

**MOUNTAIN GREEN SEWER
IMPROVEMENT DISTRICT
BASIC FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORTS
YEAR ENDED DECEMBER 31, 2014**

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
YEAR ENDED DECEMBER 31, 2014**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Mountain Green Sewer District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of Mountain Green Sewer District, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively 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 activities and each major fund of Mountain Green Sewer District, as of December 31, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 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 June 5, 2015, on our consideration of the Mountain Green Sewer 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 Mountain Green Sewer District's internal control over financial reporting and compliance.

Wood Richards & Associates, PC

Ogden, Utah
June 5, 2015

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014**

This section of the Mountain Green Sewer Improvement District (the "District") annual financial report presents our discussion and analysis of the financial performance of the District during the calendar year 2014. This discussion has been prepared by District management along with the financial statements and related footnote disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes.

USING THE ANNUAL REPORT

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement No. 34 ("GASB 34"), *Basic Financial Statements and Management's Discussion and Analysis*.

One of the most important questions asked is whether the District as a whole is better or worse off as a result of the year's activities. The key to understanding this question is the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Fund Net Position, and the Statement of Cash Flows. These statements present financial information in a form similar to that used by corporations. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Net Position includes all assets and liabilities. The District's net position (the difference between assets and liabilities) is one indicator of the District's financial health. Over time, increases or decreases in net position is one indicator of the improvement or erosion of the District's financial health when considered with non-financial facts such as growth of the system and the condition of the facilities.

The Statement of Revenues, Expenses and Changes in Fund Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, non-capital financing, capital and related financing, and investing activities.

REPORTING ENTITY

The financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies.

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014**

Net Position Information

A summarized comparison of the District's assets, liabilities and net position at December 31, 2014, and 2013 are as follows:

Condensed Statement of Net Position

	2014	2013
Cash and cash equivalents	\$ 853,798	\$ 761,705
Other assets	23,181	23,055
Capital assets	6,782,964	5,978,148
Total assets	\$ 7,659,943	\$ 6,762,908
Current liabilities	\$ 1,097,195	\$ 627,579
Long-term liabilities	239,417	-
Total liabilities	1,336,612	627,579
Net position:		
Net investment in capital assets	5,591,016	5,482,222
Restricted	-	-
Unrestricted	732,315	653,107
Total net position	6,323,331	6,135,329
Total liabilities and net position	\$ 7,659,943	\$ 6,762,908

Cash and Investments

The net cash provided by operating activities was \$112,755. Major sources of cash and investments include impact fees of \$245,649. Major uses of cash and investments include the repayment of advance funding totaling \$127,872.

Overall, the District's cash and investments increased by \$92,093. The total ending balance of cash and investments is \$853,798.

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014**

Capital Assets

Net capital assets at the end of 2014 and 2013 were \$6,782,964 and \$5,978,148, respectively. The District's capital assets consist of land, buildings, equipment, and the sewer system.

The significant difference between 2013 and 2014 is due to the construction of a new trunk line and the purchase of the following: all weather refrigerated sampler, grinder, blower, and GIS system. The District also recorded the disposition of several old assets. A summary of the asset balances for the 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Land	\$ 97,612	\$ 97,612
Building	104,853	104,853
Equipment	64,601	96,395
Sewer system	7,395,290	7,358,268
Construction in progress	919,376	-
Subtotal	8,581,732	7,657,128
Accumulated depreciation	(1,798,768)	(1,678,980)
Net capital assets	<u>\$ 6,782,964</u>	<u>\$ 5,978,148</u>

Debt Outstanding

Current liabilities totaled \$1,097,195 in 2014 and \$627,579 in 2013. Long-term liabilities totaled \$239,417 in 2014 and \$0 in 2013. The large increase in liabilities is associated with the financing of the trunk line installation. To finance the project the District utilized impact fee certificates of \$521,829 and a note payable for \$302,669.

Net Position

The District's total net position as of December 31, 2014 and 2013 were \$6,323,331 and \$6,135,329, respectively.

