

**CENTRAL DAVIS SEWER DISTRICT
BASIC FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORTS
YEAR ENDED DECEMBER 31, 2013**

CENTRAL DAVIS SEWER DISTRICT

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Central Davis Sewer District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Central Davis Sewer District as of and for the year ended December 31, 2013, 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 assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Central Davis Sewer District as of December 31, 2013, 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 3-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 March 12, 2014, on our consideration of Central Davis 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 Central Davis Sewer District's internal control over financial reporting and compliance.

Wood Richards & Associates, PC

Ogden, Utah
March 12, 2014

**CENTRAL DAVIS SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDING DECEMBER 31, 2013**

HIGHLIGHTS

Central Davis Sewer District maintained a strong environmental and financial position in 2013. The District has received a NACWA Platinum award for over 14 years, without any environmental permit violations. In addition, the District received a National Environmental Achievement Award for production of public education and training videos. The District increased its financial reserves during 2013 in anticipation of upgrades to the treatment plant that will be needed in the near future. District staff and management have been participating in State and National programs related to increased nutrient management requirements by EPA and the State and have been actively involved on multiple committees.

In 2013, the District's composting operation required additional space to accommodate continued growth within the District and continued increases in biomass production. As such, a new composting pad was designed and constructed north of the existing plant. The 140,000 square ft. pad was constructed by October and composting operations on the new pad began immediately. The new pad will store wood waste in preparation for grinding cured compost ready for screening and finished product available for sale. The existing area will continue to be used for active composting. The entire project cost just over \$500,000 when completed. The District continues to struggle with either too much or too little wood waste to sustain the composting process.

The District continued important research on cyanobacteria in Farmington Bay during 2013. This, along with other research the District is a co-participant in, is intended to insure that all regulatory changes associated with the Great Salt Lake is science based and appropriate protection.

The District continues to have stable rate structure with no rate increases since 2009. There are multiple potential stressors to stable rates out of the control of the District relating to changing regulatory requirements. In addition, the location of the West Davis Corridor across District lands will most likely cause changes to biosolids treatment and use. The 2013 draft EIS for the roadway shows significant lands owned by the District will be taken to complete the road. The District has commented on the value of the land to the District and is working to insure fair compensation.

There were two disasters that required considerable District resources in 2013. One disaster was a sewer backup caused by construction debris dumped in the sewer. Three homes suffered considerable damage, and while the District is not strictly liable, it has a no fault backup policy that helps such homeowners with restoration. The second disaster was a lightning strike at the wastewater treatment plant. This strike caused some immediate damage and considerable consequential damage that required restoration. Even with these unintended expenditures, the District still added to its reserve as mentioned previously.

The District is well positioned for the future and is prepared for change.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the District's Basic Financial Statements. The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States, promulgated by the Government Accounting Standards Board. The District reports as a single enterprise fund. Revenues are recognized when earned and expenses are recognized in the period in which they are incurred. See the notes to the financial statements for a summary of the District's significant accounting policies.

**CENTRAL DAVIS SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDING DECEMBER 31, 2013**

The District's financial statements are comprised of three basic statements. The Statement of Net Position shows the overall net position of the District. Increases and decreases in net position are one indicator of the District's overall financial condition. The Statement of Revenues, Expenses, and Changes in Net Position identify functions of the District that are intended to recover all or most of their costs primarily through user fees and charges (business-type activities). The Statement of Cash Flows reports cash flows in four categories or activities - operating, capital and related financing, non-capital financing and investing.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Capital Assets

Central Davis Sewer District added \$1,778,339 in new capital assets during the fiscal year.

Long-Term Debt

The District currently owes \$1,748,000 in sewer revenue bond obligations. The proceeds from the bonds were used to finance the District's construction of plant facilities and improvements to the sewer system. \$155,000 of the debt will be paid in the current year with \$1,593,000 remaining in long-term debt. Total long-term debt was reduced by \$154,000 during the year.

