

**HIGHLAND CITY, UTAH  
FINANCIAL STATEMENTS**

**For The Year Ended June 30, 2018**

**HIGHLAND CITY, UTAH**  
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**INDEPENDENT AUDITOR'S REPORT**

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

Gary K. Keddington, CPA  
Phyl R. Warnock, CPA  
Marcus K. Arbuckle, CPA  
Steven M. Rowley, CPA

**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, 2018, 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 assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type-activities, each major fund, and the aggregate remaining fund information of Highland City, Utah as of June 30, 2018, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the proportionate share of the net pension liability, and schedule of contributions 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 27, 2018 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 solely 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*

Salt Lake City, Utah  
December 27, 2018

**HIGHLAND CITY, UTAH**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For The Year Ended June 30, 2018**

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, 2018.

**Financial Highlights**

The City created two new funds for fiscal year 2018: Cemetery Fund, and Road Fee Fund. The Cemetery fund was broken out from the general fund to more closely track and account for activities related to the Cemetery. The Road Fee Fund was created when the new Road Fee was implemented so the City can more transparently show the activity related to the Road Fee.

The assets and deferred outflows of resources of Highland City exceeded its liabilities and deferred inflows of resources at June 30, 2018 by \$120,681,311 (net position). Of this amount \$14,381,153 (unrestricted net position) may be used to meet the government's ongoing obligations.

Highland City's total net position increased by \$6,450,212. The majority of the increase was the result of assets contributed to the City from developers, and increases in charges for services, including the new Road Fee.

Highland City's governmental funds reported combined ending fund balances at June 30, 2018 of \$6,477,597, an increase of \$1,407,038 in comparison to the prior year. At June 30, 2018 unrestricted fund balance of the general fund was \$2,205,674, or 24.8% of total general fund revenues 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.

**HIGHLAND CITY, UTAH**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For The Year Ended June 30, 2018**

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.

**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 ten (10) 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 debt service fund, which are considered to be major funds. Data from the other eight (8) 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, and debt service funds 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.

**HIGHLAND CITY, UTAH**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For The Year Ended June 30, 2018**

**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.

**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 \$120,681,311 at the close of the fiscal year. The largest portion (87%) 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.

	Governmental Activities 2018	Governmental Activities 2017	Business-type Activities 2018	Business-type Activities 2017	Total 2018	Total 2017
Current and other assets	\$ 10,405,095	\$ 8,622,940	\$ 9,873,608	\$ 8,540,794	\$ 20,278,703	\$ 17,163,734
Capital assets	68,158,437	68,037,177	49,079,495	46,931,258	117,237,932	114,968,435
<b>Total Assets</b>	<b>78,563,532</b>	<b>76,660,117</b>	<b>58,953,103</b>	<b>55,472,052</b>	<b>137,516,635</b>	<b>132,132,169</b>
Deferred outflows of resources	659,114	666,651	165,821	155,248	824,935	821,899
<b>Total Assets and Deferred Outflow</b>	<b>\$ 79,222,646</b>	<b>\$ 77,326,768</b>	<b>\$ 59,118,924</b>	<b>\$ 55,627,300</b>	<b>\$138,341,570</b>	<b>\$132,954,068</b>
Current and other liabilities	\$ 2,047,404	\$ 1,747,098	\$ 342,743	\$ 521,969	\$ 2,390,147	\$ 2,269,067
Long-term liabilities	9,092,970	9,990,839	3,824,278	4,452,877	12,917,248	14,443,716
<b>Total Liabilities</b>	<b>11,140,374</b>	<b>11,737,937</b>	<b>4,167,021</b>	<b>4,974,846</b>	<b>15,307,395</b>	<b>16,712,783</b>
Deferred inflows of resources	2,224,628	1,967,747	128,236	42,439	2,352,864	2,010,186
Net Position:						
Net investment in capital assets	59,780,888	58,982,936	45,574,698	42,874,816	105,355,586	101,857,752
Restricted	92,294	104,558	852,278	1,286,814	944,572	1,391,372
Unrestricted	5,984,462	4,533,590	8,396,691	6,448,385	14,381,153	10,981,975
<b>Total Net Position</b>	<b>65,857,644</b>	<b>63,621,084</b>	<b>54,823,667</b>	<b>50,610,015</b>	<b>120,681,311</b>	<b>114,231,099</b>
Total Liabilities, deferred inflows of Resources, and Net Position	<b>\$ 79,222,646</b>	<b>\$ 77,326,768</b>	<b>\$ 59,118,924</b>	<b>\$ 55,627,300</b>	<b>\$138,341,570</b>	<b>\$132,954,068</b>

