

**HIGHLAND CITY, UTAH
FINANCIAL STATEMENTS**

For The Year Ended June 30, 2016

**HIGHLAND CITY, UTAH
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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of City Council
Highland City
Highland City, Utah

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Highland City, Utah (the City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City'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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 assessment s, 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, the business type-activities, each major fund, and the aggregate remaining fund information of Highland City, Utah as of June 30, 2016, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity 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 and budgetary comparison information as noted in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2016 on our consideration of the City'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Keddington & Christensen, LLC

December 20, 2016

HIGHLAND CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended June 30, 2016

The management of Highland City presents the following narrative and analysis of the financial statements and financial activities of Highland City as prescribed by the Government Accounting Standards Board (GASB). The information and analysis pertains to the fiscal year ended June 30, 2016.

Financial Highlights

The assets and deferred outflows of resources of Highland City exceeded its liabilities and deferred inflows of resources at June 30, 2016 by \$112,087,952 (net position). Of this amount \$7,825,319 (unrestricted net position) may be used to meet the government's ongoing obligations.

Highland City's total net position increased by \$460,669. The majority of the increase was the result of assets contributed to the City from developers increased by approximately \$630,000 from the previous year.

Highland City's governmental funds reported combined ending fund balances at June 30, 2016 of \$3,803,620, an increase of \$563,498 in comparison to the prior year. At June 30, 2016 unrestricted fund balance of the general fund was \$2,189,214, or 30.5% of total general fund expenditures for the year.

Overview of the Financial Statements

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

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's financial position and changes in financial position, similar to consolidated financial statements in a private sector business. The statements consist of the Statement of Net Assets and the Statement of Activities.

The Statement of Net Position presents information on all of Highland City's assets, liabilities, and deferred inflows of resources, with the difference between the three reported as net position. Increases or decreases over time in net position gives an indicator as to whether the financial condition of the City is improving or declining.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses reported in this statement for some items will result in cash flows in future fiscal periods (e.g., debt interest payment when the fiscal year ends between interest payments).

Both of the government-wide financial statements distinguish functions of Highland City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of Highland City include general government, public safety, streets and public improvements, parks and recreation, cemetery and garbage. The business-type activities of Highland City include services for water, pressurized irrigation, sewer (sanitary), and storm sewer.

The government-wide financial statements include Highland City (known as the primary government) and a separate legal entity (known as component unit). The financial information for the Highland Open Space Special Service District is included in the financial statements. However, because the City's governing body is the same as the governing board of this component unit and can substantially control it, their financial information is blended and reported together with the financial information presented for the primary government.

HIGHLAND CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2016

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Highland City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related laws and regulations. All of the funds of Highland City can be divided into two categories; governmental funds and proprietary funds.

Governmental funds

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

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

Highland City maintains eight (8) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and three capital projects funds, all of which are considered to be major funds. Data from the other three (3) governmental funds is provided in the form of individual and combining statements elsewhere in this report.

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

Proprietary funds

Highland City maintains one type of proprietary fund known as an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for water, pressurized irrigation, sewer, and storm sewer.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for water, sewer, secondary water and storm sewer.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents combining statements referred to earlier in connection with nonmajor governmental funds. They are presented immediately following the notes to the financial statements.

HIGHLAND CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2016

Government-wide Financial Analysis

As noted earlier, net position is an indicator of a government's financial position. In the case of Highland City, assets and deferred outflows exceeded liabilities and deferred inflows by \$112,087,952 at the close of the fiscal year. The largest portion of the City's net position reflects its investment in capital assets (land, buildings, machinery and equipment) and infrastructure (roads, sidewalks, curb and gutter and various utility lines and storage facilities); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

At the end of the current fiscal year, the City was able to report positive balances in all three categories of net position for the government as a whole. The Capital Projects – Roads fund had a negative unassigned fund balance of \$211,050 as a result of an interfund payable to the General fund.

	Governmental Activities 2016	Governmental Activities 2015	Business-type Activities 2016	Business-type Activities 2015	Total 2016	Total 2015
Current and other assets	\$ 6,589,982	\$ 5,993,990	\$ 6,343,450	\$ 5,274,616	\$ 12,933,432	\$ 11,268,606
Capital assets	70,086,400	72,165,556	47,017,780	47,161,563	117,104,180	119,327,119
Total Assets	76,676,382	78,159,546	53,361,230	52,436,179	130,037,612	130,595,725
Deferred outflows of resources	650,418	261,312	129,769	45,873	780,187	307,185
Total Assets and Deferred Outflows	<u>77,326,800</u>	<u>78,420,858</u>	<u>53,490,999</u>	<u>52,482,052</u>	<u>130,817,799</u>	<u>130,902,910</u>
Current and other liabilities	\$ 1,066,532	\$ 1,273,851	\$ 245,848	\$ 215,899	\$ 1,312,380	\$ 1,489,750
Long-term liabilities	10,540,113	10,751,300	4,971,163	5,355,499	15,511,276	16,106,799
Total Liabilities	11,606,645	12,025,151	5,217,011	5,571,398	16,823,656	17,596,549
Deferred inflows of resources	1,872,715	1,651,372	33,476	27,706	1,906,191	1,679,078
Net Position:						
Net investment in capital assets	60,628,203	62,034,718	42,412,291	42,154,777	103,040,494	104,189,495
Restricted	104,558	274,961	1,117,581	1,221,608	1,222,139	1,496,569
Unrestricted	3,114,679	2,434,656	4,710,640	3,506,563	7,825,319	5,941,219
Total Net Position	<u>63,847,440</u>	<u>64,744,335</u>	<u>48,240,512</u>	<u>46,882,948</u>	<u>112,087,952</u>	<u>111,627,283</u>
Total Liabilities, deferred inflows of Resources, and Net Position	<u>\$ 77,326,800</u>	<u>\$ 78,420,858</u>	<u>\$ 53,490,999</u>	<u>\$ 52,482,052</u>	<u>\$130,817,799</u>	<u>\$130,902,910</u>

HIGHLAND CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2016

	Governmental Activities 2016	Governmental Activities 2015	Business-type Activities 2016	Business-type Activities 2015	Total 2016	Total 2015
Revenues:						
Program revenues:						
Charges for services	\$ 2,977,859	\$ 2,546,487	\$ 4,553,453	\$ 4,606,234	\$ 7,531,312	\$ 7,152,721
Operating grants and contributions	13,296	13,964	-	-	13,296	13,964
Capital grants and contributions	2,139,655	1,702,870	1,159,974	530,053	3,299,629	2,232,923
General revenues:						
Property and uniform vehicle taxes	2,017,547	1,930,635	-	-	2,017,547	1,930,635
Other Taxes	3,114,469	2,953,060	-	-	3,114,469	2,953,060
Other	84,679	54,762	37,064	21,142	121,743	75,904
Gain (loss) on disposition of assets	62,460	6,505	-	-	62,460	6,505
Total Revenues	10,409,965	9,208,283	5,750,491	5,157,429	16,160,456	14,365,712
Expenses:						
General government	2,506,961	1,825,944	-	-	2,506,961	1,825,944
Public safety	3,343,498	3,429,363	-	-	3,343,498	3,429,363
Streets and public improvements	3,685,661	3,457,299	-	-	3,685,661	3,457,299
Parks and recreation	717,013	1,101,889	-	-	717,013	1,101,889
Cemetery	96,842	115,256	-	-	96,842	115,256
Garbage	685,066	665,981	-	-	685,066	665,981
Interest on long-term debt	255,919	414,266	-	-	255,919	414,266
Water	-	-	860,431	853,485	860,431	853,485
Pressurized irrigation	-	-	1,327,420	1,308,122	1,327,420	1,308,122
Storm sewer	-	-	395,991	399,853	395,991	399,853
Sewer	-	-	1,824,985	1,871,624	1,824,985	1,871,624
Total Expenses	11,290,960	11,009,998	4,408,827	4,433,084	15,699,787	15,443,082
Increase (Decrease) in net position before transfers	(880,995)	(1,801,715)	1,341,664	724,345	460,669	(1,077,370)
Transfers	(15,900)	57,100	15,900	(57,100)	-	-
Increase (Decrease) in Net Position	(896,895)	(1,744,615)	1,357,564	667,245	460,669	(1,077,370)
Net Position - Beginning as restated	64,744,335	66,488,950	46,882,948	46,215,703	111,627,283	112,704,653
Net Position - Ending	\$ 63,847,440	\$ 64,744,335	\$ 48,240,512	\$ 46,882,948	\$112,087,952	\$111,627,283

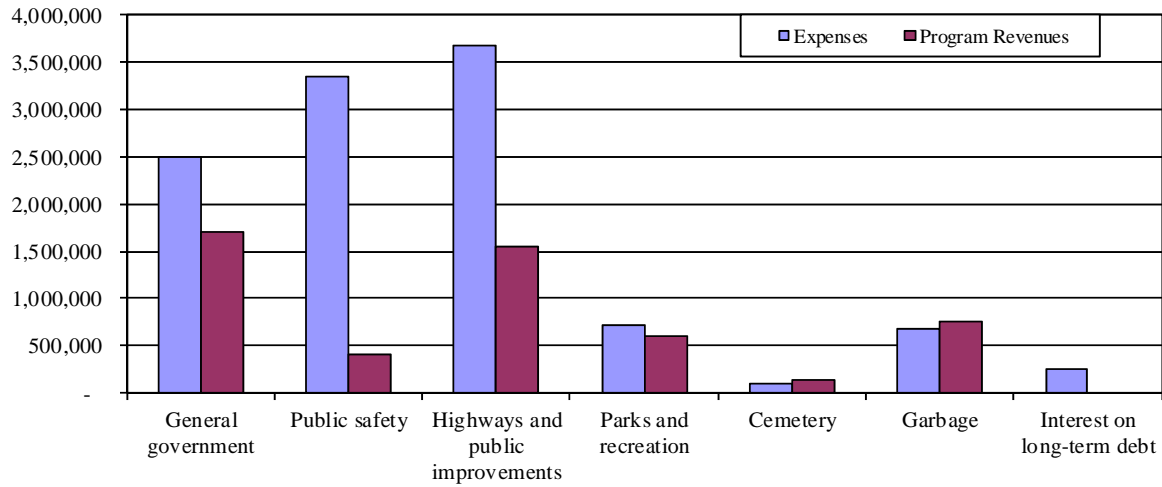
Governmental activities. As noted in the table above, governmental activities decreased the City's net position by \$896,895. Key elements of the decrease were increased payments for general government, public safety, and streets and public improvements compared to the prior year.

Business-type activities. As noted previously in the table, business-type activities increased the City's net position by \$1,357,564. Key elements of the increase from the prior year were (1) increases in contributed infrastructure assets from developers, and (2) decrease in Sewer expenses.

HIGHLAND CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2016

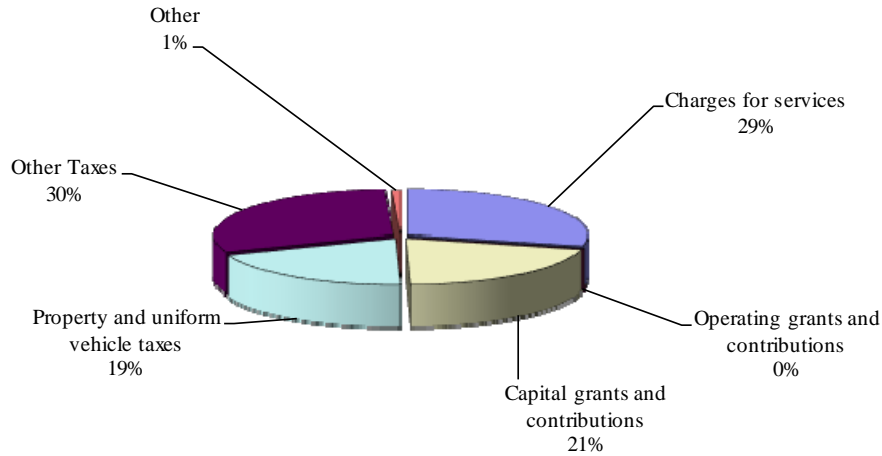
The following chart displays the governmental activities program revenues compared to expenses attributed to the activity.