Net Position

The largest component of the District's net position, 82.4%, reflects investments in capital assets (land, buildings, equipment, and infrastructure) less all outstanding debt that was issued to buy or build those assets. As capital assets, these resources are not available for future spending, nor can they all be readily liquidated to pay off the related liabilities.

Business-Type Activities	2013	2012	2011
Assets			
Current and other assets	\$ 6,745,456	\$ 5,898,202	\$ 4,922,116
Restricted assets	248,000	248,000	248,000
Capital assets - net of depreciation	33,989,463	33,893,495	34,103,779
Total assets	40,982,919	40,039,697	39,273,895
Liabilities			
Current liabilities	278,456	288,637	285,350
Non-current liabilities	1,593,000	1,748,000	1,902,000
Total liabilities	1,871,456	2,036,637	2,187,350
Net Position			
Net investment in capital assets	32,241,463	31,991,495	32,048,779
Restricted for debt retirement	248,000	248,000	248,000
Unrestricted	6,622,000	5,763,565	4,789,766
Total net position	\$ 39,111,463	\$ 38,003,060	\$ 37,086,545

CENTRAL DAVIS SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDING DECEMBER 31, 2013

Restricted net position is comprised of 0.6% of total net position and is subject to external restrictions on how it may be used. The remaining 17.0% of net position is unrestricted and may be used at the District's discretion to meet its ongoing obligations to citizens and creditors.

Changes in Net Position

The Net Position in the Enterprise Fund increased by \$1,108,403.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues			
Operating revenue	\$ 3,476,144	\$ 3,359,482	\$ 3,310,805
Non-operating revenues	<u>1,505,869</u>	<u>1,675,547</u>	<u>1,924,516</u>
Total revenues	<u>4,982,013</u>	<u>5,035,029</u>	<u>5,235,321</u>
Expenses			
Operating expenses	(4,747,082)	(4,297,425)	(4,269,167)
Non-operating expenses	<u>(9,510)</u>	<u>(10,275)</u>	<u>(11,040)</u>
Total expenses	<u>(4,756,592)</u>	<u>(4,307,700)</u>	<u>(4,280,207)</u>
Net income before capital contributions	225,421	727,329	955,114
Capital contributions	<u>882,982</u>	<u>189,186</u>	<u>1,931,669</u>
Change in net position	1,108,403	916,515	2,886,783
Net position - beginning	<u>38,003,060</u>	<u>37,086,545</u>	<u>34,199,762</u>
Net position - ending	<u>\$ 39,111,463</u>	<u>\$ 38,003,060</u>	<u>\$ 37,086,545</u>

ADDITIONAL INFORMATION

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of Central Davis Sewer District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or any other matters related to the District's finances should be addressed to Central Davis Sewer District, 2200 S. Sunset Drive, Kaysville, Utah 84037.

CENTRAL DAVIS SEWER DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2013

	Business-Type Activities - Enterprise Funds <u>Sewer</u>
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 6,152,405
Accounts receivable	284,365
Property tax receivable	114,636
Impact fee receivable	134,808
Prepaid expenses	59,242
Total current assets	<u>6,745,456</u>
Noncurrent assets:	
Restricted cash and cash equivalents	248,000
Fixed assets	58,198,837
Less: Accumulated depreciation	(24,209,374)
Total noncurrent assets	<u>34,237,463</u>
Total assets	<u>40,982,919</u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	34,709
Compensated absences	88,747
Revenue bonds - current	155,000
Total current liabilities	<u>278,456</u>
Noncurrent liabilities:	
Revenue bonds	<u>1,593,000</u>
Total liabilities	<u>1,871,456</u>
<u>NET POSITION</u>	
Net investment in capital assets	32,241,463
Restricted-debt retirement	248,000
Unrestricted	6,622,000
Total net position	<u>\$ 39,111,463</u>

The accompanying notes are an integral part of these statements.