**HIGHLAND CITY, UTAH**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For The Year Ended June 30, 2018**

	Governmental Activities 2018	Governmental Activities 2017	Business-type Activities 2018	Business-type Activities 2017	Total 2018	Total 2017
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 3,803,146	\$ 2,932,423	\$ 5,645,099	\$ 5,481,796	\$ 9,448,245	\$ 8,414,219
Operating grants and contributions	10,725	11,396	-	-	10,725	11,396
Capital grants and contributions	3,828,605	2,362,294	3,289,086	1,673,442	7,117,691	4,035,736
General revenues:						
Property and uniform vehicle taxes	2,261,128	2,135,825	-	-	2,261,128	2,135,825
Other Taxes	3,451,558	3,275,266	-	-	3,451,558	3,275,266
Other	144,175	85,528	149,849	72,015	294,024	157,543
Gain (loss) on disposition of asset	126,318	284,210	-	-	126,318	284,210
<b>Total Revenues</b>	<b>13,625,655</b>	<b>11,086,942</b>	<b>9,084,034</b>	<b>7,227,253</b>	<b>22,709,689</b>	<b>18,314,195</b>
<b>Expenses:</b>						
General government	2,462,871	2,529,791	-	-	2,462,871	2,529,791
Public safety	3,397,079	3,387,326	-	-	3,397,079	3,387,326
Streets and public improvements	3,558,023	3,305,336	-	-	3,558,023	3,305,336
Parks and recreation	861,182	1,015,693	-	-	861,182	1,015,693
Cemetery	116,075	120,915	-	-	116,075	120,915
Garbage	759,848	697,258	-	-	759,848	697,258
Interest on long-term debt	234,017	256,979	-	-	234,017	256,979
Water	-	-	996,052	936,993	996,052	936,993
Pressurized irrigation	-	-	1,358,593	1,380,853	1,358,593	1,380,853
Storm sewer	-	-	421,446	466,361	421,446	466,361
Sewer	-	-	2,094,291	2,073,543	2,094,291	2,073,543
<b>Total Expenses</b>	<b>11,389,095</b>	<b>11,313,298</b>	<b>4,870,382</b>	<b>4,857,750</b>	<b>16,259,477</b>	<b>16,171,048</b>
Increase (Decrease) in net position before transfers	2,236,560	(226,356)	4,213,652	2,369,503	6,450,212	2,143,147
Transfers	-	-	-	-	-	-
<b>Increase (Decrease) in Net Position</b>	<b>2,236,560</b>	<b>(226,356)</b>	<b>4,213,652</b>	<b>2,369,503</b>	<b>6,450,212</b>	<b>2,143,147</b>
Net Position - Beginning	<b>63,621,084</b>	<b>63,847,440</b>	<b>50,610,015</b>	<b>48,240,512</b>	<b>114,231,099</b>	<b>112,087,952</b>
<b>Net Position - Ending</b>	<b>\$ 65,857,644</b>	<b>\$ 63,621,084</b>	<b>\$ 54,823,667</b>	<b>\$ 50,610,015</b>	<b>\$120,681,311</b>	<b>\$114,231,099</b>