Expenses and Program Revenues - Governmental Activities



The following chart displays the governmental activities program revenues by type.

Revenues by Source - Governmental Activities

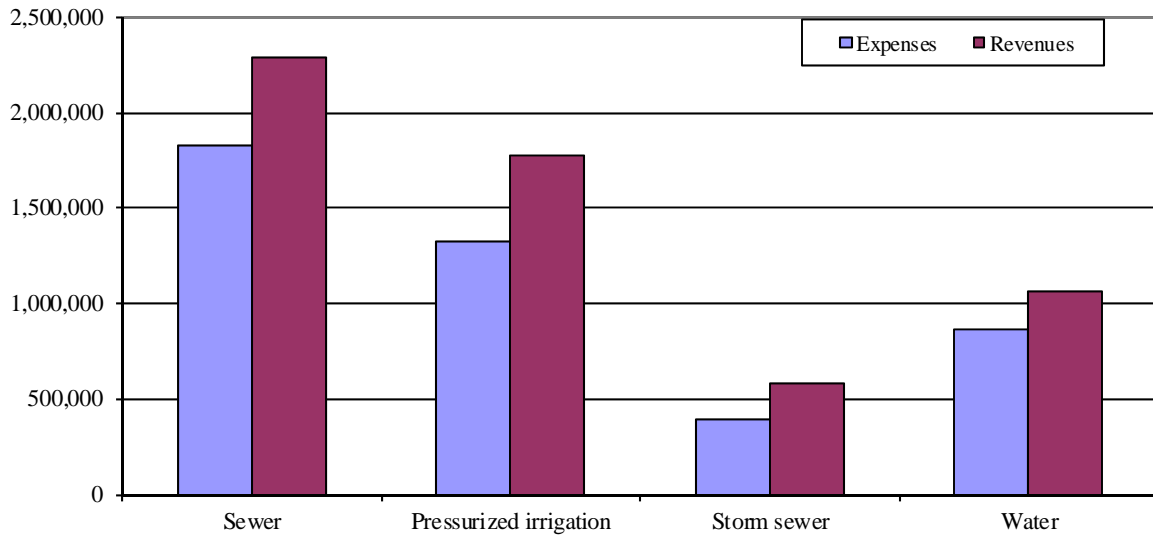


HIGHLAND CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2016

Business-type Activities

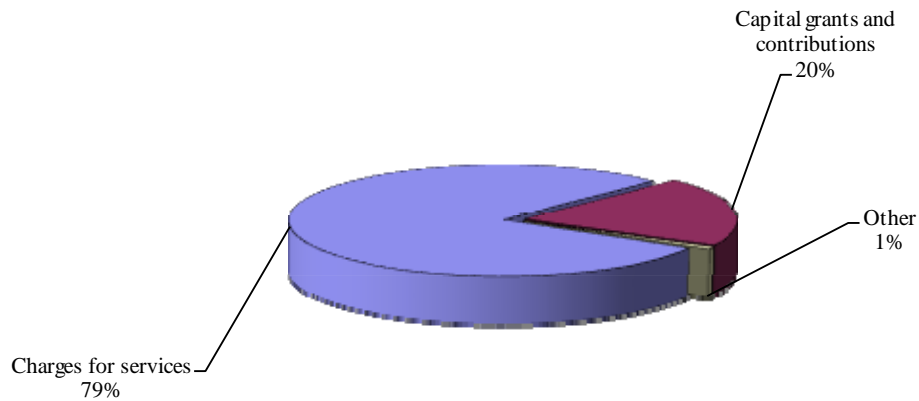
The following chart displays the business-type activities revenues compared to program expenses attributed to the activity. Traditionally business-type activities are self-supporting and the chart depicts the relationship of revenues to expenses.

Expenses and Program Revenues - Business-type Activities



The following chart displays the business-type activities revenues by type.

Revenues by Source - Business-type Activities



HIGHLAND CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2016

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

At June 30, 2016, the City's governmental funds reported combined ending fund balances of \$3,803,620, which was an increase of \$563,498 in comparison with the prior year.

The general fund is the main operating fund of the City. At June 30, 2016, unrestricted fund balance of the general fund was \$2,189,214. A comparison of the unrestricted fund balance and total fund balance to total general fund expenditures is a measure of liquidity. Unrestricted fund balance represented 30.5% of total general fund expenditures. The City's unrestricted general fund balance increased \$611,629 during the fiscal year ended June 30, 2016.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements in more detail.

Culinary Water Fund-Unrestricted net position at June 30, 2016 amounted to \$2,111,172 an increase of \$329,722 from the previous year. Operating revenues were \$873,013 and operating expenses were \$860,431.

Pressurized Irrigation fund-Unrestricted net position at June 30, 2016 amounted to \$221,199, an increase of \$293,575 from the previous year. Operating revenues were \$1,336,998 and operating expenses were \$1,168,886.

Sewer fund-Unrestricted net position at June 30, 2016 amounted to \$1,747,626, an increase of \$377,053 from the previous year. Operating revenues were \$1,868,218 and operating expenses were \$1,824,985.

Storm sewer fund- Unrestricted net position at June 30, 2016 amounted to \$630,643 an increase of \$203,727 from the previous year. Operating revenues were \$475,224 and operating expenses were \$395,991.

General Fund Budgetary Highlights

During the fiscal year, the general funds original budget was amended from \$7,924,085 (\$6,835,785 expenditures and \$1,088,300 transfers and appropriated fund balance) to a final budget total of \$8,416,618 (\$7,332,391 expenditures and \$1,084,227 transfers and appropriated fund balance). Expenses for the general government, public safety, parks and recreation, and cemetery were less than budgeted, however, expenses for streets and public works, and garbage were over budget. Overall the City's general fund was within budgeted expenses by \$146,157.

Capital Assets and Debt Administration

Capital Assets. Highland City's investment in capital assets from governmental and business-type activities as of June 30, 2016 was \$117,104,180 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure, and water stock. The total decrease in the City's investment in capital assets for the current year was \$2,222,939, which is primarily as a result of depreciation during the year, offset by increases related primarily to developer infrastructure contributions.

HIGHLAND CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2016

Highland City's Capital Assets

	Governmental Activities 2016	Governmental Activities 2015	Business-type Activities 2016	Business-type Activities 2015	Total 2016	Total 2015
Land	\$ 39,607,624	\$ 39,607,624	\$ 534,455	\$ 534,455	\$ 40,142,079	\$ 40,142,079
Buildings	14,080,927	14,080,927	1,157,289	1,157,289	15,238,216	15,238,216
Improvements other than buildings	69,840,654	69,315,427	34,810,071	33,859,889	104,650,725	103,175,316
Machinery and equipment	1,995,837	1,947,758	2,076,830	2,046,752	4,072,667	3,994,510
Construction in progress	236,032	236,032	-	-	236,032	236,032
Water shares	-	-	24,055,078	24,032,966	24,055,078	24,032,966
Total	125,761,074	125,187,768	62,633,723	61,631,351	188,394,797	186,819,119
Less accumulated depreciation	(55,674,674)	(53,022,212)	(15,615,943)	(14,469,788)	(71,290,617)	(67,492,000)
Total Capital Assets	<u>\$ 70,086,400</u>	<u>\$ 72,165,556</u>	<u>\$ 47,017,780</u>	<u>\$ 47,161,563</u>	<u>\$117,104,180</u>	<u>\$119,327,119</u>

Additional information on the City's capital assets is available in the notes to the financial statements.

Long-term debt. On June 30, 2016 the City had a total bonded debt outstanding of \$12,143,265. Of this amount \$2,273,265 was considered general obligation debt and was backed by the full faith and credit of the City.

Highland City's Outstanding Debt

	Governmental Activities 2016	Governmental Activities 2015	Business-type Activities 2016	Business-type Activities 2015	Total 2016	Total 2015
General obligation bonds	\$ -	\$ -	\$ 2,273,265	\$ 2,603,809	\$ 2,273,265	\$ 2,603,809
Revenue bonds	9,870,000	10,130,840	-	-	9,870,000	10,130,840
Other long term debt	185,821	238,543	2,432,264	2,541,353	2,618,085	2,779,896
Total	<u>\$ 10,055,821</u>	<u>\$ 10,369,383</u>	<u>\$ 4,705,529</u>	<u>\$ 5,145,162</u>	<u>\$ 14,761,350</u>	<u>\$ 15,514,545</u>

The Utah State Constitution limits the amount of general obligation debt a municipal government may issue at 4% of its total taxable property value of \$1,212,667,691, except cities of the fourth class (Highland City is classified as a fourth class city) may issue debt up to an additional 8% of its total taxable property value of \$1,212,667,691 for water systems, artificial lighting systems or sewer systems. On June 30, 2016 the City's limitation was \$48,506,708 and the additional limitation was \$97,013,415, the current general obligation bonds are \$2,273,265.

Economic Factors and Next Year's Budgets and Rates

The fiscal year 2016-2017 budget and rates are based on the forecast that the Utah economy will continue the trends from fiscal year 2015-2016 with some slight adjustments. Property tax revenue will increase slightly because of new construction in Highland. Fiscal year 2015-2016 saw 141 housing permits. For budgeting purposes and to be conservative on the revenue side, Highland expects to have 100 housing permits in fiscal year 2016-2017. The state economist expects sales tax revenue to increase about 4% over fiscal year 2016. However, for budgeting purposes sales tax revenue was left relatively flat so that the city does not overspend in the general fund for fiscal year 2017. These factors and others were considered in preparing the fiscal year 2017 budget. During the current fiscal year, unassigned fund balance in the general fund increased by \$441,223. The general fund unrestricted fund balance of \$2,189,213 represented 24.5% of general fund revenues which is within the range of 5% to 25% limit allowed by state law. Use of the fund balance was primarily for maintaining the level of funding for ongoing city needs and for capital projects.

HIGHLAND CITY, UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2016

Request for Information

This financial report is designed to provide a general overview of Highland City's activities for those with an interest in the City's operations and position. Questions concerning the information provided in this report or requests for additional financial information should be addressed to: Highland City, Finance Director, 5400 W. Civic Center Drive, Suite #1, Highland, Utah 84003.