CENTRAL DAVIS SEWER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Sewer
<u>OPERATING REVENUE</u>	
Sewer service charges	\$ 3,408,818
Miscellaneous sales	67,326
Total operating revenue	3,476,144
<u>OPERATING EXPENSES</u>	
Depreciation	1,682,371
Salaries and wages	1,113,868
Utilities	310,604
Employee benefits	542,628
Plant operating supplies	101,848
Plant, repairs and maintenance	306,070
Professional services	157,128
Collection system - repairs and maintenance	192,295
Insurance and surety bonds	94,232
Office supplies and expense	35,186
Travel	17,964
Auto and equipment expense	134,842
Fees - Board of Trustees	25,000
Collection system operating supplies	33,046
Total operating expenses	4,747,082
Operating income (loss)	(1,270,938)
<u>NONOPERATING REVENUE (EXPENSES)</u>	
General property taxes	583,900
Fees-in-lieu of taxes	48,987
Impact fees	844,531
Gain on sale of assets	-
Interest income	28,451
Interest on bonds	(9,510)
Total nonoperating revenue (expenses)	1,496,359
Net income (loss) before contributions	225,421
Capital contributions	882,982
Change in net position	1,108,403
Net position - beginning	38,003,060
Net position - ending	\$ 39,111,463

The accompanying notes are an integral part of these statements.

CENTRAL DAVIS SEWER DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Sewer
Cash Flows From Operating Activities	
Receipts from customers	\$ 3,466,491
Payments to suppliers	(1,954,171)
Payments to employees	(1,129,424)
	382,896
Cash Flows From Noncapital Financing Activities	
Receipts from property taxes	632,777
	632,777
Cash Flows From Capital and Related Financing Activities	
Proceeds from the sale of assets	-
Impact fees	879,350
Principal paid on capital debt	(154,000)
Interest paid on capital debt	(9,510)
Purchases of capital assets	(895,357)
	(179,517)
Cash Flows From Investing Activities	
Interest and dividends received	28,451
	28,451
Net increase (decrease) in cash and cash equivalents	864,607
Cash and cash equivalents - beginning	5,535,798
Cash and cash equivalents - ending	\$ 6,400,405

The accompanying notes are an integral part of these statements.

CENTRAL DAVIS SEWER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Sewer
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$(1,270,938)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	1,682,371
(Increase) decrease in prepaid expense	(7,704)
(Increase) decrease in accounts receivable	(9,653)
Increase (decrease) in accounts payable	(20,624)
Increase (decrease) in compensated absences	9,444
Net cash provided (used) by operating activities	\$ 382,896

Noncash Capital Financing Activities:

Capital assets of \$882,982 were acquired through contributions from developers.

The accompanying notes are an integral part of these statements.

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Central Davis Sewer District, Utah conform in all material respects to generally accepted accounting principles (GAAP) as applicable to governments. The District has adopted the provisions of the Governmental Accounting Standards Board (GASB). Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements.

The following is a summary of the more significant policies and is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements.

A. Reporting Entity

The Central Davis Sewer Improvement District is a special district organized for the purpose of providing sewage treatment services to Davis County cities. The District operates under a Board of Trustees form of government.

The criteria set forth by generally accepted accounting principles (GAAP) was used to determine which entities to include in this report. GASB Concepts Statement-1 (Objectives of Financial Reporting) concludes that the basic foundation for governmental financial reporting is accountability. The Concepts Statement asserts that accountability requires governments to answer to the citizenry - to justify the raising of public resources and the purposes for which they are used. In turn, the concept of accountability becomes the basis for defining the financial reporting entity.

In defining the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards board (GASB). Under GASB Statement No. 61, *The Financial Reporting Entity*, the financial reporting entity consists of the primary government and no component units.

B. Fund Financial Statements

The financial transactions of the District are recorded in an individual fund. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The District reports the following major proprietary fund:

Sewer Fund - The sewer fund is used to account for operations of the sewer system, (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Measurement Focus and Basis of Accounting

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of the cash flows. Taxes and fees are recognized in the year in which the related sales or other activity has occurred. Grants and similar items are recognized as revenue when all eligibility requirements have been met. When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the District generally uses restricted resources first, then unrestricted resources.