Net investment in capital assets totaled \$5,591,016 as of December 31, 2014. Restrictions of the net position totaled \$0, and the unrestricted portion of the net position had a balance of \$732,315.

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014**

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

The statement of revenues, expenses and changes in fund net position presents the District's result of operations. A summarized comparison of the District's revenues, expenses and changes in net position for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Sewer charges	\$ 290,524	\$ 262,404
Property taxes	63,890	64,914
Miscellaneous	9,342	8,742
Total operating revenues	<u>363,756</u>	<u>336,060</u>
Nonoperating revenues:		
Impact fees	245,649	343,044
Interest income	3,086	3,181
Gain (loss) on sale of asset	(2,170)	1,213
Total nonoperating revenues	<u>246,565</u>	<u>347,438</u>
Total revenues	<u>610,321</u>	<u>683,498</u>
Expenses:		
Depreciation	159,036	157,488
Wages	99,128	101,610
Utilities	30,235	31,502
Maintenance	75,310	64,500
Professional services	9,756	16,732
Other operating expenses	48,854	41,564
Total operating expenses	<u>422,319</u>	<u>413,396</u>
Capital contributions	<u>-</u>	<u>2,212,302</u>
Change in net assets	188,002	2,482,404
Beginning net assets	<u>6,135,329</u>	<u>3,652,925</u>
Ending net assets	<u>\$ 6,323,331</u>	<u>\$ 6,135,329</u>

The increase in operating revenues was due to an increase in the population; approximately 132 new connections were established in 2014.

Maintenance costs increased with more feet of sewer lines being cleaned and videoed. Professional fees decreased due to the majority of the contract work on projects being completed in 2013. Utility expenses vary each year and had a slight decrease compared to the year before.

The District had an operating loss of \$58,563, and a change in net position of \$188,002.

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014**

The total revenues for 2014 and 2013 were \$610,321 and \$683,498, respectively. Impact fees provided 40.2% of the District's revenue in 2014 and sewer charges provided 47.6% of the District's revenues in 2014.

The total expenses for 2014 and 2013 were \$422,319 and \$413,396, respectively.

Significant Projects and Events for 2014

During 2014, there were approximately 132 new connections. At the end of the year, there were a total of 987 connections. The new stated capacity of the system is 1,800 connections.

Beginning in 2006, developers provided advance funding which financed the construction of the sewer system expansion. These amounts are reflected as liability of \$490,752 as of December 31, 2014.

Financial Contact

The District's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have questions about the report or need additional financial information, please contact the District's Administrator at 5455 W. Old Highway Road, Morgan, UT 84050.

MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2014

ASSETS	2014	2013 Comparative Only
Current assets:		
Cash	\$ 853,798	\$ 761,705
Accounts receivable	9,249	2,592
Inventory	5,640	11,710
Taxes receivable	8,292	8,753
Total current assets	876,979	784,760
Noncurrent assets:		
Land	97,612	97,612
Construction in progress	919,376	-
Net depreciable capital assets	5,765,976	5,880,536
Total noncurrent assets	6,782,964	5,978,148
Total assets	\$ 7,659,943	\$ 6,762,908
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current liabilities:		
Accounts payable	\$ 12,464	\$ 8,955
Prepaid user fees	8,898	-
Impact fee certificates liability	521,829	-
Advance funding liability	490,752	618,624
Notes payable, current	63,252	-
Total current liabilities	1,097,195	627,579
Long-term liabilities:		
Notes payable, long-term	239,417	-
Total current liabilities	239,417	-
Total liabilities	1,336,612	627,579
Net position		
Net investment in capital assets	5,591,016	5,482,222
Restricted for impact fees	-	-
Unrestricted	732,315	653,107
Total net position	6,323,331	6,135,329
Total liabilities and net position	\$ 7,659,943	\$ 6,762,908

The notes to the financial statements are an integral part of this statement.

MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2014

	2014	2013 Comparative Only
Operating revenues:		
Sewer charges	\$ 290,524	\$ 262,404
Property taxes	49,077	46,994
Property tax - redemptions	8,179	11,763
Property tax - fee in lieu	6,634	6,157
Miscellaneous	9,342	8,742
Total operating revenues	363,756	336,060
Operating expenses:		
Auto expense	1,402	1,413
Board meeting	4,329	3,547
Supplies	9,656	4,878
Depreciation	159,036	157,488
Wages	99,128	101,610
Benefits	7,102	4,673
Payroll taxes	8,109	8,132
Utilities	30,235	31,502
Maintenance	75,310	64,500
Office expense	9,268	9,572
Travel and training	1,625	2,026
Professional services	9,756	16,732
Insurance	4,981	6,173
Miscellaneous	2,382	1,150
Total operating expenses	422,319	413,396
Operating income (loss)	(58,563)	(77,336)
Nonoperating revenues (expenses):		
Interest	3,086	3,181
Impact fees	245,649	343,044
Gain (loss) on sale of asset	(2,170)	1,213
Total nonoperating revenues (expenses)	246,565	347,438
Net income (loss) before contributions	188,002	270,102
Capital contributions	-	2,212,302
Change in net position	188,002	2,482,404
Total net position - beginning	6,135,329	3,652,925
Total net position - ending	\$ 6,323,331	\$ 6,135,329

The notes to the financial statements are an integral part of this statement.

MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014

	2014	2013 Comparative Only
Cash flows from operating activities:		
Cash received from customers	\$ 366,459	\$ 328,891
Cash payments to suppliers for goods and services	(154,576)	(157,181)
Cash payments to employees for services	(99,128)	(101,610)
Net cash provided (used) by operating activities	<u>112,755</u>	<u>70,100</u>
Cash flows from capital and related financing activities:		
Impact fees	245,649	343,044
Advance funding	(127,872)	(317,952)
Proceeds from the sale of capital assets	-	5,000
Acquisition of capital assets	(141,525)	-
Net cash provided (used) by capital and related financing activities	<u>(23,748)</u>	<u>30,092</u>
Cash flows from investing activities:		
Interest received	3,086	3,181
Net cash provided (used) by investing activities	<u>3,086</u>	<u>3,181</u>
Net increase (decrease) in cash	92,093	103,373
Cash - beginning of year	761,705	658,332
Cash - end of year	<u>\$ 853,798</u>	<u>\$ 761,705</u>
Cash flows from operating activities:		
Operating income (loss)	\$ (58,563)	\$ (77,336)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	159,036	157,488
(Increase) decrease in taxes receivable	462	(7,131)
(Increase) decrease in receivables	(6,657)	(38)
(Increase) decrease in inventory	6,070	-
Increase (decrease) in accounts payable	3,509	(2,883)
Increase (decrease) in prepaid user fees	8,898	-
Change in capital related accounts payable	-	-
Total adjustments to operating income (loss)	<u>171,318</u>	<u>147,436</u>
Net cash provided by operating activities	<u>\$ 112,755</u>	<u>\$ 70,100</u>
Noncash transactions:		
Acquisition of capital assets through outside financing	\$ 824,498	\$ -

The notes to the financial statements are an integral part of this statement.

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. Significant Accounting Policies

The Mountain Green Sewer Improvement District started operation in 1990 and is managed by elected Board members. The District provides sewer service to the Mountain Green area of Morgan County.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Under GASB-61, *The Financial Reporting Entity*, the financial reporting entity consists of the primary government. The more significant accounting policies established in GAAP and used by the District are discussed below.

Measurement Focus and Basis of Accounting

The accounts of the Mountain Green Sewer Improvement District are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. The District has only one main fund which is an enterprise fund.

The District has adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance*. Accordingly, the District has elected to apply all applicable GASB pronouncements and codified accounting standards issued by GASB.

Beginning in 2012, the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance to standardize the presentation of deferred outflows of resources and deferred inflows of resources and their effects of a government's net position.