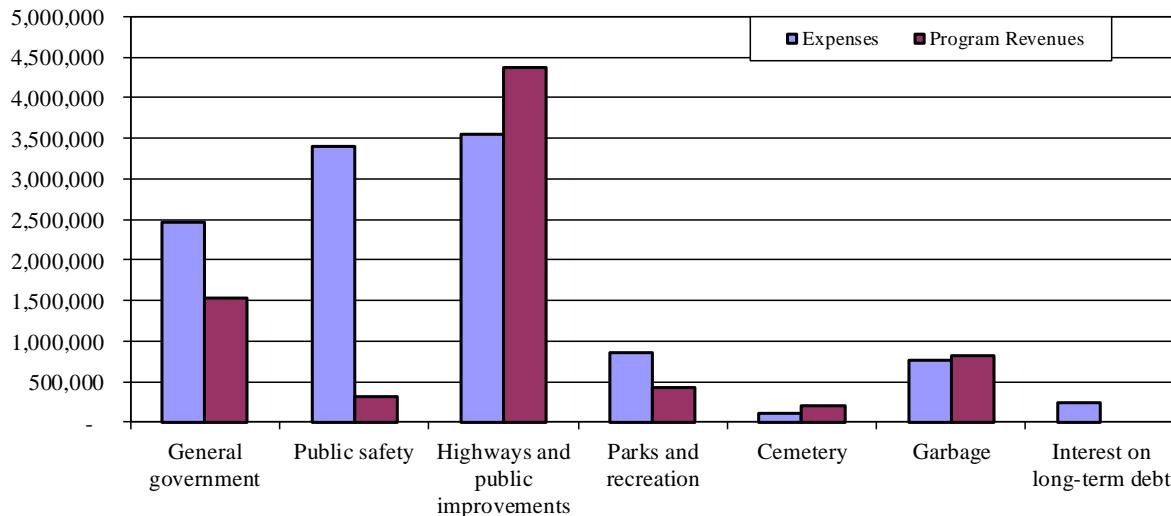
**Governmental activities.** As noted in the table above, governmental activities increased the City's net position by \$2,236,560. Key elements of the increase were increased revenues from charges for services, including the new road fee, and increase assets contributed by developers. Some increases in property and sales tax revenues, also contributed to the overall increase.

**Business-type activities.** As noted in the table above, business-type activities increased the City's net position by \$4,213,652. Key elements of the increase from the prior year were (1) increases in contributed infrastructure assets from developers, and (2) increases in charges for services.

**HIGHLAND CITY, UTAH**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For The Year Ended June 30, 2018**

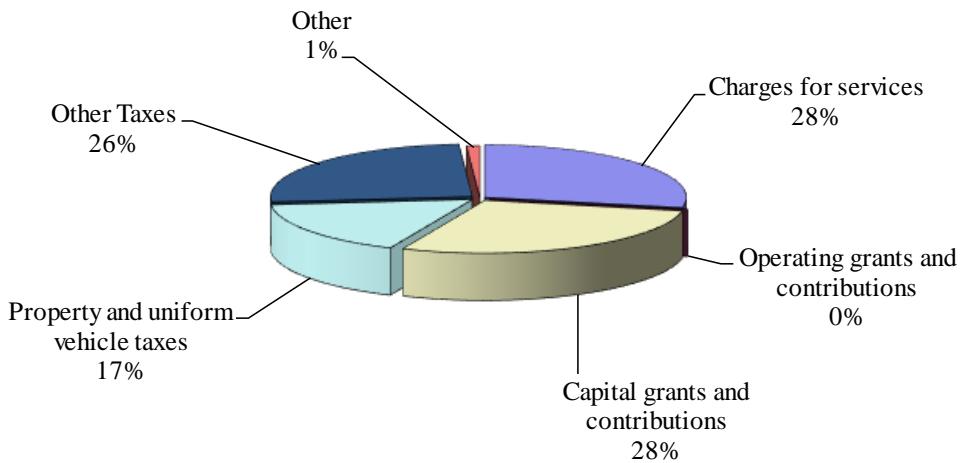
The following chart displays the governmental activities program revenues compared to expenses attributed to the activity.