Proprietary funds separate operating and non-operating revenues and expenses. Operating revenues and expenses normally arise from providing goods and services in connection with the fund's normal ongoing operations. The principal sources of operating revenues for the proprietary funds are charges to customers for goods and services. Operating expenses include the cost of sales and services, administrative overhead expenses and depreciation on capital assets. All other revenues or expenses are recorded as non-operating.

D. Assets, Liabilities, and Net Position

The following are the District's significant policies regarding recognition and reporting of certain assets, liabilities, and equity.

Pooled Cash and Temporary Investments

Unrestricted and restricted cash balances are combined to form a pool of cash which is managed by the District Treasurer. Utah State Statutes allow for investments in the Utah Public Treasurer's Investment Fund and Utah Money Management Act (UMMA) approved financial institutions. The UMMA provides for a committee to evaluate financial institutions and provide a list of those qualified as depositories for public funds, including the amount they are authorized to maintain over and above insured amounts. The District Treasurer invests unrestricted and restricted cash with the Utah Public Treasurer's Investment Fund and with local financial institutions. Investments in the pooled cash fund consist primarily of certificates of deposit, repurchase agreements, and time deposits and are carried at cost which approximates market value. Interest income earned as a result of pooling is distributed to the appropriate funds based on month end balances of cash. The District considers all highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position (Continued)

Inventories

No significant inventories are maintained by the District, therefore none are reflected in these statements.

Restricted Assets

Certain resources set aside as reserves in accordance with District resolutions and State statutes are classified as restricted assets on the statement of net position because their use is limited.

Capital Assets

All purchased fixed assets are valued at cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Capital assets are defined as assets with an initial, individual cost of more than \$5,000.

Infrastructure capital assets which are newly constructed or contributed are capitalized.

Depreciation of all exhaustible capital assets is charged as an expense in the related program. Accumulated depreciation is reported on the Statement of Net Position. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	30-50 years	Equipment	5-10 years
Improvements	10-50 years	Infrastructure	25-40 years

Long-term Obligations

In the proprietary fund financial statements, long-term debt obligations are reported as liabilities.

Net Position

The difference between assets and liabilities is net position on the fund financial statements. The District's net position is classified as follows:

Net investment in capital assets - This component of net position consists of the District's total investment in capital assets, net of accumulated depreciation, reduced by the outstanding debt obligations related to those assets. To the extent debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position (Continued)

Net Position (Continued)

Restricted for debt retirement - This component of net position consists of that portion of the net position that is restricted for retirement of debt.

Restricted for construction - This component of net position consists of that portion of the net position that is restricted for construction purposes.

Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets".

E. Contributions

Certain proprietary fund types receive contributions for aid in construction from various sources. With the adoption of GASB No. 33, these contributions that were formerly credited directly to contributed capital accounts are now reflected as non-operating revenue.

F. Compensated Absences

District policy provides for vested or accumulated vacation leave. All compensated absences are accrued when incurred in the proprietary financial statements.

G. Use of Estimates

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

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits

The District's deposits are carried at cost.

At December 31, 2013, the carrying amount of the District's deposits was \$407,759 and the bank balance was \$573,843. Of the bank balance, \$250,000 was covered by federal depository insurance.

**CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

At year-end investments consist of funds in the Utah Public Treasurer's Investment Fund. This investment is administered by the State of Utah and is regulated by the Money Management Council under provisions of the Utah State Money Management Act. The investment is not categorized as to credit risk because it does not represent a security that exists in physical or book entry form. Investments are carried at cost which approximates their fair value.

