expenditures	(20,200)	5,300	104,717	99,417
OTHER FINANCING SOURCES & USES				
Sale of assets	-	-	5,500	5,500
Operating transfers	(80,000)	(80,000)	(50,000)	30,000
Total Other Sources & Uses	(80,000)	(80,000)	(44,500)	35,500
Excess revenues & other financing sources over (under) expenditures & other financing uses	(100,200)	(74,700)	60,217	134,917
Beginning fund balance	245,157	245,157	245,157	-
Ending fund balance	$ 144,957	$ 170,457	$ 305,374	$ 134,917

NOTE 1 Summary of Significant Accounting Policies

Reporting Entity–The Duchesne County Water Conservancy District was created December 31, 1997 by Duchesne County under Utah Code 17A-1-101 Title 17A. At year-end, the District's phone number was (435) 722-4977. The purpose of the District is to develop and conserve water supplies for the benefit of Duchesne County inhabitants, to construct, to operate, and to maintain facilities associated with these water resources.

The accounting policies of the Duchesne County Water Conservancy District conform to generally accepted accounting principles as applicable to governmental units. For financial reporting purposes, the District has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete.

The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and the 1) ability of the District to impose its will on that organization or 2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the District. The District has no component units and is not a component unit.

Government-Wide and Fund Financial Statements–The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent of fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privilege provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation–The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available.

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

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

The *capital projects fund* is the government's fund to account for capital projects and overhead that can be submitted to grantors for reimbursement.

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Deposits and Investments–The government'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 receivable allowance for uncollectibles. Activity between funds that are representative of lending/borrowing arrangements outstanding at year-end are referred to as either "due to/from other funds" (i.e., current portion of interfund loans) or "advances from/to other funds" (i.e., the noncurrent portion of interfund loans). Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property Taxes–The property tax revenue of the District is collected and distributed by Duchesne County. Utah statutes establish the process by which taxes are levied and collected. The County Assessor is required to assess real property as of January 1 and complete the tax rolls by May 15. By July 21, the County Auditor is to mail assessed value and tax notices to property owners. A taxpayer may then petition the County Board of Equalization between August 1 and August 15 for a revision of the assessed value. The County Auditor makes approved changes in

assessed value by November 1 and on this same date the County Auditor is to deliver the completed assessment rolls to the County Treasurer. Tax notices are mailed with a due date of November 30. The tax assessments are considered past due January 15 after the respective tax billing date, at which time the applicable property is subject to lien, and penalties and interest are assessed.

Utah State legislation requires motor vehicles be subject to an age based fee that is due each time a vehicle is registered. The age based fee is for passenger type vehicles and ranges from $10 to $150 based on the age of the vehicle. The revenues collected in each County from motor vehicle fees is distributed by the County to each taxing entity in which the property is located in the same proportion in which revenue collected from ad valorem real property tax is distributed. The District recognizes motor vehicle fees as property tax revenue when collected by the County.

As of June 30, 2006, property taxes receivable by the District includes uncollected taxes assessed as of the January 1, 2006 or earlier. The County expects that all taxes (including delinquencies plus accrued interest and penalties) will be collected within a five-year period, after which time the County Treasurer may force sale of property to collect the delinquent portion. Delinquent property tax receivable is recognized as revenue in the government-wide financial statements. Only the portion of property taxes receivable that meets the revenue recognition criteria is reported as revenue in the fund financial statements.

Inventories and Prepaid Items–All inventories are valued at cost using the first-in/first-out method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets–At times, the District may have funds set aside that are legally restricted or their use is limited by certain covenants.

Capital Assets–Capital assets, which include property, plant, equipment, and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual significant cost and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated 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 of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units if any, is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	50
Building improvements	20
Public domain infrastructure	50
System infrastructure	30
Equipment	8
Vehicles	5
Office equipment	5
Computer equipment	3

Compensated Absences– The government's policy is to permit employees to accumulate earned but unused vacation and sick pay benefits. There is a liability for unpaid accumulated sick leave because the government does have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations, retirements or certain limits. Accrued vacation and sick time for the current year end is $17,558.

Long-term Obligations–In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The District has no long-term debt activity.