BASIC FINANCIAL STATEMENTS

HIGHLAND CITY, UTAH
STATEMENT OF NET POSITION
June 30, 2016

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 3,303,046	\$ 5,170,864	\$ 8,473,910
Receivables:			
Accounts	10,909	54,978	65,887
Taxes	2,298,079	-	2,298,079
Due from other governments	187,405		187,405
Prepaid expenses	6,816	-	6,816
Restricted amounts:			
Cash and cash equivalents	783,698	1,117,581	1,901,279
Capital Assets:			
Non-depreciable Capital Assets	39,843,656	24,589,533	64,433,189
Depreciable Capital Assets (net)	30,242,744	22,428,247	52,670,991
Net Pension Asset	29	27	56
Total Assets	<u>76,676,382</u>	<u>53,361,230</u>	<u>130,037,612</u>
Deferred Outflows of Resources			
Deferred loss on refunding	411,803	-	411,803
Deferred outflows relating to pensions	238,615	129,769	368,384
Total Deferred Outflows of Resources	<u>650,418</u>	<u>129,769</u>	<u>780,187</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 77,326,800</u>	<u>\$ 53,490,999</u>	<u>\$ 130,817,799</u>

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

HIGHLAND CITY, UTAH
STATEMENT OF NET POSITION (Continued)
June 30, 2016

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Liabilities:			
Accounts payable	\$ 403,206	\$ 173,501	\$ 576,707
Accrued liabilities	69,489	25,066	94,555
Accrued interest payable	91,925	47,281	139,206
Developer and customer deposits	365,494	-	365,494
Unearned revenues	2,850	-	2,850
Payable from restricted assets	133,568	-	133,568
Noncurrent Liabilities:			
Due within one year	728,412	475,900	1,204,312
Due in more than one year	9,327,409	4,229,629	13,557,038
Net pension liability	484,292	265,634	749,926
Total Liabilities	<u>11,606,645</u>	<u>5,217,011</u>	<u>16,823,656</u>
Deferred Inflows of Resources			
Unearned property tax revenue	1,811,726	-	1,811,726
Deferred inflows relating to pensions	60,989	33,476	94,465
Total Deferred Inflows of Resources	<u>1,872,715</u>	<u>33,476</u>	<u>1,906,191</u>
Total Liabilities and Deferred Inflows of Resources	<u>13,479,360</u>	<u>5,250,487</u>	<u>18,729,847</u>
Net Position:			
Net investment in capital assets	60,628,203	42,412,291	103,040,494
Restricted for:			
Debt Service / park construction	104,558	16,740	121,298
Impact fees	-	1,100,841	1,100,841
Unrestricted	3,114,679	4,710,640	7,825,319
Total Net Position	<u>63,847,440</u>	<u>48,240,512</u>	<u>112,087,952</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 77,326,800</u>	<u>\$ 53,490,999</u>	<u>\$ 130,817,799</u>

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

HIGHLAND CITY, UTAH
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue & Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 2,506,961	\$ 1,702,563	\$ -	\$ -	\$ (804,398)	\$ -	\$ (804,398)
Public safety	3,343,498	244,544	13,296	144,876	(2,940,782)	-	(2,940,782)
Streets and public works	3,685,661	93,903	-	1,449,285	(2,142,473)	-	(2,142,473)
Parks and recreation	717,013	52,277	-	545,494	(119,242)	-	(119,242)
Cemetery	96,842	133,605	-	-	36,763	-	36,763
Garbage	685,066	750,967	-	-	65,901	-	65,901
Interest on long term debt	255,919	-	-	-	(255,919)	-	(255,919)
Total Governmental Activities	11,290,960	2,977,859	13,296	2,139,655	(6,160,150)	-	(6,160,150)
Business-type Activities:							
Sewer	1,824,985	1,868,218	-	422,406	-	465,639	465,639
Pressurized irrigation	1,327,420	1,336,998	-	439,490	-	449,068	449,068
Storm sewer	395,991	475,224	-	105,432	-	184,665	184,665
Water	860,431	873,013	-	192,646	-	205,228	205,228
Total Business-type Activities	4,408,827	4,553,453	-	1,159,974	-	1,304,600	1,304,600
Total Government	\$ 15,699,787	\$ 7,531,312	\$ 13,296	\$ 3,299,629	(6,160,150)	1,304,600	(4,855,550)
General Revenues:							
Taxes:							
Property					1,844,218	-	1,844,218
Vehicle					173,329	-	173,329
Sales					2,040,765	-	2,040,765
Franchise					1,073,704	-	1,073,704
Unrestricted investment earnings					23,159	37,064	60,223
Gain on disposal of assets					62,460	-	62,460
Miscellaneous					61,520	-	61,520
Transfers					(15,900)	15,900	-
Total General Revenues					5,263,255	52,964	5,316,219
Changes in Net Assets					(896,895)	1,357,564	460,669
Net Position, Beginning					64,744,335	46,882,948	111,627,283
Net Position, Ending					\$ 63,847,440	\$ 48,240,512	\$112,087,952

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

HIGHLAND CITY, UTAH
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2016

	<u>General Fund</u>	<u>Debt Service</u>	<u>Capital Projects Roads</u>	<u>Capital Projects Building</u>	<u>Capital Projects Parks</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:							
Cash and cash equivalents	\$ 1,684,724	\$ 3,579	\$ -	\$ 15,896	\$ 938,787	\$ 660,060	\$ 3,303,046
Receivables:							
Accounts	6,971	-	-	-	-	3,938	10,909
Taxes	2,298,079	-	-	-	-	-	2,298,079
Due from other funds	211,050	-	-	-	-	-	211,050
Due from other governments	187,405	-	-	-	-	-	187,405
Prepaid expenses - Highland fling	6,816	-	-	-	-	-	6,816
Restricted amounts:							
Cash and cash equivalents	365,494	-	313,646	-	104,558	-	783,698
Total Assets	<u>\$ 4,760,539</u>	<u>\$ 3,579</u>	<u>\$ 313,646</u>	<u>\$ 15,896</u>	<u>\$ 1,043,345</u>	<u>\$ 663,998</u>	<u>\$ 6,801,003</u>
Liabilities:							
Accounts payable	\$ 337,668	\$ -	\$ -	\$ -	\$ 27,983	\$ 37,555	\$ 403,206
Accrued liabilities	53,587	-	-	-	-	15,902	69,489
Due to other funds	-	-	211,050	-	-	-	211,050
Developer bonds held	365,494	-	-	-	-	-	365,494
Unearned revenue - Highland fling donations	2,850	-	-	-	-	-	2,850
Payable from restricted assets	-	-	29,010	-	104,558	-	133,568
Total Liabilities	<u>759,599</u>	<u>-</u>	<u>240,060</u>	<u>-</u>	<u>132,541</u>	<u>53,457</u>	<u>1,185,657</u>
Deferred Inflows of Resources							
Unearned property tax revenue	1,811,726	-	-	-	-	-	1,811,726
Total Deferred Inflows of Resources	<u>1,811,726</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,811,726</u>
Fund Balances:							
Restricted for:							
Debt service / park construction	-	-	-	-	104,558	-	104,558
Impact fees	-	-	284,636	-	-	-	284,636
Assigned to:							
Debt service	-	3,579	-	-	-	-	3,579
Capital projects & opens space funds	-	-	-	15,896	806,246	610,541	1,432,683
Unassigned	2,189,214	-	(211,050)	-	-	-	1,978,164
Total Fund Balances	<u>2,189,214</u>	<u>3,579</u>	<u>73,586</u>	<u>15,896</u>	<u>910,804</u>	<u>610,541</u>	<u>3,803,620</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 4,760,539</u>	<u>\$ 3,579</u>	<u>\$ 313,646</u>	<u>\$ 15,896</u>	<u>\$ 1,043,345</u>	<u>\$ 663,998</u>	<u>\$ 6,801,003</u>

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

HIGHLAND CITY, UTAH
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2016

**Amounts reported for governmental activities in the Statement of Net Assets
are different because:**

Total Fund Balances - Governmental Funds	\$	3,803,620
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		70,086,400
Deferred loss on refunding of debt is not a financial resource, and therefore, is not reported in the funds.		411,803
Interest expense is not due and payable in the current period and therefore is not recorded in the funds.		(91,925)
Net pension assets, net pension liabilities, Deferred outflows of resources and deferred inflows of resources related to pensions are not current financial resources, and therefore, are not reported in the governmental funds.		(306,637)
Long-term liabilities, including bonds, capital leases, and notes are not due and payable in the current period and therefore, are not reported in the funds.		(10,055,821)
Total Net Assets - Governmental Activities	\$	<u>63,847,440</u>

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

HIGHLAND CITY, UTAH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS
For The Year Ended June 30, 2016

	General Fund	Debt Service	Capital Projects Roads	Capital Projects Building	Capital Projects Parks	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:							
Taxes	\$ 5,132,016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,132,016
Licenses and permits	737,499	-	-	-	-	-	737,499
Intergovernmental	631,186	-	-	-	-	-	631,186
Impact fees	-	-	360,030	144,876	531,660	694	1,037,260
Charges for services	1,444,547	-	-	-	145	277,250	1,721,942
Exaction fees	-	-	-	-	-	55,996	55,996
Fines and forfeitures	244,544	-	-	-	-	-	244,544
Interest	11,960	-	-	-	7,460	3,737	23,157
Miscellaneous	61,524	-	-	-	-	-	61,524
Total Revenues	8,263,276	-	360,030	144,876	539,265	337,677	9,645,124
Expenditures:							
Current:							
General government	1,721,847	-	-	-	-	372,912	2,094,759
Public safety	3,159,063	-	-	-	-	-	3,159,063
Streets and public works	1,042,820	-	695,923	-	-	-	1,738,743
Parks and recreation	514,104	-	-	-	3,137	-	517,241
Cemetery	62,458	-	-	-	-	-	62,458
Garbage	685,942	-	-	-	-	-	685,942
Capital outlay	-	-	-	-	39,768	-	39,768
Debt service:							
Principal	-	570,000	-	-	-	-	570,000
Interest	-	259,970	(334)	576	-	-	260,212
Financing costs	-	49,509	-	-	-	-	49,509
Total Expenditures	7,186,234	879,479	695,589	576	42,905	372,912	9,177,695
Excess (deficiency) of revenues over (under) expenditures	1,077,042	(879,479)	(335,559)	144,300	496,360	(35,235)	467,429
Other Financing Sources (Uses):							
Sale of capital assets	-	-	-	-	-	62,460	62,460
Bond proceeds - refunding bonds	-	4,970,000	-	-	-	-	4,970,000
Payment to refunded bond escrow agent	-	(4,920,491)	-	-	-	-	(4,920,491)
Transfers in	448,411	829,970	400,000	-	-	50,000	1,728,381
Transfers out	(1,084,227)	-	-	(141,528)	(518,526)	-	(1,744,281)
Total Other Financing Sources (Uses)	(635,816)	879,479	400,000	(141,528)	(518,526)	112,460	96,069
Net Change in Fund Balances	441,226	-	64,441	2,772	(22,166)	77,225	563,498
Fund Balances, Beginning	1,747,988	3,579	9,145	13,124	951,824	514,462	3,240,122
Prior Period Adjustment	-	-	-	-	(18,854)	18,854	-
Fund Balances, Ending	\$ 2,189,214	\$ 3,579	\$ 73,586	\$ 15,896	\$ 910,804	\$ 610,541	\$ 3,803,620

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

HIGHLAND CITY, UTAH
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2016

Amounts reported for governmental activities in the Statement of Activities are different because:

Net Change in Fund Balances - Total Governmental Funds	\$	563,498
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, assets with an initial cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Capital outlay		88,798
Depreciation expense		(2,652,461)
<p>Contributed assets are not recorded in governmental funds due to no current resources being expended in the acquisition of such assets. The Statement of Activities will record these contributed assets at their estimated fair value on the date of contribution.</p>		
		484,505
<p>Bond proceeds provide current financial resources to governmental funds by issuing debt which increases long-term liabilities in the Statement of Net Position. Repayments of bond principal are expenditures in the governmental funds, but reduce liabilities in the Statement of Net Position.</p>		
Payment of bond principal		570,000
Issuance of bonds for refunding		(4,970,000)
Deposit of funds to refund debt		4,920,491
<p>Pension expense resulting from the changes in net pension assets, net pension liabilities, deferred outflows relating to pensions, and deferred inflows relating to pensions are not the use of current financial resources, and therefore, are not reported in the governmental funds.</p>		
		41,259
<p>Expenses are recognized in the governmental funds when paid or due; however, the Statement of Activities is presented on the accrual basis and expenses and liabilities are reported when incurred, regardless of when financial resources are available or expenses are paid or due. This adjustment reflects the changes due to accrued interest on bonds payable and compensated absences.</p>		
Accrued interest		30,159
Amortization of deferred loss		(25,866)
Compensated absences		52,722
Changes in net assets of governmental activities	\$	(896,895)