Investments not subject to categorizations:

	Carrying Amount	Market Value
Utah Public Treasurer's Investment Fund	\$ 5,992,646	\$ 6,023,395

C. Summary

	Carrying Amount
Deposits	\$ 407,759
Investment in Utah Public Treasurer's Investment Fund	5,992,646
Total deposits and investments	\$ 6,400,405
Equity in pooled cash and investments	\$ 6,152,405
Restricted cash - debt retirement	248,000
Total deposits and investments	\$ 6,400,405

Deposit and Investment Risk Disclosure. Deposits and investments for Central Davis Sewer District are governed by the Utah Money Management Act (Utah Code Annotated, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the District's exposure to various risks related to its cash management activities.

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be recovered. The District's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of District funds to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commission of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The District's deposits in the bank in excess of the insured amount are uninsured and are not collateralized, nor do state statutes require them to be. The District's deposits at December 31, 2013, were \$573,843, of which \$250,000 was insured under federal depository insurance.

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Credit risk. Credit risk is the risk that the counterparty to an investment transaction will not fulfill its obligations. The District's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first-tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rated "A" or higher by two nationally recognized statistical rating organizations; and shares in a money market fund as defined in the Act.

The District is also authorized to invest in the Utah Public Treasurer's Investment Fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. 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 participants' average daily balances. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

For the year ended December 31, 2013, the local government had investments of \$5,992,646 with the PTIF. The entire balance had a maturity less than one year. The PTIF pool has not been rated.

Interest rate risk. Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The District manages its exposure 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.

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 to limit this risk is to adhere to the rules of the Money Management Act.

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2013, was as follows:

	Balance December 31, 2012	Additions	(Deletions)	Balance December 31, 2013
BUSINESS-TYPE ACTIVITIES				
Nondepreciated Assets				
Land	\$ 854,781	\$ -	\$ -	\$ 854,781
Construction in progress	-	-	-	-
Total nondepreciated assets	<u>854,781</u>	<u>-</u>	<u>-</u>	<u>854,781</u>
Depreciated Assets				
Fruit Heights collection system	2,225,131	-	-	2,225,131
Farmington collection system	9,358,271	168,088	-	9,526,359
Buildings and structures	9,426,572	29,190	-	9,455,762
Improvements - other than buildings	1,448,492	531,476	-	1,979,968
Machinery and equipment	10,436,238	239,688	-	10,675,926
Sewer collection system	12,141,459	95,003	-	12,236,462
Kaysville collection system	9,225,151	714,894	-	9,940,045
Vehicles	1,189,593	-	-	1,189,593
Office furniture and equipment	114,810	-	-	114,810
Total depreciated assets	<u>55,565,717</u>	<u>1,778,339</u>	<u>-</u>	<u>57,344,056</u>
Less accumulated depreciation				
Fruit Heights collection system	(320,236)	(50,868)	-	(371,104)
Farmington collection system	(2,466,794)	(197,148)	-	(2,663,942)
Buildings and structures	(4,583,206)	(279,064)	-	(4,862,270)
Improvements - other than buildings	(1,014,289)	(71,805)	-	(1,086,094)
Machinery and equipment	(7,761,259)	(531,495)	-	(8,292,754)
Sewer collection system	(3,238,091)	(247,819)	-	(3,485,910)
Kaysville collection system	(2,249,048)	(197,690)	-	(2,446,738)
Vehicles	(806,752)	(96,753)	-	(903,505)
Office furniture and equipment	(87,328)	(9,729)	-	(97,057)
Total	<u>(22,527,003)</u>	<u>(1,682,371)</u>	<u>-</u>	<u>(24,209,374)</u>
Net assets depreciated	<u>33,038,714</u>	<u>95,968</u>	<u>-</u>	<u>33,134,682</u>
Business type activities - net	<u>\$ 33,893,495</u>	<u>\$ 95,968</u>	<u>\$ -</u>	<u>\$ 33,989,463</u>

Depreciation Expense

December 31, 2013	Business Type
	<u>\$ 1,682,371</u>

**CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 4 - LONG-TERM DEBT

Long-term liability activity for the year ended December 31, 2013, was as follows:

Description	Interest Rate	Outstanding 12/31/2012	Additions	Payments	Outstanding 12/31/2013	Current Portion
Sewer Revenue and Refunding Bond Series 2005	0.5%	\$ 1,902,000	\$ -	\$ (154,000)	\$ 1,748,000	\$ 155,000
Total Long Term Debt		<u>\$ 1,902,000</u>	<u>\$ -</u>	<u>\$ (154,000)</u>	<u>\$ 1,748,000</u>	<u>\$ 155,000</u>

Bond Resolution

On March 10, 2005, Central Davis Sewer District passed a resolution authorizing the issuance and confirming the sale of \$3,105,000 sewer revenue and refunding bonds, Series 2005, for the purposes of funding the Farmington Bay Study, completing construction of the Issuer's sewer system and related improvements, and retiring and refunding all of the Issuer's outstanding sewer revenue bonds Series 2003A; prescribing the form of bonds; the terms and condition of issuance and retirement and the security therefore; providing for the collection handling and disposition of the revenues to be derived from the District's sewer system; authorizing the publication of a notice of bonds to be issued; authorizing the taking of all other actions necessary to the consummation of the transactions contemplated by this Bond Resolution; and related matters.

Fiscal Year Ended Dec. 31	Sewer Revenue Bonds Series 2005		
	Principal	Interest	Total
2014	*	*	*
2015	155,000	8,740	163,740
2016	155,000	7,965	162,965
2017	156,000	7,190	163,190
2018	157,000	6,410	163,410
2019	158,000	5,625	163,625
2020	159,000	4,835	163,835
2021	160,000	4,040	164,040
2022	161,000	3,240	164,240
2023	161,000	2,435	163,435
2024	161,000	1,630	162,630
2025	165,000	825	165,825
	<u>\$ 1,748,000</u>	<u>\$ 52,935</u>	<u>\$ 1,800,935</u>

* The January 1, 2014, payment was made on December 31, 2013.

**CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 5 - PENSION PLANS AND RETIREMENT BENEFITS

Local Governmental - Cost Sharing

Plan Description. The Central Davis Sewer District contributes to the Local Governmental Noncontributory Retirement system, which is a cost-sharing multiple-employer defined benefit pension plan 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 general-purpose financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System. 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.

	Local Government Contributory System (Tier 2)	Local Government Noncontributory System
Highest Average Salary	Highest 5 Years	Highest 3 Years
	35 years any age	30 years any age
	20 years age 60	25 years any age
	10 years age 62	20 years age 60
	4 years age 65	10 years age 62
Years of Service and Age of Eligibility		4 years age 65
Benefit Percent per Year of Service	1.50% per year	2.00% per year
Annual Cost of Living Adjustment	up to 2.50%	up to 4.00%
2013 Rates as Percent of Covered Payroll:		
Employer - January 2013 to June 2013	14.05%	16.04%
Employer - July 2013 to December 2013	13.99%	17.29%
Member	N/A	N/A
Actual District Contributions Made, by year (ended 12/31):		
2013	\$3,867	\$154,569
2012	\$5,191	\$134,074
2011	\$223	\$113,466

**CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 5 - PENSION PLANS AND RETIREMENT BENEFITS (CONTINUED)

Total District Contributions by Year:	
2013	\$ 45,305
2013 Employer Paid 401K	23,496
	\$ 68,801
2012	\$ 35,370
2012 Employer Paid 401K	15,819
	\$ 51,189
2011	\$ 26,485
2011 Employer Paid 401K	15,991
	\$ 42,476

NOTE 6 - LIABILITY FOR COMPENSATED ABSENCES

The liability for compensated absences represents the accrued liability for the vested or accumulated vacation leave for earlier years. These amounts represent the accumulated unpaid vacation leave which would be paid if employees terminated employment as of December 31, 2013. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability as the benefits accrue to employees. The amount accrued as of December 31, 2013 and 2012 was \$88,747 and \$79,304 respectively.