Accrual:

The government's financial statements are presented on the full accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. Significant Accounting Policies (continued)

The District has the following fund type:

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds include the following fund types:

Enterprise Funds account for those operations that are financed and operated in a manner similar to private business enterprises or where the governing body had decided that the determination of revenues earned, cost incurred and/or net income is necessary for management accountability.

Cash

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, repurchase agreements and the State Treasurer's Investment Pool.

Investments are stated at cost which approximates fair value.

Receivables and Payables

Receivables consist of all revenues earned at year end and not yet received. All trade receivables are shown net of allowance for uncollectibles. Allowances for uncollectibles are determined by the Board of Trustees and are determined on an individual account basis. The District's allowance at the end of the year was \$0.

Property taxes are recognized when they are measurable and available. Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on June 15 and are due on November 30. Property tax receivables at year end were \$8,292.

Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method.

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years.

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. Significant Accounting Policies (continued)

Capital Assets (continued)

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are recorded at their estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets:</u>	<u>Years:</u>
Buildings	50
Equipment	5-10
Sewer system	10-50

Long-term Liabilities

The District reports long-term liabilities at face value on the balance sheet. 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. Issuance costs are reported as deferred charges.

Equity

Equity is classified as net position and displayed in three components:

- A) Net investment in capital assets – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- B) Restricted net position – Consists of the restricted portion of the net position which includes constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. Significant Accounting Policies (continued)

Equity (continued)

- C) Unrestricted net position – The remaining portion of the net position that does not meet the definition of “restricted” or “net investment in capital assets.”

It is the District’s policy to first apply restricted resources before applying unrestricted resources when an expense is incurred for purposes by which both restricted and unrestricted net position are available. The District only uses the restricted net position for their specified purpose of impact fees.

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist of charges for services including property taxes assessed for those services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary activities.

Budget Information

Annual budgets are prepared and adopted in accordance with the "Uniform Fiscal Procedures Act" by the Mountain Green Sewer Improvement District on or before December 15th for the following fiscal year, which begins on January 1st. Budgets may be increased by resolution of the Board of Trustees at any time during the year, following a public hearing.

The District adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

1. On or before the first regular scheduled meeting in November, the Administrator submits to the Board of Trustees a proposed operating budget for the fiscal year commencing the following January 1st. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to the formal adoption of the budget the Board of Trustees will hold budget workshop meetings, which are open to the public.
3. Prior to budget adoption the Board of Trustees sets a date for a public budget hearing at which time taxpayers' comments are heard. Copies of the proposed budget are made available for public inspection 10 days prior to the budget hearing. At the conclusion of the budget hearing the budget, as amended, is legally enacted through passage of a resolution.

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. Significant Accounting Policies (continued)

Budget Information (continued)

4. Formal budgetary integration is employed as a management control device during the year for the Government Funds.
5. Budgets for the District are adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Board of Trustees during the 2014 fiscal year.
6. Unencumbered budget appropriations lapse at the end of the fiscal year.

2. Cash

The District's cash includes amounts in demand deposits. This cash is displayed in the account titled "Cash." Investments are stated at cost or amortized cost, which approximates fair value. Deposits are not collateralized nor are they required to be by State statute. The District's investments are also displayed on the balance sheet as "Cash."

The District follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. This 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 December 31, 2014, all of the District's bank deposits equal to \$160,602, were insured. All of the deposits were 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.

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

2. Cash (continued)

Investments (continued)

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 States Treasury including bills, notes, and bonds; bonds, notes and other evidence of indebtedness of political subdivision 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 (PTIF).

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 December 31, 2014, the District had the following investments and maturities:

	Carrying Amount	Market Value
Investments not subject to categorizations:		
Utah Public Treasurer's Investment Fund - Replacement Fund	\$ 188,147	\$ 189,055
Utah Public Treasurer's Investment Fund - Expansion Fund	378,501	380,327
Utah Public Treasurer's Investment Fund - Emergency Fund	134,283	134,931
	\$ 700,931	\$ 704,312

The GASB Fair Value factor at December 31, 2014 was 1.00482397

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

2. Cash (continued)

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 manages its exposure to declines in fair value by investing mainly in the Utah Public Treasurers Investment Fund and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. Maturities of the District’s investments are noted in the previous table.