**Expenses and Program Revenues - Governmental Activities**



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

**Revenues by Source - Governmental Activities**

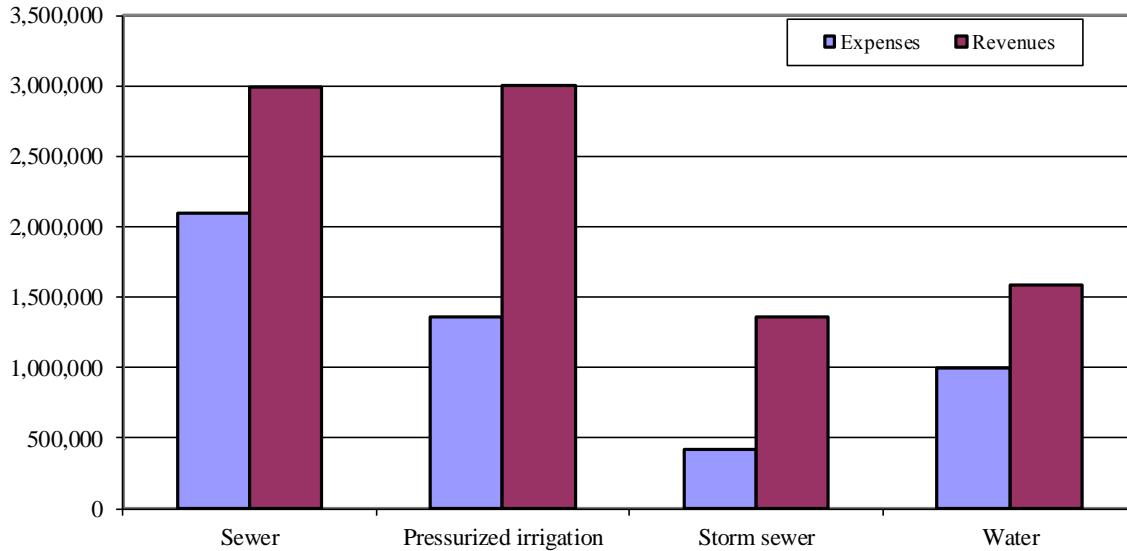


**HIGHLAND CITY, UTAH**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For The Year Ended June 30, 2018**

**Business-type Activities**

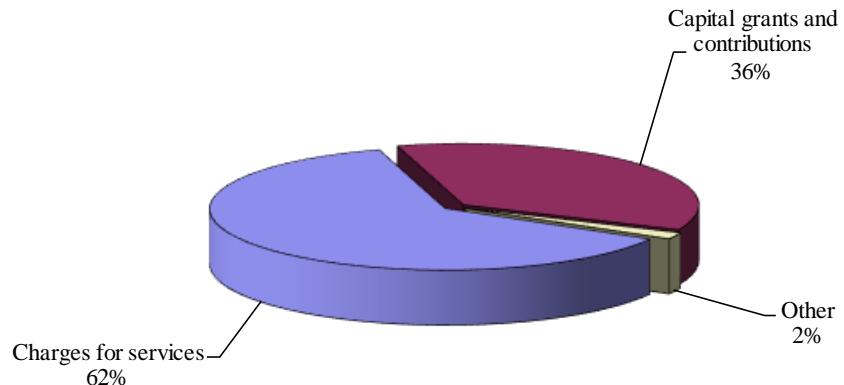
The following chart displays the business-type activities revenues compared to program expenses attributed to the activity. Traditionally business-type activities are self-supporting and the chart depicts the relationship of revenues to expenses.

**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, 2018**

**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, 2018, the City's governmental funds reported combined ending fund balances of \$6,477,597, which was an increase of \$4,407,038 in comparison with the prior year.

The general fund is the main operating fund of the City. At June 30, 2018, unrestricted fund balance of the general fund was \$2,205,674. 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 29% of total general fund expenditures.

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, 2018 amounted to \$2,573,271 an increase of \$212,168 from the previous year. Operating revenues were \$881,093 and operating expenses were \$996,052.

Pressurized Irrigation fund-Unrestricted net position at June 30, 2018 amounted to \$1,658,480, an increase of \$490,115 from the previous year. Operating revenues were \$2,218,930 and operating expenses were \$1,238,827.

Sewer fund-Unrestricted net position at June 30, 2018 amounted to \$3,106,825, an increase of \$1,016,145 from the previous year. Operating revenues were \$2,013,334 and operating expenses were \$2,094,291.

Storm sewer fund- Unrestricted net position at June 30, 2018 amounted to \$1,058,115 an increase of \$229,878 from the previous year. Operating revenues were \$531,742 and operating expenses were \$421,446.

**General Fund Budgetary Highlights**

During the fiscal year, the general funds original budgeted expenditures was amended from \$7,199,214 to a final budget total of \$7,561,756, largely as the result of increased anticipated expenses for General Government, and Streets and Public Works departments. The budgeted transfers in were decreased from \$324,108 to \$126,548, and the budgeted transfers out decreased slightly from \$1,465,591 to \$1,464,000. Overall the City's general fund was within budgeted expenses by \$54,396, however, the Garbage department were over budget for the fiscal year ended June 30, 2018.