Fund Equity–In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications–Comparative total data for the prior year, if presented, have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

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.

Budgetary Data–Budgets are presented on the modified accrual basis of accounting for all governmental funds of the District. The following procedures are used in establishing the budgetary data:

- During May and June of each year, the manager prepares the budget for general and capital improvement funds. The manager submits this budget to the Board of Directors.
- Copies of the budget are made available for public inspection for seven days prior to adoption.
- The Board holds a public hearing on or before June 22 of each year to receive public comment on the budget. Notice of such meeting to be published in newspaper or posted 2 weeks prior to hearing.
- By June 22, the proposed tax rate and budget is adopted by resolution or ordinance. If there is no increase in the certified tax rate, a final budget is adopted by June 22. A copy of the budget is certified by the budget officer and filed with County Auditor within thirty days of adoption.
- The proposed or final tax rate must also be submitted to County Auditor by June 22. If the District sets a proposed tax rate which exceeds the certified tax rate, it shall not adopt its final budget until the public hearing has been held. Until the hearing is held and a final budget and tax rate are adopted, the District may expand monies based on, 1) its tentative budget after adoption, or 2) its prior years's adopted final budget as amended, which must be readopted by resolution at a regular meeting of the governing body. Latest possible date for adoption in the case of an increased tax rate is August 17 (copy due to County Auditor within thirty days of adoption). Budgeted property taxes are the basis for determining the property tax levy.
- Budget shall be in effect subject to later amendment an shall be available for public inspection.
- Board may, by resolution, transfer unexpended appropriation from one department to another department within the same fund or they may reduce the budget in any department or fund. Specific restrictions apply.
- Board may increase the total budget in a fund after meeting notification and public hearing. The District did increase its budget near year-end.

NOTE 2 Cash 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 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.

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, 2006, $0 of the District's bank balances of $71,054 (carrying balance of $22,711) was uninsured and 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 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, 2006, the District had the following investments and maturities:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	$ 873,830	$ 873,830			

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, 2006, the District had the following investments and quality ratings:

		Quality Rating			
Investment Type	Fair Value	AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	$ 873,830				$ 873,830

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.

NOTE 3 Capital Asset Activity

	7/1/2005	Additions	Deletions	Depreciation	Dep'n Retired	6/30/2006
Land & water rights	$ 195,427	$ 50,000	$ -	$ (700)	$ -	$ 244,727
Transportation equipment	17,361	29,408	(25,126)	(10,689)	25,126	36,080
Office equipment	2,591	6,411	-	(1,156)	-	7,846
Total	$ 215,379	$ 85,819	$ (25,126)	$ (12,545)	$ 25,126	$ 288,653

Depreciation has been allocated to the administration function in the government-wide statement of activities.

NOTE 4 Long-term Debt

There was no long-term debt activity during the year. The District had no long-term debt at year ending June 30, 2006.

NOTE 5 Employer Contributing to a Cost-sharing Multiple-Employer Defined Benefit Pension Plan

Plan Description. 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 2005 to June 2006, 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 11.80% 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, 2006, 2005, and 2004 were as follows. The contributions were equal to the required contributions for each year.

Salary Subject to Retirement Contributions	Year Ended June 30	Employee Paid Contributions	Employer Paid for Employee Contributions	Employer Contributions
126,000	2006	n/a	n/a	14,880
124,000	2005	n/a	n/a	13,752
119,000	2004	n/a	n/a	12,359

The District does participate in a 401(k) plan. These assets are in the employees name and the District has no right to the 401(k) contributions.

NOTE 6 Commitments

The District is committed to multi-million dollar projects that began in fiscal year-end 2004. These projects are the enlargement of Sandwash Reservoir and Phase II of a canal lining project. These projects are long-term projects and will be funded mostly through government grants.

Compliance and Management Section

AYCOCK, MILES & ASSOCIATES, CPAs, P.C.

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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 Directors
Duchesne County Water Conservancy District

We have audited the general purpose financial statements of Duchesne County Water Conservancy District as of and for the year ended June 30, 2006, and have issued our report thereon dated August 11, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

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 grants, 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.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Duchesne County Water Conservancy District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the Board of Directors, audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Aycock, Miles & Associates, CPAs

August 11, 2006

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Report on Compliance With Requirements Applicable to Each Major Program And Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Directors
Duchesne County Water Conservancy District

Compliance

We have audited the compliance of the Duchesne County Water Conservancy District, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program 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. Our audit does not provide a legal determination on District's compliance with those requirements.