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

HIGHLAND CITY, UTAH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – BUDGET AND ACTUAL – GENERAL FUND
For The Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>		
Revenues:				
Taxes	\$ 4,848,453	\$ 5,007,740	\$ 5,132,016	\$ 124,276
Licenses and permits	483,500	712,147	737,499	25,352
Intergovernmental	573,000	573,296	631,186	57,890
Charges for services	1,391,166	1,404,931	1,444,547	39,616
Fines and forfeitures	223,800	217,792	244,544	26,752
Interest	200	10,200	11,960	1,760
Miscellaneous	26,000	64,000	61,524	(2,476)
Total Revenues	<u>7,546,119</u>	<u>7,990,106</u>	<u>8,263,276</u>	<u>273,170</u>
Expenditures:				
Current:				
General government	1,394,349	1,736,840	1,721,847	14,993
Public safety	3,159,013	3,159,013	3,159,063	(50)
Streets and public works	956,618	1,107,204	1,042,820	64,384
Parks and recreation	585,747	602,876	514,104	88,772
Cemetery	83,807	70,207	62,458	7,749
Garbage	656,251	656,251	685,942	(29,691)
Total Expenditures	<u>6,835,785</u>	<u>7,332,391</u>	<u>7,186,234</u>	<u>146,157</u>
Excess (deficiency) of revenues over (under) expenditures	<u>710,334</u>	<u>657,715</u>	<u>1,077,042</u>	<u>419,327</u>
Other Financing Sources (Uses):				
Transfers in	57,100	448,411	448,411	-
Transfers out	(1,088,300)	(1,084,227)	(1,084,227)	-
Total Other Financing Sources (Uses)	<u>(1,031,200)</u>	<u>(635,816)</u>	<u>(635,816)</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ (320,866)</u>	<u>\$ 21,899</u>	<u>441,226</u>	<u>\$ 419,327</u>
Fund Balances, Beginning			<u>1,747,988</u>	
Fund Balances, Ending			<u>\$ 2,189,214</u>	

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

HIGHLAND CITY, UTAH
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
June 30, 2016

	Business-type Activities - Enterprise Funds				Total
	Sewer	Pressurized Irrigation	Water	Nonmajor Storm Sewer	
Assets:					
Current Assets:					
Cash and cash equivalents	\$ 1,941,167	\$ 353,133	\$ 2,185,156	\$ 691,408	\$ 5,170,864
Restricted cash and cash equivalents	1,100,841	16,740	-	-	1,117,581
Accounts receivable	22,427	448	29,998	2,105	54,978
Total Current Assets	3,064,435	370,321	2,215,154	693,513	6,343,423
Noncurrent Assets:					
Capital assets:					
Water shares	-	22,417,229	1,637,849	-	24,055,078
Land	26,540	277,450	107,132	123,333	534,455
Construction in process	-	-	-	-	-
Buildings	-	663,667	493,622	-	1,157,289
Infrastructure	9,699,889	13,871,837	8,181,247	3,057,098	34,810,071
Machinery and equipment	184,643	178,006	1,398,013	316,168	2,076,830
Less accumulated depreciation	(4,059,456)	(5,543,187)	(4,742,111)	(1,271,189)	(15,615,943)
Net pension asset	8	-	10	9	27
Total Noncurrent Assets	5,851,624	31,865,002	7,075,762	2,225,419	47,017,807
Total Assets	8,916,059	32,235,323	9,290,916	2,918,932	53,361,230
Deferred Outflows of Resources					
Deferred outflows relating to pensions	40,616	24,875	33,881	30,397	129,769
Total Assets and Deferred Outflows of Resources	\$ 8,956,675	\$ 32,260,198	\$ 9,324,797	\$ 2,949,329	\$ 53,490,999

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

HIGHLAND CITY, UTAH
STATEMENT OF NET POSITION – PROPRIETARY FUNDS (Continued)
June 30, 2016

	Business-type Activities - Enterprise Funds				Total
	Sewer	Pressurized Irrigation	Water	Nonmajor Storm Sewer	
Liabilities:					
Current Liabilities:					
Accounts payable	\$ 118,721	\$ 28,249	\$ 25,856	\$ 675	\$ 173,501
Accrued liabilities	8,309	6,132	6,747	3,878	25,066
Accrued interest payable	-	47,281	-	-	47,281
Compensated absences	13,184	9,250	11,577	7,213	41,224
Notes payable	-	94,676	-	-	94,676
Bonds payable - current	-	340,000	-	-	340,000
Total Current Liabilities	140,214	525,588	44,180	11,766	721,748
Noncurrent Liabilities:					
Compensated absences	22,404	10,580	14,910	10,922	58,816
Notes payable	-	2,237,548	-	-	2,237,548
Bonds payable	-	1,933,265	-	-	1,933,265
Net pension liability	83,453	49,538	69,960	62,683	265,634
Total Noncurrent Liabilities	105,857	4,230,931	84,870	73,605	4,495,263
Total Liabilities	246,071	4,756,519	129,050	85,371	5,217,011
Deferred Inflows of Resources					
Deferred inflows relating to pensions	10,521	6,227	8,823	7,905	33,476
Net Position:					
Net investment in capital assets	5,851,616	27,259,513	7,075,752	2,225,410	42,412,291
Restricted for impact fees					
Impact fees	1,100,841	-	-	-	1,100,841
Debt service		16,740			16,740
Unrestricted	1,747,626	221,199	2,111,172	630,643	4,710,640
Total Net Position	8,700,083	27,497,452	9,186,924	2,856,053	48,240,512
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 8,956,675	\$ 32,260,198	\$ 9,324,797	\$ 2,949,329	\$ 53,490,999

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

HIGHLAND CITY, UTAH
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET POSITION – PROPRIETARY FUNDS
For The Year Ended June 30, 2016

	Business-type Activities - Enterprise Funds				Total
	Sewer	Pressurized Irrigation	Water	Nonmajor Storm Sewer	
Operating Revenues:					
Charges for services	\$ 1,865,714	\$ 1,336,598	\$ 784,766	\$ 475,224	\$ 4,462,302
Intergovernmental	-	400	-	-	400
Connection fees	2,504	-	80,772	-	83,276
Miscellaneous	-	-	7,475	-	7,475
Total Operating Revenues	1,868,218	1,336,998	873,013	475,224	4,553,453
Operating Expenses:					
Salaries and benefits	223,443	154,879	187,950	146,572	712,844
Operations	1,280,861	613,664	367,995	128,774	2,391,294
Depreciation	320,681	400,343	304,486	120,645	1,146,155
Total Operating Expenses	1,824,985	1,168,886	860,431	395,991	4,250,293
Operating Income (Loss)	43,233	168,112	12,582	79,233	303,160
Nonoperating Revenues (Expenses):					
Impact fees	347,023	323,571	-	-	670,594
Interest income	19,543	1,018	12,654	3,849	37,064
Interest expense	-	(158,534)	-	-	(158,534)
Total Nonoperating Revenues (Expenses)	366,566	166,055	12,654	3,849	549,124
Income (Loss)	409,799	334,167	25,236	83,082	852,284
Capital Contributions	75,383	115,919	192,646	105,432	489,380
Transfers in	-	73,000	-	-	73,000
Transfers out	-	(57,100)	-	-	(57,100)
Changes in Net Assets	485,182	465,986	217,882	188,514	1,357,564
Net Position, Beginning	8,214,901	27,031,466	8,969,042	2,667,539	46,882,948
Net Position, Ending	\$ 8,700,083	\$ 27,497,452	\$ 9,186,924	\$ 2,856,053	\$ 48,240,512

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

HIGHLAND CITY, UTAH
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
For The Year Ended June 30, 2016

	Business-type Activities - Enterprise Funds				Total
	Sewer	Pressurized Irrigation	Water	Nonmajor Storm Sewer	
Cash Flows From Operating Activities:					
Cash received from customers	\$ 1,872,930	\$ 1,338,395	\$ 864,768	\$ 476,010	\$ 4,552,103
Cash received from other entities	-	400	7,475	-	7,875
Cash payments to suppliers for goods and services	(1,271,092)	(596,000)	(367,495)	(129,071)	(2,363,658)
Cash payments to employees and professional contractors for services	(242,869)	(165,088)	(202,520)	(160,674)	(771,151)
Net cash provided (used) by operating activities	358,969	577,707	302,228	186,265	1,425,169
Cash Flows From Non-Capital Financing Activities:					
Transfers from other funds	-	73,000	-	-	73,000
Transfers to other funds	-	(57,100)	-	-	(57,100)
Net cash provided (used) by non-capital financing activities	-	15,900	-	-	15,900
Cash Flows From Capital and Related Financing Activities:					
Principal payments on bonds	-	(325,000)	-	-	(325,000)
Interest and fees paid on bonds and notes payable	-	(164,078)	-	-	(164,078)
Principal payments on notes payable	-	(92,865)	-	-	(92,865)
Receipt of impact fees	347,023	323,571	-	-	670,594
Purchase of capital assets	(460,804)	(30,079)	-	-	(490,883)
Net cash provided (used) by capital and related financing activities	(113,781)	(288,451)	-	-	(402,232)
Cash Flows From Investing Activities:					
Interest on investments	19,543	1,018	12,656	3,848	37,065
Net cash provided (used) by investing activities	19,543	1,018	12,656	3,848	37,065
Net Increase (Decrease) In Cash	264,731	306,174	314,884	190,113	1,075,902
Cash at Beginning of Year	2,777,277	63,699	1,870,272	501,295	5,212,543
Cash at End of Year	\$ 3,042,008	\$ 369,873	\$ 2,185,156	\$ 691,408	\$ 6,288,445

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

HIGHLAND CITY, UTAH
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS (Continued)
For The Year Ended June 30, 2016

	Business-Type Activities - Enterprise Funds				
	Sewer	Pressurized Irrigation	Storm Sewer	Water	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 43,233	\$ 168,112	\$ 12,582	\$ 79,233	\$ 303,160
Adjustments to reconcile operating income (loss) to net cash from (used) by operating activities:					
Depreciation	320,681	400,343	304,486	120,645	1,146,155
(Increase) decrease in assets:					
Accounts receivable	4,712	1,797	(770)	786	6,525
Prepaid expenses	-	-	-	-	-
Net pension asset	171	105	141	126	543
Deferred outflows relating to pensions	(26,178)	(16,434)	(21,750)	(19,534)	(83,896)
Increase (decrease) in liabilities:					
Accounts payable	9,769	17,664	500	(297)	27,636
Accrued liabilities	1,317	1,342	807	(1,151)	2,315
Compensated absences	(13,791)	(7,184)	(9,599)	(7,762)	(38,336)
Net pension liability	17,254	10,833	14,335	12,875	55,297
Deferred inflows relating to pensions	1,801	1,129	1,496	1,344	5,770
Net cash provided (used) by operating activities	\$ 358,969	\$ 577,707	\$ 302,228	\$ 186,265	\$ 1,425,169
Noncash investing, capital, and financing activities:					
Contributions of capital assets	\$ 75,383	\$ 115,919	\$ 192,646	\$ 105,432	\$ 489,380
Addition of capital assets due to notes payable	-	22,110	-	-	22,110

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

HIGHLAND CITY, UTAH NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Highland City, Utah (the City) was incorporated in 1977 and operates under a council-city manager form of government. The governing body consists of five elected council members and a mayor. The heads of the various departments, formed to provide various services, are under the direct supervision of the City Manager. The City provides the following services: general administrative services, public safety, highway and public works, parks and recreations, cemetery, garbage, and utilities (sewer, pressurized irrigation, storm sewer, and culinary water).

The City'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). The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The more significant accounting policies established in GAAP and used by the City is discussed below.

(A) The Reporting Entity

In evaluating how to define the City 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 in the related GASB pronouncement. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency and accountability. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability of fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the government's operations.

The Highland City Open Space Special Service District (the District) was established to provide recreation services, including the operation and maintenance of parks, open space and trails within certain areas of the City. The District is governed by a board of trustees composed of the City Mayor and members of the City Council. Although it is legally separate entity from the City, the District is reported as if it were part of the primary government because of the City's ability to impose its will upon the operation of the District. The District is included in these financial statements as the Open Space Trust Fund. Separate financial statements are not issued for the District.

The City is not a component unit of any other entity. The City's basic financial statements include all City operations.