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.

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 held in the portfolio. The District’s investment in the Utah Public Treasurer’s Investment Fund has no concentration of credit risk.

Custodial credit risk (investments) – For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk. The District’s investment in the Utah Public Treasurer’s Investment Fund has no custodial credit risk.

Components of cash and investments (including interest earning deposits) at December 31, 2014, are as follows:

Reconciliation of deposits and investments:

Deposits	\$ 152,867
Investments	<u>700,931</u>
Cash and cash equivalents	<u><u>\$ 853,798</u></u>
Tie to statements:	
Cash	<u><u>\$ 853,798</u></u>
	<u><u>\$ 853,798</u></u>

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

3. Capital Assets

Capital assets are recorded at their historical cost. Capital asset activity for the year ended December 31, 2014 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Land	\$ 97,612	\$ -	\$ -	\$ 97,612
Construction in progress	-	919,376	-	919,376
Total capital assets, not being depreciated	<u>97,612</u>	<u>919,376</u>	<u>-</u>	<u>1,016,988</u>
Capital assets, being depreciated				
Building	104,853	-	-	104,853
Equipment	96,395	-	(31,794)	64,601
Sewer system	7,358,268	46,647	(9,625)	7,395,290
Total capital assets, being depreciated	<u>7,559,516</u>	<u>46,647</u>	<u>(41,419)</u>	<u>7,564,744</u>
Accumulated Depreciation for:				
Building	(23,068)	(2,097)	-	(25,165)
Equipment	(69,186)	(3,199)	31,794	(40,591)
Water delivery system	(1,586,726)	(153,741)	7,455	(1,733,012)
Total accumulated depreciation	<u>(1,678,980)</u>	<u>(159,037)</u>	<u>39,249</u>	<u>(1,798,768)</u>
Total capital assets, being depreciated, net	<u>5,880,536</u>	<u>(112,390)</u>	<u>(2,170)</u>	<u>5,765,976</u>
Business-type activities capital assets, net	<u>\$ 5,978,148</u>	<u>\$ 806,986</u>	<u>\$ (2,170)</u>	<u>\$ 6,782,964</u>

4. Restricted Net Position

Impact fees – The District collects impact fees for the specific purpose of construction and expansion related to the payers. Therefore, the use of these funds is legally restricted.

5. Property Tax

Property taxes are recognized when they are measurable and available. Property taxes attach an enforceable lien on property as of January 1st. Taxes are levied on September 1st and are due on November 30th.

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

6. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District has established a risk management program for workers' compensation. Premiums are paid out of the general fund.

Liabilities of the District are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors.

An estimate of claims liability also may include amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims.

Settlements have not exceeded coverage for each of the past three years. As of December 31, 2014, no liabilities were incurred due to such contingencies as discussed above.

7. Advanced Funding Liability

During the year, the developers did not make any "advance funding" payments which are equivalent to the impact fees for the lots in their developments. The current liability balance totals \$490,752. When lot owners pay their impact fees, the advance funding is reimbursed for those lots and the impact fees are recognized as revenue.

8. Impact Fee Certificates Liability and Notes Payable

During the year, the District undertook a project to install a new trunk line to provide additional capacity and expand the infrastructure of the District. The total cost of the project was \$919,376. To finance the project the District utilized impact fee certificates and a note payable to the contractor. The impact fee certificates are equal to the value of the District's current impact fee of \$5,271. A total of ninety-nine impact fee certificates were issued for a total value of \$521,829. These impact fee certificates are associated with specific lots and developments. They are transferable by the developer and are valid for twenty years from the date of issuance. The Impact Fee Certificates are all classified as current, because they can be redeemed at any time.

The note payable portion of the agreement requires the District to make three payments. The first payment was due when the developer of Rollins Ranch 4A paid the District its impact fees of \$94,878. This payment was remitted to the contractor as of September 16, 2014. The second payment is due when the developer of Rollins Ranch 4B pays the District its impact fees of

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

\$63,252. The third and final payment of \$239,417 is due two years from the completion date of the truck line, which is November 10, 2016. The note is noninterest bearing.