**Capital Assets and Debt Administration**

Capital Assets. Highland City's investment in capital assets from governmental and business-type activities as of June 30, 2018 was \$117,237,932 (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 increase in the City's investment in capital assets for the current year was \$2,269,497, which is primarily as a result of assets contributed by developers, and offset by depreciation during the year.

A summary of the City's capital assets by category are shown in the table on the following page.

**HIGHLAND CITY, UTAH**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For The Year Ended June 30, 2018**

**Highland City's Capital Assets**

	Governmental Activities 2018	Governmental Activities 2017	Business-type Activities 2018	Business-type Activities 2017	Total 2018	Total 2017
Land	\$ 39,533,903	\$ 39,533,903	\$ 534,455	\$ 534,455	\$ 40,068,358	\$ 40,068,358
Buildings	14,080,927	14,080,927	1,157,289	1,157,289	15,238,216	15,238,216
Improvements other than buildings	73,037,628	70,669,694	39,093,903	35,885,597	112,131,531	106,555,291
Machinery and equipment	2,360,303	1,995,836	2,202,461	2,082,330	4,562,764	4,078,166
Construction in progress	236,032	236,032	10,833	-	246,865	236,032
Water shares	-	-	24,083,889	24,061,831	24,083,889	24,061,831
Total	129,248,793	126,516,392	67,082,830	63,721,502	196,331,623	190,237,894
Less accumulated depreciation	(61,090,356)	(58,479,215)	(18,003,335)	(16,790,244)	(79,093,691)	(75,269,459)
<b>Total Capital Assets</b>	<b>\$ 68,158,437</b>	<b>\$ 68,037,177</b>	<b>\$ 49,079,495</b>	<b>\$ 46,931,258</b>	<b>\$117,237,932</b>	<b>\$114,968,435</b>

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

*Long-term debt.* On June 30, 2018 the City had a total bonded debt outstanding of \$10,113,177. Of this amount \$1,550,000 was considered general obligation debt and was backed by the full faith and credit of the City.

**Highland City's Outstanding Debt**

	Governmental Activities 2018	Governmental Activities 2017	Business-type Activities 2018	Business-type Activities 2017	Total 2018	Total 2017
General obligation bonds	\$ -	\$ -	\$ 1,572,177	\$ 1,927,721	\$ 1,572,177	\$ 1,927,721
Revenue bonds	8,541,000	9,225,000	-	-	8,541,000	9,225,000
Other long term debt	175,848	204,792	2,033,040	2,222,262	2,208,888	2,427,054
<b>Total</b>	<b>\$ 8,716,848</b>	<b>\$ 9,429,792</b>	<b>\$ 3,605,217</b>	<b>\$ 4,149,983</b>	<b>\$12,322,065</b>	<b>\$13,579,775</b>

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 \$1,528,112,131, 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 for water systems, artificial lighting systems or sewer systems. On June 30, 2018 the City's limitation was \$61,124,485 and the additional limitation was \$122,848,970, the current general obligation bonds are \$1,550,000.

**Economic Factors and Next Year's Budgets and Rates**

The fiscal year 2018-2019 budget and rates are based on the forecast that the Utah economy will continue the trends from fiscal year 2017-2018 with some slight adjustments. Property tax revenue will increase slightly because of new construction in Highland. Fiscal year 2017-2018 saw 93 building permits. For budgeting purposes and to be conservative on the revenue side, Highland expects to have 85 housing permits in fiscal year 2018-2019. The state economist expects overall taxable sales to increase by 5.4% in 2018. However, for budgeting purposes sales tax revenue is estimated to increase by 2.3% so that the city does not overspend in the general fund for fiscal year 2019. These factors and other factors were considered in preparing the fiscal year 2019 budget. During the current fiscal year, unassigned fund balance in the general fund decreased by \$440,694. This was primarily due to an increase in prepaid expenses and transferring \$150,000 from the general fund to the Capital Building Fund in anticipation of building a parks maintenance building to house all the parks equipment. The general fund unassigned fund balance of \$2,205,674 represents 24.8% of total general fund revenue. The city will continue to budget conservatively and attempt to keep the unassigned fund balance close to the 25% limit to ensure that there are sufficient funds for any unexpected expenditures.