(B) Government-Wide and Fund Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's general administrative services, public safety, highway and public works, parks and recreations, cemetery, and garbage are classified as governmental activities. The City's sewer, pressurized irrigation, storm sewer, and water services are classified as business-type activities.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(B) Government-Wide and Fund Financial Statements (Continued)

The government-wide financial statements (i.e., the *Statement of Net Position* and the *Statement of Activities*) report information on all of the nonfiduciary activities of the City and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they become available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of the related liability, rather than an expenditure in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter (within 60 days) to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. For the year ended June 30, 2016, the City elected to include the sixth payments of class "C" road funds, even though it was not received within 60 days of year-end. That payment was delayed as a result of the allocation method being reanalyzed. The City elected to include it as not including it would distort the trends of revenues from one year to the next.

Sales taxes, franchise taxes, licenses, interest and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenues when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when cash is received by the City.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(B) Government-Wide and Fund Financial Statements (Continued)

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues, and expenditures or expenses as appropriate.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund. Principal sources of revenue are taxes, licenses and permits and intergovernmental revenues. Primary expenses are for general government, public safety, streets and public works, parks and recreation, cemetery and garbage.

The *Debt Service Fund* accounts for the expenditures required for the City's debt service.

The *Capital Projects Roads Fund* accounts for the construction and improvement of roads within the City.

The *Capital Projects Building Fund* accounts for the construction and improvement of buildings owned by the City.

The *Capital Projects Parks Fund* accounts for the construction and improvement of parks owned by the City.

The City reports the following major proprietary funds:

The *Sewer Fund* accounts for the activities of the City's sewer treatment operations.

The *Pressurized Irrigation Fund* accounts for the activities of the City's pressurized irrigation distribution system.

The *Water Fund* accounts for the activities of the City's water, treatment and distribution.

Activities of these three funds include administration, operations and maintenance of the sewer, pressurized irrigation, and water systems, and billing and collection. The funds also account for the accumulation of resources for, and the payment of, long-term debt principal and interest for all enterprise fund debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted, if necessary, to ensure the integrity of the funds.

The effect of interfund activity has generally been eliminated from the government-wide financial statements in accordance with GAAP.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers of the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(C) Budgetary Data

Annual budgets are prepared and adopted, in accordance with State law, by the City Council on or before June 22 for the following fiscal year, beginning July 1. Estimated revenues and appropriations may be increased or decreased by resolution of the City Council at any time during the year. A public hearing must be held prior to any proposed increase in a fund's appropriations. Budgets include activities in several different funds, including the General Fund, Special Revenue Fund, Capital Project Funds, Debt Service Fund, and Enterprise Funds. Annual budgets are also adopted for capital projects which may include activities which overlap several fiscal years.

Utah State law prohibits the appropriation of unreserved General Fund balance until it exceeds 5% of the General Fund revenues. Until the unreserved fund balance is greater than the above amount, it cannot be budgeted, but is used to provide working capital until tax revenue is received, to meet emergency expenditures, and to cover unanticipated deficits. When an unreserved fund balance is greater than 25% of the next year's budgeted revenues, the excess must be appropriated within the following two years.

Once adopted, the budget can be amended by subsequent City Council action. The City Council can amend the budget to any extent, provided the total budgeted expenditures do not exceed budgeted revenues and appropriated fund balance, in which case a public hearing must be held. The City Administrator has the authority to transfer budget appropriations within and between any divisions of any budgetary fund. The City Council has the authority to transfer budget appropriations between individual budgetary funds by resolution.

Expenditures in the Capital Projects Fund are budgeted annually on a project-by-project basis. Although it is the intention of the City that each project be funded by a specific revenue source, the adopted budget reflects only total anticipated revenues by source.

(D) Tax Revenues

On or before June 22 of each year, the City sets the property tax rate for various municipal purposes. If the City intends to increase property tax revenues above the tax rate of the previous year, state law requires the City to provide public notice to property owners and hold public hearings. When these special public hearings are necessary, the adoption of the final budget must be done before August 17. All property taxes levied by the City are assessed and collected by Utah County. Taxes are levied as of January 1 and are due November 30; any delinquent taxes are subject to a penalty. Unless the delinquent taxes and penalties are paid before January 15, a lien is attached to the property, and the amount of taxes and penalties bears interest from January 1 until paid. Tax liens are placed on a property on January 1 following the due date of unpaid taxes. If after five years, delinquent taxes have not been paid, the County sells the property at a tax sale. Tax collections are remitted to the City from the County on a monthly basis.

Sales taxes and telephone franchise taxes are collected by the Utah State Tax Commission and remitted to the City monthly.

Franchise taxes are collected by natural gas, electric utilities, and cable television companies and remitted to the City periodically.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(E) Cash, Cash Equivalents and Investments

The City considers all cash and investments with original maturities of three months or less to be cash and cash equivalents. For the purpose of the statement of cash flows, cash and cash equivalents are defined as the cash and cash equivalent accounts and the restricted cash and cash equivalents accounts.

Investments consist of accounts at the Utah Public Treasurer’s Investment Trust (the State Treasurer’s Pool). Investments of the City are stated at cost, which approximates fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application and Application*.

(F) Restricted Assets

Assets whose use is restricted for construction, debt service or by other agreement are segregated on the government-wide and proprietary fund financial statements. When both restricted and unrestricted resources are available for use, it is the government’s policy to use restricted resources first, then unrestricted resources as they are needed.

(G) Capital Assets

Capital assets, which include land, buildings, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items) are, reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The government reports infrastructure assets on a network or subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements.

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. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Upon retirement or disposition of capital assets, the cost and related accumulated depreciation are removed from the respective accounts. Depreciation of capital assets is computed using the straight-line method over their estimated useful lives as follows:

Assets	Years
Buildings and structures	20 to 50
Improvements and infrastructure	10 to 50
Machinery, equipment and vehicles	5 to 15

(H) Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds” (i.e., the current portion of interfund loans).

Receivables at June 30, 2016, consisted of property tax, franchise tax, sales tax, grants and utility customer accounts (billings for user charged services). Taxes and grants are deemed collectible in full. Utility charges have an allowance of \$24,988.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(I) Long-Term Obligations

In the government-wide financial statements and proprietary fund types, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(J) Compensated Absences

Accumulated unpaid vacation is accrued as incurred based on the years of service for each employee. Vacation is accumulated on a monthly basis. Proprietary funds expense all accrued vacation amounts when incurred. Governmental funds report an expenditure as the vacation is paid. Employees may accumulate up to 175% of their annual accrual. An employee who is separated from employment may be compensated for all accrued vacation. Sick pay amounts are charged to expenditures when incurred. Employees may accumulate up to 65 days of sick leave. Employees will not be paid for any accumulated sick leave at separation from employment.

(K) Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City currently reports deferred outflows of resources relating to pensions, and deferred loss on refunding. The deferred outflows relating to pensions are required to be reported as part of implementing GASB 68 *Accounting and Financial reporting for Pensions*, and GASB 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The City reports a deferred loss on refunding as part of the advanced refunding of the 2006 and 2007 Sales and Franchise Tax Revenue bonds, and will be amortized over the life of the refunding debt.

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items which are reported under this section: deferred property tax revenues, and deferred inflows of resources relating to pensions. Deferred property tax revenue arises only under a modified accrual basis of accounting. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. These amounts account for property taxes levied on January 1, 2016 for the 2016-2017 fiscal year. The deferred inflows relating to pensions are required to be reported as part of implementing of GASB 68, and GASB 71, as mentioned before.

(L) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Utah Retirement Systems Pension Plan (URS) and additions to/deductions from URS's fiduciary net position have been determined on the same basis as they are reported by URS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(M) Equity Balance Classification

Fund balance is classified in the government-wide financial statements as net position and is displayed in three components:

- (1) *Net investment in capital assets* – consists of capital assets including restricted 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.
- (2) *Restricted net position* – consists of net position with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
- (3) *Unrestricted net position* – All other net position that does not meet the definition of “restricted” or “Net investment in capital assets”.

In accordance with GASB No. 54, the City classifies fund balances in the governmental funds as follows: Nonspendable, Restricted, Committed, Assigned or Unassigned.

- (1) *Nonspendable fund balance* classification includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact.
- (2) *Restricted fund balance* classifications are reported as restricted if, (a) externally imposed by creditor, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- (3) *Committed fund balance* classification include those funds that can only be used for specific purposed pursuant to constraints imposed by formal action (Ordinances and Resolutions) of the City council, which is government’s highest level of decision making authority.
- (4) *Assigned fund balance* classification includes amounts that are constrained by the government’s intent to use the funds for specific purposes, but are neither restricted nor committed, as established by the Finance Director, City Council, or City Administrator. Also includes all remaining amounts that are reported in governmental funds, other than the general fund that are not classified as nonspendable, restricted nor committed or in the General Fund, that are intended to be used for specific purposes. The assigned designation may be reversed by the Finance Director, City Council, or City Administrator.
- (5) *Unassigned fund balance* classification is the residual classification for the General Fund or funds with deficit fund balances. This classification represents fund balance that has not been assigned to other funds and that has not be restricted, committed, or assigned to specific purposes within the General Fund.

Proprietary Fund balance is classified the same as in the government-wide statements.

When restricted, committed, assigned, or unassigned resources are available for use, it is the City’s policy to use restricted resources first, followed by committed resources, then assigned resources, and then unassigned resources as they are needed.

HIGHLAND CITY, UTAH NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(N) Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 CASH AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Cash includes amounts in demand deposits as well as time deposits. Investments are stated at cost, which approximate fair value. Each fund's portion of this pool is displayed on the combined balance sheet as "cash and cash equivalents" and "restricted cash and cash equivalents," which includes cash accounts that are separately held by several of the City's funds.

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state, and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The City's deposit and investment policy is to follow the Utah Money Management Act (the Act) (*Utah Code*, Title 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of City funds in a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Money Management Act defines the types of securities authorized as appropriate investments for the City's funds and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse purchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by the U.S. government sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), and Federal National Mortgage Association (Fannie Mae); bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Money Management Act; and the Utah State Public Treasurers' Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer and is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act (*Utah Code*, Title 51, Chapter 7). The Act established the Money Management Council which oversees the activities of the State Treasurer and 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.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 CASH AND INVESTMENTS (Continued)

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses of the PTIF, net of administration fees, 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.

Fair Value of Investments

The City measures its investments using fair value measurement guidelines, established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

The City's PTIF investment, whose fair value at June 30, 2016 was \$10,022,553 was measured as a *Level 2*. The City maintained no other investments during the year.

The City's cash and cash equivalents and investments are exposed to certain risks as outlined below:

Cash Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2016, \$508,908 of the City's deposits was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

The City invests in the Public Treasurer's Investment Fund (PTIF) which is a voluntary external Local Governmental Investment Pool managed by the Utah State Treasurer's Office and is audited by the Utah State Auditor. No separate report as an external investment pool has been issued for the PTIF. The PTIF is not registered with the SEC as an investment company and is not rated. The PTIF is authorized and regulated by the Utah Money Management Act, (Utah Code Title 51, Chapter 7). The PTIF invests in high-grade securities which are delivered to the custody of the Utah State Treasurer, assuring a perfected interest in the securities, and, therefore, there is very little credit risk except in the most unusual and unforeseen circumstances. The maximum weighted average life of the portfolio does not exceed 90 days.

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 to participants on the ratio of the participant's share to the total funds in the PTIF based on the participant's average daily balance. The PTIF allocates income and issues statements on a monthly basis. Twice a year, at June 30 and December 31, which are the accounting periods for public entities, the investments are valued at fair value and participants are informed of the fair value valuation factor. Additional information is available at the Utah State Treasurer's Office.

Custodial credit risk is the risk that in the event of the failure of a counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City's investment in the Utah Public Treasurer's Investment Fund has no custodial credit risk.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 CASH AND INVESTMENTS (Continued)

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City’s policy for limiting the credit risks of investments is to comply with the Utah 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 and Poors; banker acceptance 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 as defined by the Act. The PTIF was unrated as of June 30, 2016.

Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The City manages its exposure by investing mainly in the Utah Public Treasurer’s Investment Fund and by adhering to the Utah Money Management Act. The Act requires that the remaining term to maturity may not exceed the period of availability of the funds to be invested. The PTIF’s investment maturity is less than 1 year, which is among the required period of availability of the Utah Money Management Act.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The City’s investment in the Utah Public Treasurer’s Investment Fund has no concentration of credit risk.

NOTE 3 INTERFUND BALANCES AND TRANSFERS

Interfund Balances

From time to time, the City may report internal balances as a result of the cash allocation requirements of the funds. The City reports the following internal balances as of June 30, 2016:

	Interfund Receivables	Interfund Payables
Governmental activities		
General Fund	\$ 211,050	\$ -
Capital Improvements - Roads	-	211,050
Total Governmental activities	211,050	211,050
 Total interfund receivables and payables	\$ 211,050	\$ 211,050

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 INTERFUND BALANCES AND TRANSFERS (Continued)

Interfund Transfers

The purpose of the transfers were to provide cash flows and pay operating expenses. The transfers among the funds for the year ended June 30, 2016 were as follows:

	<u>In</u>	<u>Out</u>
Governmental activities		
General Fund	\$ 448,411	\$ 1,084,227
Debt service fund	829,970	-
Capital Improvements - Roads	400,000	-
Capital Improvements - Buildings	-	141,528
Capital Improvements - Parks	-	518,526
Nonmajor Governmental Funds	50,000	-
Total governmental activities	<u>1,728,381</u>	<u>1,744,281</u>
Business activities		
Pressurized Irrigation	<u>73,000</u>	<u>57,100</u>
Total business activities	<u>73,000</u>	<u>57,100</u>
	<u>\$ 1,801,381</u>	<u>\$ 1,801,381</u>

NOTE 4 RESTRICTED ASSETS

Certain assets are restricted to use as follows as of June 30, 2016:

	<u>Amount</u>
Governmental activities	
Construction bonds	\$ 365,494
Park construction	104,558
Road construction	<u>313,646</u>
Total governmental activities	<u>783,698</u>
Business-type activities	
Restricted for impact fees	1,100,841
Debt service	<u>16,740</u>
Total business-type activities	<u>1,117,581</u>
Total restricted assets	<u>\$ 1,901,279</u>

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2016, is as follows:

	Balance June 30, 2015	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 2016
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 39,607,624	\$ -	\$ -	\$ 39,607,624
Construction in progress	236,032	-	-	236,032
Total capital assets, not being depreciated	39,843,656	-	-	39,843,656
Capital assets, being depreciated:				
Buildings and structures	14,080,927	-	-	14,080,927
Improvements and infrastructure	69,315,429	525,225	-	69,840,654
Machinery, equipment and vehicles	1,947,759	48,078	-	1,995,837
Total capital assets, being depreciated	85,344,115	573,303	-	85,917,418
Less accumulated depreciation for:				
Buildings and structures	(2,826,793)	(354,568)	-	(3,181,361)
Improvements and infrastructure	(48,607,397)	(2,177,466)	-	(50,784,863)
Machinery, equipment and vehicles	(1,588,025)	(120,425)	-	(1,708,450)
Total accumulated depreciation	(53,022,215)	(2,652,459)	-	(55,674,674)
Total capital assets, net of accumulated depreciation	32,321,900	(2,079,156)	-	30,242,744
Governmental activities capital assets, net	\$ 72,165,556	\$ (2,079,156)	\$ -	\$ 70,086,400

Governmental activities depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 204,232
Public Safety	194,062
Streets and Public Works	1,972,240
Parks and recreation	245,667
Cemetery	36,258
Total depreciation expense - governmental activities	\$ 2,652,459

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 CAPITAL ASSETS (Continued)

The Business-type activities property, plant and equipment consist of the following at June 30, 2016:

	<u>Balance June 30, 2015</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance June 30, 2016</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 534,455	\$ -	\$ -	\$ 534,455
Construction in progress	-	-	-	-
Water Shares	24,032,966	22,112	-	24,055,078
Total capital assets, not being depreciated	<u>24,567,421</u>	<u>22,112</u>	<u>-</u>	<u>24,589,533</u>
Capital assets, being depreciated:				
Buildings and structures	1,157,289	-	-	1,157,289
Improvements and infrastructure	33,859,890	950,182	-	34,810,072
Machinery, equipment and vehicles	2,046,752	30,078	-	2,076,830
Total capital assets, being depreciated	<u>37,063,931</u>	<u>980,260</u>	<u>-</u>	<u>38,044,191</u>
Less accumulated depreciation for:				
Buildings and structures	(480,412)	(40,120)	-	(520,532)
Improvements and infrastructure	(12,744,431)	(999,459)	-	(13,743,890)
Machinery, equipment and vehicles	(1,244,946)	(106,576)	-	(1,351,522)
Total accumulated depreciation	<u>(14,469,789)</u>	<u>(1,146,155)</u>	<u>-</u>	<u>(15,615,944)</u>
Total capital assets, net of accumulated depreciation	<u>22,594,142</u>	<u>(165,895)</u>	<u>-</u>	<u>22,428,247</u>
Business-type activities capital assets, net	<u>\$ 47,161,563</u>	<u>\$ (143,783)</u>	<u>\$ -</u>	<u>\$ 47,017,780</u>

Business-type depreciation expense was charged to functions/programs as follows:

Business-type activities	
Sewer	\$ 320,681
Pressurized Irrigation	400,343
Storm Drain	120,645
Water	304,486
Total depreciation expense - business-type activities	<u>\$ 1,146,155</u>

NOTE 6 GRANTS

The City receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the City's independent auditors and other governmental auditors. Any disallowed claims resulting from such an audit could become a liability of the General Fund or other applicable funds. Based on prior experience, the City administration believes such disallowance, if any, would be immaterial.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 DEVELOPER AND CUSTOMER DEPOSITS

Developer and customer deposits are principally deposits from customers that are held by the City for water connections or for construction, or other projects until such time for refund is warranted.

NOTE 8 UNEARNED PROPERTY TAXES

In conjunction with GASB pronouncement 33, “*Accounting and Financial Reporting for Nonexchange Transactions*” the City has accrued property tax receivable and unearned property tax revenue in the General Fund in the amount of \$1,688,891.

Property taxes recorded in the governmental funds are recorded using the modified accrual basis of accounting, wherein revenues are recognized when they are both measurable and available (expected to be received within 60 days). Property taxes attach as an enforceable lien on property as of the first day of January. Property taxes are levied on October 1, and then are due and payable at November 30. Since the property tax amounts are not expected to be received within 60 days after the year ended June 30, 2016, the City was required to record both a receivable and unearned revenue of the estimated amount of the total property tax to be levied on October 1, 2016.

NOTE 9 JOINT VENTURE

The City and two other municipalities (the Members) entered into an interlocal agreement to create Lone Peak Public Safety District (Lone Peak). Lone Peak was created to provide fire, emergency medical services, and police services. Lone peak is funded by direct payments from the Member cities which is allocated on a population basis. Lone Peak is governed by a Board of Public Safety Commissioners composed of two elected or appointed officials from each of the Member cities.

Audited financial statements for Lone Peak are prepared annually and can be obtained from Lone Peak’s finance director, Lone Peak Public Safety District, 5400 W Civic Center Blvd. Suite #1.

A summary of transactions between the City and Lone Peak is shown below:

	2016
Payments to Lone Peak	
Administrative expenses	\$ 238,917
Member payments for	
Police	1,860,812
Fire / EMS	1,059,333
Total payments to Lone Peak	\$ 3,159,062
Receipts from Lone Peak	
Rent of office space	\$ 222,997
Reimbursement of employee wages and office supplies used by Lone Peak	36,799
Total receipts from Lone Peak	\$ 259,796

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 10 LONG-TERM DEBT

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2016:

	<u>June 30,</u> <u>2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30,</u> <u>2016</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Bonds payable					
Revenue bonds	\$ 10,070,000	\$ 4,970,000	\$ (5,170,000)	\$ 9,870,000	\$ 645,000
Plus: unamortized premiums	60,840	-	(60,840)	-	-
Total bonds payable	<u>10,130,840</u>	<u>4,970,000</u>	<u>(5,230,840)</u>	<u>9,870,000</u>	<u>645,000</u>
Compensated absences	238,543	71,946	(124,668)	185,821	83,412
Governmental activities long-term liabilities	<u>\$ 10,369,383</u>	<u>\$ 5,041,946</u>	<u>\$ (5,355,508)</u>	<u>\$ 10,055,821</u>	<u>\$ 728,412</u>
Business-type Activities:					
Bonds payable					
General obligation bonds	\$ 2,565,000	\$ -	\$ (325,000)	\$ 2,240,000	\$ 340,000
Plus: unamortized premiums	38,809	-	(5,544)	33,265	-
Total bonds payable	<u>2,603,809</u>	<u>-</u>	<u>(330,544)</u>	<u>2,273,265</u>	<u>340,000</u>
Notes payable	2,402,977	22,110	(92,865)	2,332,222	94,676
Compensated absences	138,376	19,638	(57,972)	100,042	41,224
Business-type activities long-term liabilities	<u>\$ 5,145,162</u>	<u>\$ 41,748</u>	<u>\$ (481,381)</u>	<u>\$ 4,705,529</u>	<u>\$ 475,900</u>

Business-type Activities

General Obligation Bonds

Series 2009 General Obligation Refunding Bonds, original issue of \$4,310,000, principal payments due in annual installments beginning May 2010, interest at 2.75% to 4.125% due in semi-annual installments beginning November 2009 with the final payment due May 2022. The bonds were issued to refund the outstanding portion of the 1998 General Obligation Refunding Bonds.

\$ 2,240,000

Total General Obligation Bonds - Business-type Activities

\$ 2,240,000

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 10 LONG-TERM DEBT (Continued)

Governmental Activities:

Revenue Bonds

Series 2006 Sales and Franchise Tax Revenue Bonds, original issue of \$6,000,000, principal due in annual installments beginning September 2007, interest at 4.00% to 4.35% due in semi-annual installments beginning March 2007. In 2015 the City issued Series 2015 Sales and Franchise Tax Revenue Bonds which refunded \$3,645,000 of the principal balance, with the final payment due September 2016. The bonds were issued to finance the costs associated with construction of police and fire public safety buildings. \$ 280,000

Series 2007 Sales and Franchise Tax Revenue Bonds, original issue of \$7,315,000, principal due in annual installments beginning September 2008, interest at 4.00% to 5.25% due in semi-annual installments beginning September 2007, with the final payment due September 2027. The bonds were issued to finance the costs associated with acquisition, construction and equipping park improvements and related improvements. 650,000

Series 2015 Sales and Franchise Tax Revenue Refunding Bonds, original issue of \$3,970,000, principal due in annual installments beginning September 2017, interest ranging from 1.00% to 3.30% due in semi-annual installments beginning March 2015, with the final payment due September 2026. The bonds were issued to partially refund the Series 2006 Sales and Franchise Tax Revenue Bonds. 3,970,000

Series 2016 Sales and Franchise Tax Revenue Refunding Bonds, original issue of \$4,970,000, principal due in annual installments beginning September 2018, interest at 2.095% due in semi-annual installments beginning March 2016, with the final payment due September 2027. The bonds were issued to partially refund the Series 2007 Sales and Franchise Tax Revenue Bonds. The refunding results in a cash savings of \$345,045, and an economic gain of \$376,357. 4,970,000

Total Tax Revenue Bonds - Governmental Activities \$ 9,870,000

Notes Payable

Note payable to the Provo River Users Association for the City's portion of costs relating to the Provo Reservoir Canal Enclosure Project. Original amount \$615,833, interest at 4.00%, approximately 22% of original principal is due in two equal installments in July 2010 and March 2011 along with accrued interest. Remaining principal and interest to be paid in annual installments beginning March 2012 with final payment due March 2035. \$ 424,644

Assessment payable to the Highland Conservation District for the City's portion of costs relating to the Provo Reservoir Canal Enclosure Project. Original amount \$1,563,945, principal and interest at 2.65% due in installments beginning November 2010 with final installment due November 2035. 1,907,578

Total Notes Payable - Business-type Activities \$ 2,332,222

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 10 LONG-TERM DEBT (Continued)

All of the City's Sales and Franchise Tax Revenue Bonds are payable solely by a pledge and assignment of their associated revenue sources. Total future sales tax of \$9,870,000 has been pledged through 2028. The current revenue recognized during the period for pledged Franchise and Sales Tax Revenue bonds was \$2,961,573 compared to principal and interest of \$829,970 paid during the year which equals a coverage ratio of 3.57.