NOTE 7 - BOND RESOLUTION COMPLIANCE - SEWER REVENUE BONDS

The Central Davis Sewer District has carried out the requirements of the bond resolution. Central Davis Sewer District has established the funds required by the bond resolution.

2005 Series

The required reserve accounts were set up as follows:

- 1) The debt service account was established to accumulate debt service payments over the next twelve months, the principal and interest payment of \$163,510 due and payable January 1, 2014, was made prior to December 31, 2013, in accordance with the bond resolution; therefore, the balance in the reserve account at December 31, 2013, was \$-0-.
- 2) The debt service reserve fund requirement shall be \$166,000. This reserve is fully funded and the balance in the reserve account at December 31, 2013, was \$166,000.
- 3) The renewal and replacement reserve fund requirement shall be \$82,000. This reserve is fully funded and the balance in the reserve account at December 31, 2013, was \$82,000.

The net revenues for the year ended December 31, 2013, were equal to at least 125% of the aggregate debt service for such year on the bonds, computed in accordance with the bond resolution.

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 7 - BOND RESOLUTION COMPLIANCE - SEWER REVENUE BONDS (CONTINUED)

The number of customers at December 31, 2013, were as follows:

County	57	Residential	
	1	Commercial	
Farmington	5,354	Residential	
	199	Commercial	
Kaysville	6,894	Residential	
	385	Commercial	
Fruit Heights	1,630	Residential	
	<u>14</u>	Commercial	
	<u><u>14,534</u></u>		
Total Residential	13,935		
Total Commercial	<u>599</u>		
	<u><u>14,534</u></u>		
Total service fees collected		\$ 3,408,818	
Minus Lagoon		<u>(83,232)</u>	
		3,325,586	
	Divided by number of connections (less Lagoon)		
		<u>14,533</u>	
Average charge per connection		<u><u>\$ 228.83</u></u>	

NOTE 8 - RISK MANAGEMENT

Central Davis Sewer 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 maintains comprehensive insurance coverage in aggregate amounts sufficient to protect against all reasonably foreseeable liability risks. Specific liability policies purchased include automobile, general liability, property, bond (employee dishonesty), treasurer, public officials and officers, excess liability, and workman's compensation. As of December 31, 2013, there is no anticipation of unpaid claims. Therefore, a liability is not accrued. Settlement amounts have not exceeded coverage for the current year or the three prior years.

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 8 - RISK MANAGEMENT (CONTINUED)

A list of insurance policies in force at December 31, 2013, is as follows:

Coverage	Policy Limits	Insurer	Expiration Date
Property and buildings	\$ 21,278,830	Allied	8/1/2014
Excess liability	\$ 10,000,000	Allied	8/1/2014
Employee practices liability	\$ 1,000,000	Allied	8/1/2014
General liability	\$ 3,000,000	Allied	8/1/2014
Business auto	\$ 1,000,000	Allied	8/1/2014
Employee benefits liability	\$ 1,000,000	Allied	8/1/2014
Management liability	\$ 1,000,000	Allied	8/1/2014
Inland marine	\$ 1,818,481	Allied	8/1/2014
Crime	\$ 385,000	Allied	8/1/2014
Earthquake	\$ 4,000,000	ICW	8/1/2014
Flood	\$ 4,000,000	ICW	8/1/2014
Public officials:			
Bonding - Treasurer	\$ 385,000	Allied	8/1/2014
ID fraud	\$ 25,000	Travelers	8/1/2014
Builders' risk	\$ 100,000	Allied	8/1/2014

NOTE 9 - RESTRICTED ASSETS

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "revenue bond current debt service" account is used to segregate resources accumulated for debt service payments over the next twelve months. The "revenue bond future debt service" account is used to report resources set aside to make up potential future deficiencies in the revenue bond current debt service account. The "revenue bond renewal and replacement" account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.