**HIGHLAND CITY, UTAH**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For The Year Ended June 30, 2018**

**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, 2018**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Cash and cash equivalents	\$ 5,468,331	\$ 8,963,939	\$ 14,432,270
Receivables:			
Accounts	13,632	57,391	71,023
Taxes	2,514,627	-	2,514,627
Due from other governments	40,891	-	40,891
Prepaid expenses	307,422	-	307,422
Restricted amounts:			
Cash and cash equivalents	1,967,898	852,278	2,820,176
Receivables - B & C roads	92,294	-	92,294
Capital Assets:			
Non-depreciable Capital Assets	39,769,935	24,629,177	64,399,112
Depreciable Capital Assets (net)	<u>28,388,502</u>	<u>24,450,318</u>	<u>52,838,820</u>
<b>Total Assets</b>	<u>78,563,532</u>	<u>58,953,103</u>	<u>137,516,635</u>
<b>Deferred Outflows of Resources</b>			
Deferred loss on refunding	339,299	-	339,299
Deferred outflows relating to pensions	<u>319,815</u>	<u>165,821</u>	<u>485,636</u>
<b>Total Deferred Outflows of Resources</b>	<u>659,114</u>	<u>165,821</u>	<u>824,935</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u><u>\$ 79,222,646</u></u>	<u><u>\$ 59,118,924</u></u>	<u><u>\$ 138,341,570</u></u>
<b>Liabilities:</b>			
Accounts payable	\$ 828,068	\$ 288,725	\$ 1,116,793
Accrued liabilities	111,891	25,066	136,957
Accrued interest payable	75,817	28,952	104,769
Developer and customer deposits	902,800	-	902,800
Unearned revenues	24,270	-	24,270
Payable from restricted assets	104,558	-	104,558
Noncurrent Liabilities:			
Due within one year	731,401	505,388	1,236,789
Due in more than one year	<u>7,985,447</u>	<u>3,099,829</u>	<u>11,085,276</u>
Net pension liability	<u>376,122</u>	<u>219,061</u>	<u>595,183</u>
<b>Total Liabilities</b>	<u>11,140,374</u>	<u>4,167,021</u>	<u>15,307,395</u>
<b>Deferred Inflows of Resources</b>			
Unearned property tax revenue	1,955,913	-	1,955,913
Deferred inflows relating to pensions	<u>268,715</u>	<u>128,236</u>	<u>396,951</u>
<b>Total Deferred Inflows of Resources</b>	<u>2,224,628</u>	<u>128,236</u>	<u>2,352,864</u>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<u>13,365,002</u>	<u>4,295,257</u>	<u>17,660,259</u>
<b>Net Position:</b>			
Net investment in capital assets	59,780,888	45,574,698	105,355,586
Restricted for:			
Debt Service / park construction	-	23,436	23,436
Future development	92,294	-	92,294
Impact fees	-	828,842	828,842
Unrestricted	<u>5,984,462</u>	<u>8,396,691</u>	<u>14,381,153</u>
<b>Total Net Position</b>	<u>65,857,644</u>	<u>54,823,667</u>	<u>120,681,311</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<u><u>\$ 79,222,646</u></u>	<u><u>\$ 59,118,924</u></u>	<u><u>\$ 138,341,570</u></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, 2018**