The annual debt service requirements to maturity, including principal and interest for the long-term debt, as of June 30, 2016, are as follows:

Year Ending June 30,	Business-type Activities General Obligation Bonds	
	Principal	Interest
2017	\$ 340,000	\$ 90,112
2018	350,000	76,512
2019	365,000	62,512
2020	380,000	47,912
2021	395,000	32,712
2022	410,000	16,912
	<u>\$ 2,240,000</u>	<u>\$ 326,672</u>

Year Ending June 30,	Governmental Activities Franchise and Revenue Bonds	
	Principal	Interest
2017	\$ 645,000	\$ 122,028
2018	684,000	201,988
2019	649,000	185,817
2020	799,000	173,148
2021	816,000	157,768
2022-2026	4,370,000	502,950
2027-2028	1,907,000	42,826
	<u>\$ 9,870,000</u>	<u>\$ 1,386,524</u>

Year Ending June 30,	Business-type Activities Notes Payable	
	Principal	Interest
2017	\$ 94,676	\$ 60,061
2018	97,036	57,697
2019	99,475	55,268
2020	101,960	52,775
2021	104,523	50,216
2022-2026	581,586	208,843
2027-2031	660,705	129,854
2032-2035	592,261	39,294
	<u>\$ 2,332,222</u>	<u>\$ 654,008</u>

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 10 LONG-TERM DEBT (Continued)

During 2016, the City defeased \$4,600,000 of the 2007 Sales and Franchise Tax revenue bonds by placing new bond proceeds in an irrevocable trust to provide for the future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the government's financial statements. At June 30, 2016, \$3,645,000, and \$4,600,000 of defeased bonds are still outstanding.

NOTE 11 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries commercial insurance. This insurance covers all of these risks except natural disasters.

NOTE 12 RETIREMENT PLANS

Plan Description

Eligible plan participants are provided with pensions through the Utah Retirement Systems. The Utah Retirement Systems are comprised of the following pension trust funds:

Defined Benefit Plans

- Public Employees Noncontributory Retirement System (Noncontributory System); is a multiple employer, cost sharing, public employee retirement systems.
- Tier 2 Public Employees Contributory Retirement System (Tier 2 Public Employees System); is a multiple-employer, cost sharing, public employee retirement system.

The Tier 2 Public Employees System became effective July 1, 2011. All eligible employees beginning on or after July 1, 2011, who have no previous service credit with any of the Utah Retirement Systems, are members of the Tier 2 Retirement System.

The Utah Retirement Systems (Systems) are established and governed by the respective sections of Title 49 of the Utah Code Annotated 1953, as amended. The System's defined benefit plans are amended statutorily by the State Legislature. The Utah State Retirement Office Act in Title 49 provides for the administration of the Systems under the direction of the Utah State Retirement Board, whose members are appointed by the Governor. The Systems are fiduciary funds defined as pension (and other employee benefit) trust funds. URS is a component unit of the State of Utah. Title 49 of the Utah Code grants the authority to establish and amend the benefit terms.

URS issues a publicly available financial report that can be obtained by writing Utah Retirement Systems, 560 E. 200 S. Salt Lake City, Utah 84102 or visiting the website: www.urs.org.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 12 RETIREMENT PLANS (Continued)

Benefits Provided

URS provides retirement, disability, and death benefits. Retirement benefits are as follows:

Summary of Benefits by System

System	Final Average Salary	Years of Service required and/or age eligible for benefit	Benefit percent per year of service	COLA**
Noncontributory System	Highest 3 years	30 years any age 25 years any age* 20 years age 60* 10 years age 62* 4 years age 65	2.0% per year all years	Up to 4%
Tier 2 Public Employees System	Highest 5 years	35 years any age 20 years age 60* 10 years age 62* 4 years age 65	1.5% per year all years	Up to 2.5%

* With actuarial reductions

** All post-retirement cost-of-living adjustments are non-compounding and are based on the original benefit except Judges, which is a compounding benefit. The cost-of-living adjustments are also limited to the actual Consumer Price Index (CPI) increase for the year, although unused CPI increases no met may be carried forward to subsequent years.

Contributions

As a condition of participation in the Systems, employers and/or employees are required to contribute certain percentages of salary and wages as authorized by statute and specified by the URS Board. Contributions are actuarially determined as an amount that, when combined with employee contributions (where applicable) is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability. Contribution rates are as follows:

Utah Retirement Systems	Employee Paid	Paid by Employer for Employee	Employer Contribution Rates	Employer Rate for 401(k) Plan
Contributory System				
111 - Local Government Div - Tier 2	N/A	N/A	16.67%	1.78%
Noncontributory System				
15 - Local Governmental Div - Tier 1	N/A	N/A	18.47%	N/A
Tier 2 DC Only				
211 - Local Government	N/A	N/A	6.69%	10.00%

Tier 2 rates include a statutory required contribution to finance the unfunded actuarial accrued liability of the Tier 1 plans.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 12 RETIREMENT PLANS (Continued)

For fiscal year ended June 30, 2016, the employer and employee contributions to the Systems were as follows:

<u>System</u>	<u>Employer Contributions</u>	<u>Employee Contributions</u>
Noncontributory System	\$ 203,435	N/A
Tier 2 Public Employees System	15,233	-
Tier 2 DC Only System	10,842	N/A
Total Contributions	<u>\$ 229,510</u>	<u>\$ -</u>

Contributions reported are the URS Board approved required contributions by System. Contributions in the Tier 2 Systems are used to finance the unfunded liabilities in the Tier 1 Systems.

Pension Assets, Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, we reported a net pension asset of \$56 and a net pension liability of \$749,924.

	<u>Proportionate Share</u>	<u>Net Pension Asset</u>	<u>Net Pension Liability</u>
Noncontributory System	0.1325309%	\$ -	\$ 749,924
Tier 2 Public Employees System	0.0257634%	56	-
Total Net Pension Asset / Liability		<u>\$ 56</u>	<u>\$ 749,924</u>

The net pension asset and liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2015 and rolled-forward using generally accepted actuarial procedures. The proportion of the net pension asset and liability is equal to the ratio of the employer's actual contributions to the Systems during the plan year over the total of all employer contributions to the System during the plan year.

For the year ended June 30, 2016 we recognized pension expense of \$165,908.

At June 30, 2016 we reported deferred outflows of resources and deferred inflows of resources relating to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 35,242
Changes in assumptions	-	42,123
Net difference between projected and actual earnings on pension plan investments	254,707	-
Changes in proportion and differences between contributions and proportionate share of contributions	492	17,100
Contributions subsequent to the measurement date	113,186	-
Total	<u>\$ 368,385</u>	<u>\$ 94,465</u>

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 12 RETIREMENT PLANS (Continued)

\$113,186 reported as deferred outflows of resources related to pensions results from contributions made by us prior to our fiscal year end, but subsequent to the measurement date of December 31, 2015.

These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Net Deferred Outflows (inflows) of Resources
2016	\$ 35,491
2017	35,491
2018	36,228
2019	54,668
2020	(200)
Thereafter	(945)

Actuarial Assumptions

The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 Percent
Salary increases	3.50 – 10.50 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

Mortality rates were developed from actual experience and mortality tables, based on gender, occupation and age, as appropriate, with adjustments for future improvement in mortality based on Scale AA, a model developed by the Society of Actuaries.

The actuarial assumptions used in the January 1, 2015 valuation were based on the results of an actuarial experience study for the five year period ending December 31, 2013.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 12 RETIREMENT PLANS (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Expected Return Arithmetic Basis		
	Target Allocation	Real Return Arithmetic Basis	Long-Term expected portfolio real rate of return
Equity securities	40%	7.06%	2.82%
Debt securities	20%	0.80%	0.16%
Real assets	13%	5.10%	0.66%
Private equity	9%	11.30%	1.02%
Absolute return	18%	3.15%	0.57%
Cash and cash equivalents	0%	0.00%	0.00%
Totals	100%		5.23%
		Inflation	2.75%
		Expected arithmetic nominal retu	7.98%

The 7.50% assumed investment rate of return is comprised of an inflation rate of 2.75%, a real return of 4.75% that is net of investment expense.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from all participating employers will be made at contractually required rates that are actuarially determined and certified by the URS Board. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 12 RETIREMENT PLANS (Continued)

Sensitivity of the Proportionate Share of the Net Pension Asset and Liability to Changes in the Discount Rate

The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 percent as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

<u>System</u>	<u>1% Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Noncontributory System	\$ 1,584,516	\$ 749,924	\$ 53,208
Tier 2 Public Employees System	<u>10,314</u>	<u>(56)</u>	<u>(7,916)</u>
Total	\$ 1,594,830	\$ 749,868	\$ 45,292

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued URS financial report.

Defined Contribution Savings Plans

The Defined Contribution Savings Plans are administered by the Utah Retirement Systems Board and are generally supplemental plans to the basic retirement benefits of the Retirement Systems, but may also be used as a primary retirement plan. These plans are voluntary tax-advantaged retirement savings programs authorized under sections 401(k), 457(b) and 408 of the Internal Revenue code. Detailed information regarding plan provisions is available in the separately issued URS financial report.

Highland City participates in the following Defined Contribution Savings Plans with Utah Retirement Systems:

- 401(k) Plan
- 457(b) Plan
- Roth IRA Plan

Employee and Employer contributions to the Utah Retirement Defined Contribution Savings Plans for fiscal year ended June 30, were as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
401(k) Plan			
Employer Contributions	\$ 194,213	\$ 184,597	\$ 189,902
Employee Contributions	28,645	23,443	37,205
457 Plan			
Employer Contributions	65	-	-
Employee Contributions	44,238	35,372	58,559
Roth IRA Plan			
Employer Contributions	N/A	N/A	N/A
Employee Contributions	13,667	10,779	5,698

NOTE 13 COMMITMENTS AND AGREEMENTS

The City has commitments to reimburse developers related to the Town Center project in the aggregate amount of \$203,342, which will be ultimately resolved after exaction fees are received Towne Center fund.

HIGHLAND CITY, UTAH
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 14 RESTATEMENT OF BEGINNING BALANCE

During the year, the City determined that revenues from the sale of land had be recorded in the Capital Projects fund that should have been recorded in the Open Space Trust fund. The effects of that error have been corrected through a prior period adjustment. The amount removed from the fund balance of the Capital Projects fund and to the Open Space Trust fund balance is \$18,854.

REQUIRED SUPPLEMENTAL INFORMATION

HIGHLAND CITY
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
UTAH RETIREMENT SYSTEMS
As of December 31, 2015
Last 10 Fiscal Years*

<u>For the year ended December 31,</u>	<u>Proportion of the net pension liability (asset)</u>	<u>Proportionate share of the net pension liability (asset)</u>	<u>Covered- employee payroll</u>	<u>Proportionate share of the net pension liability (asset) as a percentage of its covered- employee payroll</u>	<u>Plan fiduciary net position as a percentage of its covered- employee payroll</u>
Noncontributory Retirement System					
2015	0.1325309%	\$ 749,924	\$ 1,074,504	69.79%	87.8%
2014	0.1363938%	592,254	1,102,809	53.70%	90.2%
Tier 2 Public Employees Retirement System					
2015	0.0257634%	\$ (56)	\$ 166,425	-0.03%	100.2%
2014	0.0529626%	(1,605)	259,759	-0.62%	103.5%

* This schedule will be built out prospectively to show a 10-year history.