8. Impact Fee Certificates Liability and Notes Payable (continued)

The future note payments are as follows:

<u>Year</u>	
2015	\$ 63,252
2016	<u>239,417</u>
Totals	\$ <u>302,669</u>

For the year ended December 31, 2014 the District paid \$0 in interest costs associated with the note. Where no interest was paid, no interest was capitalized.

Changes in Long-Term Liabilities - During the year, the following changes occurred in long-term liabilities for the governmental activities:

	<u>Balance January 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2014</u>	<u>Amounts Due Within One Year</u>
Business-Type Activities:					
Trunk Line Note Payable	\$ -	\$ 397,547	\$ (94,878)	\$ 302,669	\$ 63,252
	<u>\$ -</u>	<u>\$ 397,547</u>	<u>\$ (94,878)</u>	<u>\$ 302,669</u>	<u>\$ 63,252</u>

9. Subsequent Events

No significant subsequent events have occurred since the date of the financial statements through June 5, 2015, which is the financial statement issuance date.

AUDITORS' REPORTS

INDEPENDENT AUDITOR’S REPORT IN ACCORDANCE WITH THE STATE COMPLIANCE AUDIT GUIDE ON:

- **COMPLIANCE WITH GENERAL STATE COMPLIANCE REQUIREMENTS**
- **INTERNAL CONTROL OVER COMPLIANCE**

To the Board of Trustees of
Mountain Green Sewer District

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

We have audited Mountain Green Sewer 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 Mountain Green Sewer District or each of its major state programs for the year ended December 31, 2014.

General state compliance requirements were tested for the year ended *December 31, 2014* in the following areas:

- Budgetary Compliance
- Government Records Access Management Act (GRAMA)
- Open and Public Meetings Act
- Special and Local Service District Board Members
- Budget Notices and Format

Mountain Green Sewer District did not have any state funding classified as a major program during the year ended December 31, 2014.

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 Mountain Green Sewer 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 Mountain Green Sewer District or its major state programs occurred. An audit includes examining, on a test basis, evidence about Mountain Green Sewer 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 Mountain Green Sewer District’s compliance.

Basis for Qualified Opinion on Purchasing and Procurement

As described in the accompanying schedule of findings, Mountain Green Sewer District did not comply with requirements regarding purchasing and Utah Procurement Code. [2014-6]. Compliance with such requirements is necessary, in our opinion, for Mountain Green Sewer District to comply with the requirements applicable to that area.

Qualified Opinion on Purchasing and Procurement

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Mountain Green Sewer District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on purchasing and Utah Procurement Code for the year ended December 31, 2014.

Unmodified Opinion on Each of the Other General State Compliance Areas and Major State Programs

In our opinion, Mountain Green Sewer District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other General Compliance Areas and Major State Programs for the year ended December 31, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *State Compliance Audit Guide* and which are described in the accompanying schedule of findings as items [2014-2, 2014-3, 2014-4, 2014-5]. Our opinion on compliance is not modified with respect to these matters.

Mountain Green Sewer District's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings. Mountain Green Sewer District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report On Internal Control Over Compliance

Management of Mountain Green Sewer 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 Mountain Green Sewer District's internal control over compliance with the compliance requirements that could have a direct and material effect on Mountain Green Sewer 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 *Mountain Green Sewer District's* internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as items [2014-6] to be material weaknesses.

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. We did not identify and deficiencies in internal control over compliance that we consider to be significant deficiencies. However, significant deficiencies may exist that have not been identified.

Mountain Green Sewer District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings. Mountain Green Sewer District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Wood Richards & Associates, PC

Ogden, Utah
June 5, 2015

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of
Mountain Green Sewer District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of Mountain Green Sewer District, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Mountain Green Sewer District's basic financial statements and have issued our report thereon dated June 5, 2015.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. [2014-1].