In our opinion, the Duchesne County Water Conservancy District, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control over Compliance

The management of Duchesne County Water Conservancy District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their

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assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Aycock, Miles & Associates, CPAs

August 11, 2006

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Utah State Compliance Report

Board of Directors
Duchesne County Water Conservancy District
Duchesne County, Utah

We have audited the general purpose financial statements of Duchesne County Water Conservancy District, Duchesne County, Utah, for the year ended June 30, 2006, and have issued our report thereon dated August 11, 2006. Our audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt	Cash Management
Purchasing Requirements	Budgetary Compliance
Property Tax	Other Compliance Requirements

The District received funding from the Community Impact Boards for a municipal water study.

The management of Duchesne County Water Conservancy District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *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 material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed one instances of noncompliance, noted latter in this report.

In our opinion, the Duchesne County Water Conservancy District, Duchesne County, Utah, complied, in all material respects, with the general and major compliance requirements identified above for the year ended June 30, 2006.

Aycock, Miles & Associates, CPAs

August 11, 2006

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Duchesne County Water Conservancy District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

Federal Grantor & Description	Pass-Through	CFDA No.	State Code	Amount
Department of the Interior				
Bureau of Reclamation				
River Automation	Direct	15.504	n/a	20,981
Reclamation & Reuse Program	Direct	15.504	n/a	471,040
Water 2025 Challenge Grant	Direct	15.507	n/a	22,908
Salinity Control Program	Direct	15.506	n/a	2,024,458
Sub-Total				2,539,387
Total				$ 2,539,387

NOTE A

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Duchesne County Water Conservancy District and is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* The amounts presented in the schedule agree with amounts in, or used in the preparation of, the basic financial statements.

Duchesne County Water Conservancy District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

This report discusses a summary of auditors' results.

SUMMARY OF AUDITORS' RESULTS

Financial Statement Opinion
The financial statement opinion for the District was an unqualified opinion.

Internal Control Reportable Conditions
No material reportable conditions were noted in the Report on Compliance and on Internal Control over Financial Reporting.

Noncompliance Material to the Financial Statements
No instances of noncompliance material to the financial statements were disclosed during the audit.

Major Program Internal Controls Over Compliance
There were no reportable conditions relating to major program internal controls.

Opinion on Compliance for Major Programs
In our opinion, the District complied, in all material respects, with compliance requirements, laws, and regulations applicable to its major programs.

Audit Findings Required to be Disclosed under OMB A-133 §_.510(a)
There are no audit findings under OMB A-133 §_.510(a).

Major Programs Identified
Based on the high and low-risk criteria and threshold amounts, there was three major programs identified: Bureau of Reclamation Salinity Program (CFDA No. 15.506), Water 2025 Challenge Grant (CFDA No. 15.507) and River Diversion or Reclamation and Reuse Program (CFDA No. 15.504).

Dollar Threshold Used to Determine Type A & B Programs
The threshold for distinguishing Type A and B programs was $300,000.

Low-Risk or High-Risk Auditee
The District was determined to be a low-risk auditee because it did have a single audit last year.

Duchesne County Water Conservancy District
SCHEDULE OF CURRENT AND PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Years Ended June 30, 2006 and 2005

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

There are no findings in this area.

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

There are no findings in this area.

STATE OF UTAH COMPLIANCE

Current Year Findings

There are no findings in this area.

Prior Year Findings

05-1 Finding
Fidelity bond coverage for the entity treasurer was inadequate for the year.

Auditor Recommendation
We recommend that the District obtain adequate fidelity bond coverage on its Treasurer. The amount of coverage required by state law for a District your size is 5% of prior years budgeted revenue but not less than $300,000.

District's Response
The District will analyze its insurance needs and take appropriate action to be in compliance. As of the date of this report, the District had agreed to submit an application to a broker for an increase in their fidelity bond.

Status
The issue has been resolved.