**HIGHLAND CITY
SCHEDULE OF CONTRIBUTIONS
UTAH RETIREMENT SYSTEMS
December 31, 2015
Last 10 Fiscal Years***

As of fiscal year ended June 30,	Actuarial Determined Contributions	Contributions in relation to the contractually required contribution	contribution deficiency (excess)	Covered- employee payroll	Contributions as a percentage of covered- employee payroll
Noncontributory System					
2016	\$ 203,435	\$ 203,435	\$ -	\$ 1,101,435	18.47%
2015	196,026	196,026	-	1,061,320	18.47%
2014	201,281	201,281	-	1,164,149	17.29%
Tier 2 Public Employees System*					
2016	\$ 15,233	\$ 15,233	\$ -	\$ 102,166	14.91%
2015	32,860	32,860	-	219,947	14.94%
2014	29,672	29,672	-	212,094	13.99%
Tier 2 Public Employees DC Only System*					
2016	\$ 10,842	\$ 10,842	\$ -	\$ 162,056	6.69%
2015	4,872	4,872	-	72,506	6.72%
2014	561	561	-	10,060	5.58%

* Contributions in Tier 2 include an amortization rate to help fund the unfunded liabilities in the Tier 1 systems.

** This schedule will be built out prospectively to show a 10-year history. Contributions as a percentage of covered-payroll may be different than the board certified rate due to rounding and other administrative issues.

HIGHLAND CITY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
For the Year Ended June 30, 2016

Changes in Assumptions:

The following assumption changes were adopted from the most recent actuarial experience study. There was a decrease in the wage inflation assumption for all employee groups from 3.75% to 3.50%. Also, there was a modification to the rate of salary increases for most groups. The payroll growth assumption was decreased from 3.5% to 3.25%. There was an improvement in the post-retirement mortality assumption for female educators and minor adjustments to the pre-retirement mortality assumption.

There were additional changes to certain demographic assumptions that generally resulted in: (1) more members are anticipated to terminate employment prior to retirement, (2) slightly fewer members are expected to become disabled, and, (3) members are expected to retire at a slightly later age.

SUPPLEMENTAL INFORMATION

HIGHLAND CITY, UTAH
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
June 30, 2016

	<u>Special Revenue</u>	<u>Capital Projects</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Open Space Trust</u>	<u>Northwest Annexation</u>	<u>Town Center Capital Projects</u>	
Assets:				
Cash and cash equivalents	\$ 107,234	\$ 106,419	\$ 446,407	\$ 660,060
Receivables:				
Accounts	3,938	-	-	3,938
Total Assets	<u>\$ 111,172</u>	<u>\$ 106,419</u>	<u>\$ 446,407</u>	<u>\$ 663,998</u>
Liabilities:				
Accounts payable	\$ 37,555	\$ -	\$ -	\$ 37,555
Accrued liabilities	15,902	-	-	15,902
Total Liabilities	<u>53,457</u>	<u>-</u>	<u>-</u>	<u>53,457</u>
Fund Balances:				
Assigned	57,715	106,419	446,407	610,541
Total Fund Balances	<u>57,715</u>	<u>106,419</u>	<u>446,407</u>	<u>610,541</u>
Total Liabilities and Fund Balances	<u>\$ 111,172</u>	<u>\$ 106,419</u>	<u>\$ 446,407</u>	<u>\$ 663,998</u>

HIGHLAND CITY, UTAH
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
GOVERNMENTAL FUNDS – NONMAJOR GOVERNMENTAL FUNDS
For The Year Ended June 30, 2016

	<u>Special Revenue</u>	<u>Capital Projects</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Open Space Trust</u>	<u>Northwest Annexation</u>	<u>Town Center Capital Projects</u>	
Revenues:				
Charges for services	\$ 277,250	\$ -	\$ -	\$ 277,250
Exaction fees	-	-	55,996	55,996
Impact fees	-	694	-	694
Interest income	356	663	2,718	3,737
Total Revenues	<u>277,606</u>	<u>1,357</u>	<u>58,714</u>	<u>337,677</u>
Expenditures:				
Current:				
General government	372,912	-	-	372,912
Total Expenditures	<u>372,912</u>	<u>-</u>	<u>-</u>	<u>372,912</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(95,306)</u>	<u>1,357</u>	<u>58,714</u>	<u>(35,235)</u>
Other Financing Sources:				
Sale of capital assets	62,460	-	-	62,460
Transfers in	50,000	-	-	50,000
Total Other Financing Sources	<u>112,460</u>	<u>-</u>	<u>-</u>	<u>112,460</u>
Net Change in Fund Balances	17,154	1,357	58,714	77,225
Fund Balances, Beginning	<u>21,707</u>	<u>105,062</u>	<u>387,693</u>	<u>514,462</u>
Prior period adjustment	<u>18,854</u>	<u>-</u>	<u>-</u>	<u>18,854</u>
Fund Balances, Ending	<u>\$ 57,715</u>	<u>\$ 106,419</u>	<u>\$ 446,407</u>	<u>\$ 610,541</u>

HIGHLAND CITY, UTAH
SUPPLEMENTARY REPORTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2016

**HIGHLAND CITY, UTAH
SUPPLEMENTARY REPORTS
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Keddington & Christensen, LLC
Certified Public Accountants

Gary K. Keddington, CPA
Phyl R. Warnock, CPA
Marcus K. Arbuckle, CPA

**INDEPENDENT AUDITORS' 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**

Honorable Mayor and
Members of the City Council
Highland City Corporation
Highland, Utah

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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Highland City Corporation, Utah (the City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 20, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the City'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 the City's internal control. Accordingly we do not express an opinion on the effectiveness of the City'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 the attention by those charged with governance.

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 over financial reporting 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 the City'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*.

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.

Keddington & Christensen, LLC

Salt Lake City, Utah
December 20, 2016



**INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH
THE STATE COMPLIANCE AUDIT GUIDE ON COMPLIANCE WITH
GENERAL STATE COMPLIANCE REQUIREMENTS, AND
INTERNAL CONTROL OVER COMPLIANCE**

Honorable Mayor and
Members of City Council
Highland City Corporation
Highland, Utah

Report on Compliance with General State Compliance Requirements

We have audited Highland City Corporation's (the City) compliance with the applicable general state compliance requirements described in the *State Compliance Audit Guide*, issued by the Office of the Utah State Auditor, that could have a direct and material effect on the City for the year ended June 30, 2016.

General state compliance requirements were tested for the year ended June 30, 2016 in the following areas:

- Budgetary Compliance
- Fund Balance
- Justice Courts
- Utah Retirement System
- Restricted Taxes
- Open and Public Meetings Act
- Treasurer's Bond
- Impact Fees

Management's Responsibility

Management is responsible for compliance with the general state requirements referred to above.

Auditor's Responsibility

Our responsibility is to express an opinion on the City's compliance based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *State Compliance Audit Guide*. Those standards and the *State Compliance Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the City occurred. An audit includes examining, on a test basis, evidence about the City'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. However, our audit does not provide a legal determination of the City's compliance.

Opinion on General State Compliance Requirements

In our opinion, Highland City Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the City for the year ended June 30, 2016.

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 *Schedule of Findings and Recommendations* as items 2016-1, and 2016-2. Our opinion on compliance is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying *Schedule of Findings and Recommendations*. The City'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 the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the compliance requirements that could have a direct and material effect on the City 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 to test and report on internal control over compliance in accordance with the *State Compliance Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City'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 with a general state 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 compliance requirement will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a general state compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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.

Keddington & Christensen, LLC

Salt Lake City, Utah
December 20, 2016

**HIGHLAND CITY
STATE OF UTAH LEGAL COMPLIANCE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

STATE COMPLIANCE FINDINGS

2016-1. Open and Public Meetings Act – *Significant Deficiency*

Finding

During State Compliance testing, we noted that the City did not notice the April 13, 2016 City Council Work session on the Utah Public Notice Website. Utah Code Annotated (UCA) 52-4-202(1) and (3) states that “a public body shall give not less than 24 hours’ public notice of each meeting” to the Public Notice Website. Additionally, the approved minutes of that meeting were also not uploaded to the Utah Public Notice Website within 3 days of approval. UCA 52-4-203(4)(e) states that “within three business days after approving written minutes...post to the [Public Notice Website]...a copy of the approved minutes and any public materials distributed at the meeting.”

Recommendation

We recommend that the City employees be more diligent in uploading the agenda and approved minutes of the City within the required time.

City Response

The agenda and meeting minutes were posted to the City’s website but not to the Utah Public Notice Website. The City will take greater care to ensure that agendas and minutes are posted to the Public Notice Website in the future.

2016-2. Fund Balance Limitations – *Significant Deficiency*

Finding

Utah Code 10-6-116(2) states that “the accumulation of a fund balance in the city general fund may not exceed 25% of the total revenue of the city general fund for the current fiscal period.” During test work for state compliance it was noted that the City’s General Fund balance was over the maximum amount allowed by \$123,395.

Recommendation

We recommend that the City monitor more closely the unrestricted fund balance of the General Fund to comply with the fund balance limitations outlined in the Utah Code.

City Response

The unrestricted fund balance in the City’s general fund was 26.5% of the total revenue in the general fund. The City will monitor this more closely in Fiscal Year 2017 to ensure that they don’t exceed the 25% level.



FINANCE DEPARTMENT
5400 West Civic Center Drive ~ Suite 1
Highland, UT 84003
Phone 801-772-4520 | Fax 801-756-6903

December 20, 2016

Keddington & Christensen, LLC
1455 West 2200 South, Suite 201
Salt Lake City, Utah 84119

This representation letter is provided in connection with your audit of the financial statements of Highland City, which comprise the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of December 20, 2016, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 5, 2016, including our responsibility for the preparation and fair presentation of the financial statements and for the preparation of the supplementary information in accordance with applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates are reasonable.

6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
7. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
8. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole for each opinion unit. A list of the uncorrected misstatements is attached to the representation letter.
9. The effects of all known actual or possible litigation, claims and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
10. Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

11. We have provided you with:

- a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
- b. Additional information that you have requested from us for the purpose of the audit.
- c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- d. Minutes of the meetings of the City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.

12. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

13. We have disclosed to you the results of our assessment of the risk that the financial statement may be materially misstated as a result of fraud.

14. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:

- a. Management
- b. Employees who have significant roles in internal control, or
- c. Others where the fraud could have a material effect on the financial statements.

15. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators, or others.

16. We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be

considered when preparing the financial statements.

17. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

18. We have disclosed to you the identity of the entity's related parties, if any, and all related party relationships and transactions of which we are aware.

Government-specific

19. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

20. We have a process to track the status of audit findings and recommendations.

21. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

22. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.

23. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

24. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.

25. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.

26. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

27. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.

28. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

29. As part of your audit, you assisted with preparation of the financial statements and related notes. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those

financial statements and related notes.

30. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

31. The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

32. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

33. The financial statements properly classify all funds and activities in accordance with GASB Statement No. 34 .

34. All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

35. Components of net position (net investment in capital assets; restricted; and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.

36. Investments, derivative instruments, and land and other real estate held by endowments are properly valued.

37. Provisions for uncollectible receivables have been properly identified and recorded.

38. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

39. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

40. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

41. Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.

42. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.

43. We have appropriately disclosed the City's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.

44. We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.

45. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is

measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

46. With respect to the Management's Discussion and Analysis (MD&A).

a. We acknowledge our responsibility for presenting the MD&A in accordance with accounting principles generally accepted in the United States of America, and we believe the MD&A, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the MD&A have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

b. If the MD&A is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

Signature: 

Signature: R. Gary LeCheminant

Title: City Administrator

Title: Finance Director

Date: 12-20-16

Date: December 20, 2016