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be significant deficiencies. However, significant deficiencies may exist that have not been identified.

Compliance and Other Matters

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

Mountain Green Sewer District's Response to Findings'

Mountain Green Sewer District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Mountain Green Sewer District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Wood Richards & Associates, PC

Ogden, Utah
June 5, 2015

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2014**

2014-01:

Internal Control over Financial Reporting – Material Weakness

Criteria: Financial records of an entity should be reviewed and monitored by a party independent of the accounting system. This review should be of externally generated records (i.e. bank statements), rather than internally generated records that could be manipulated. These reviews should occur timely and be documented.

Condition: Those charged with governance do review financial reports generated out of the District's accounting software, however, these report could be manipulated to exclude unwanted transactions. Management does perform a review of these external documents, however, management also performs accounting functions.

Cause: The District started with a small staff and with the reduction of one position and the corresponding reallocation of assignment's the District's manager is no longer independent of the accounting process and system.

Effect: The District's internal control in this area may not prevent or detect errors or misappropriations as controls should.

Recommendation: We recommend the District implement a monthly review of its bank statements and canceled check images by a member of the board that is independent of the District's accounting process and system.

Management's Response: The District will take the steps necessary to implement a monthly review.

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2014**

2014-02:

State Compliance – Government Records Access Management Act

Criteria: The District should appoint a records officer to work with the State Archives. After a records officer has been appointed they must complete an annual online training course provided by the State Archives Department on the requirements of the Government Records Access Management Act.

Condition: The District has appointed a records officer, but they have never completed the annual online training with the State Archives.

Cause: The District's records officer overlooked taking the training.

Effect: The District is noncompliant with this requirement.

Recommendation: We recommend the District's records officer take the annual online training as soon as possible.

Management's Response: The District's records officer will take the annual online training in the near future and annually thereafter to stay in compliance with this requirement.

2014-03:

State Compliance – Open and Public Meeting Training

Criteria: The Board of Trustees are required to complete an annual training on the Open and Public Meetings Act.

Condition: None of the Trustees received this training during 2014.

Cause: The Board of Trustees did not receive this training.

Effect: The District is noncompliant with this requirement.

Recommendation: We recommend the District implement procedures to ensure the governing body is provided with the Open and Public Meetings Act training annually.

Management's Response: The District's management will try and provide additional opportunities for the Trustees' to receive this training annually.

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2014**

2014-04:

State Compliance – Purchasing Policies

Criteria: The District should have purchasing policies that are up to date with Utah State Law and strictly adhered to.

Condition: The District's purchasing policies are significantly outdated and no longer in compliance with Utah State Law.

Cause: The District has not updated their policy.

Effect: The District is noncompliant with this requirement.

Recommendation: We recommend the District work with its attorney to draft and approve purchasing policies that are compliant with the Utah State Code governing Special and Local Districts.

Management's Response: The District's will start the process to prepare and implement new purchasing policies.

2014-05:

State Compliance – Special and Local Service District Board Members

Criteria: The Board of Trustees are required to complete a special and local service district board member training within one year of taking office.

Condition: Not all of the Trustees have received this training.

Cause: The Board of Trustees did not receive this training.

Effect: The District is noncompliant with this requirement.

Recommendation: We recommend the District work with its Trustees to ensure that they all receive this training within the time allotted. .

Management's Response: The District's will work with its Trustees to provide notification of available training opportunities and implement a process to track who has received the training and when.

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2014**

2014-06:

State Compliance – Construction Process and Competitive Bidding

Criteria: All construction projects should be competitively bid before entering into an agreement with a contractor.

Condition: The District undertook a construction project for which an agreement was entered into with a developer as part of the expansion of a development rather than formally going out to bid.

Cause: The District's purchasing policies and procedures are out of compliance.

Effect: The District is noncompliant with this requirement.

Recommendation: We recommend the District follow the recommendation in finding 2014-04 and implement updated purchasing policies. Further, construction projects should follow the State bidding requirement.

Management's Response: The District's will start the process to prepare and implement new purchasing policies. It will also research bidding requirements.