The Revenue Bond Resolution for Sewer Revenue Bonds Series 2005 requires the following restricted accounts:

Debt service account (note 7)	\$ -
Debt service reserve account (note 7)	166,000
Renewal and replacement reserve (note 7)	<u>82,000</u>
Total sewer revenue bond Series 2005 reserve	<u><u>\$ 248,000</u></u>

CENTRAL DAVIS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 10- LEGAL COMPLIANCE BUDGETS

The budget for the fiscal year ending December 31, 2013, was approved and adopted by resolution or ordinance dated December 13, 2012. A public hearing, meeting the requirements specified in the Utah Code 11-35-113/114, was held on December 13, 2012. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the enterprise fund. All annual appropriations lapse at fiscal year end. Encumbrance accounting is not used by the District.

NOTE 11 - POST-EMPLOYMENT BENEFITS

The District does not provide any post-employment benefits.

NOTE 12 - INTEREST EXPENSE

The proprietary fund incurred \$9,510 in interest expense of which \$9,510 was charged to expense and \$-0- was capitalized.

NOTE 13 - PROPERTY TAX CALENDAR

Lien date	Jan. 1
Taxing districts notify the county of date, time and place of public hearing	Mar. 1
County auditor sends valuation certified tax rate and levy worksheets to each taxing district	Jun. 8
Taxing district must adopt a proposed tax rate, certify the rate and levy, and submit it to the county auditor	Before Jun. 22
Taxing district adopts a final tax rate if there is no increase in the certified tax rate	Jun. 22
Due date for property taxes	Nov. 30
Taxing district adopts the final budget prior to beginning of the ensuing year	
Copy of the budget is submitted to the state auditor within 30 days of its adoption	

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROLS OVER COMPLIANCE IN ACCORDANCE
WITH THE STATE OF UTAH LEGAL COMPLIANCE AUDIT GUIDE**

To the Board of Trustees
of Central Davis Sewer District

REPORT ON COMPLIANCE

We have audited Central Davis Sewer District’s compliance with the general and major state program compliance requirements described in the State of Utah Legal Compliance Audit Guide for the year ended December 31, 2013.

The general compliance requirements applicable to Central Davis Sewer District are identified as follows:

Public Debt	Cash Management
Purchasing Requirements	Budgetary Compliance
Other General Issues	Assessing and Collecting of Property Taxes
Special District	Truth in Taxation
Utah Retirement System	Impact Fees
Conflicts of Interest	Nepotism

Central Davis Sewer District did not receive any major assistance programs from the State of Utah during the year ended December 31, 2013.

Management’s Responsibility

Compliance with the requirements referred to above is the responsibility of Central Davis Sewer District’s management.

Auditor’s Responsibility

Our responsibility is to express an opinion on Central Davis Sewer District’s compliance based on our audit.

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 of Utah Legal Compliance Audit Guide. Those standards and the State of Utah Legal 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 material effect on Central Davis Sewer District and its major programs occurred.

An audit includes examining, on a test basis, evidence about Central Davis 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. Our audit does not provide a legal determination of Central Davis Sewer District's compliance with those requirements.

Opinion

In our opinion, Central Davis Sewer District, complied, in all material respects, with the general compliance requirements identified above and the compliance requirements that are applicable to each of its major state programs for the year ended December 31, 2013.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which would be required to be reported in accordance with the *State of Utah Legal Compliance Audit Guide*.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of Central Davis 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, we considered Central Davis Sewer District's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, 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 Central Davis Sewer District's internal control over compliance.

A deficiency in internal control over compliance 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, noncompliance 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 compliance requirement will not be prevented, or detected and corrected, on a timely basis.

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

Purpose of 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
March 12, 2014

**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
Central Davis Sewer District

We have audited, 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 the financial statements of the governmental activities and each major fund of Central Davis Sewer District as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Central Davis Sewer District's basic financial statements, and have issued our report thereon dated March 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Central Davis 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 Central Davis Sewer District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Wood Richards & Associates, PC

Ogden, UT

March 12, 2014