Functions/Programs	Program Revenues				Net (Expense) Revenue & Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Functions/Programs</b>							
<b>Governmental Activities:</b>							
General government	\$ 2,462,871	\$ 1,521,361	\$ -	\$ -	\$ (941,510)	\$ -	\$ (941,510)
Public safety	3,397,079	188,715	10,725	110,587	(3,087,052)	-	(3,087,052)
Streets and public works	3,558,023	1,006,329	-	3,356,470	804,776	-	804,776
Parks and recreation	861,182	65,763	-	361,548	(433,871)	-	(433,871)
Cemetery	116,075	202,540	-	-	86,465	-	86,465
Garbage	759,848	818,438	-	-	58,590	-	58,590
Interest on long term debt	234,017	-	-	-	(234,017)	-	(234,017)
<b>Total Governmental Activities</b>	<b>11,389,095</b>	<b>3,803,146</b>	<b>10,725</b>	<b>3,828,605</b>	<b>(3,746,619)</b>	<b>-</b>	<b>(3,746,619)</b>
<b>Business-type Activities:</b>							
Sewer	2,094,291	2,013,334	-	980,426	-	899,469	899,469
Pressurized irrigation	1,358,593	2,218,930	-	783,835	-	1,644,172	1,644,172
Storm sewer	421,446	531,742	-	824,564	-	934,860	934,860
Water	996,052	881,093	-	700,261	-	585,302	585,302
<b>Total Business-type Activities</b>	<b>4,870,382</b>	<b>5,645,099</b>	<b>-</b>	<b>3,289,086</b>	<b>-</b>	<b>4,063,803</b>	<b>4,063,803</b>
<b>Total Government</b>	<b>\$ 16,259,477</b>	<b>\$ 9,448,245</b>	<b>\$ 10,725</b>	<b>\$ 7,117,691</b>	<b>(3,746,619)</b>	<b>4,063,803</b>	<b>317,184</b>
<b>General Revenues:</b>							
Taxes:							
Property				2,067,899	-	2,067,899	
Vehicle				193,229	-	193,229	
Sales				2,386,108	-	2,386,108	
Franchise				1,065,450	-	1,065,450	
Unrestricted investment earnings				105,461	149,849	255,310	
Gain on disposal of assets				126,318	-	126,318	
Miscellaneous				38,714	-	38,714	
<b>Transfers</b>				-	-	-	-
<b>Total General Revenues</b>				<b>5,983,179</b>	<b>149,849</b>	<b>6,133,028</b>	
<b>Changes in Net Assets</b>				2,236,560	4,213,652	6,450,212	
<b>Net Position, Beginning</b>				63,621,084	50,610,015	114,231,099	
<b>Net Position, Ending</b>				<b>\$ 65,857,644</b>	<b>\$ 54,823,667</b>	<b>\$ 120,681,311</b>	

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

**HIGHLAND CITY, UTAH**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2018**

	<b>General Fund</b>	<b>Debt Service</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>				
Cash and cash equivalents	\$ 2,037,429	\$ 3,762	\$ 3,427,140	\$ 5,468,331
Receivables:				
Accounts	3,019	-	10,613	13,632
Taxes	2,514,627	-	-	2,514,627
Due from other governments	40,891	-	-	40,891
Prepaid expenses	307,422	-	-	307,422
Restricted amounts:				
Cash and cash equivalents	902,800	-	1,065,098	1,967,898
Receivable - B & C roads	92,294	-	-	92,294
<b>Total Assets</b>	<b>\$ 5,898,482</b>	<b>\$ 3,762</b>	<b>\$ 4,502,851</b>	<b>\$ 10,405,095</b>
<b>Liabilities:</b>				
Accounts payable	\$ 314,120	\$ -	\$ 513,946	\$ 828,066
Accrued liabilities	95,989	-	15,902	111,891
Developer bonds held	902,800	-	-	902,800
Unearned revenue	24,270	-	-	24,270
Payable from restricted assets	-	-	104,558	104,558
<b>Total Liabilities</b>	<b>1,337,179</b>	<b>-</b>	<b>634,406</b>	<b>1,971,585</b>
<b>Deferred Inflows of Resources</b>				
Unearned property tax revenue	1,955,913	-	-	1,955,913
<b>Total Deferred Inflows of Resources</b>	<b>1,955,913</b>	<b>-</b>	<b>-</b>	<b>1,955,913</b>
<b>Fund Balances:</b>				
Nonspendable:				
Prepaid expenses	307,422	-	-	307,422
Restricted for:				
Impact fees	-	-	960,540	960,540
B & C roads	92,294	-	-	92,294
Assigned to:				
Debt service	-	3,762	-	3,762
Capital projects & open space funds	-	-	2,907,905	2,907,905
Unassigned	2,205,674	-	-	2,205,674
<b>Total Fund Balances</b>	<b>2,605,390</b>	<b>3,762</b>	<b>3,868,445</b>	<b>6,477,597</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 5,898,482</b>	<b>\$ 3,762</b>	<b>\$ 4,502,851</b>	<b>\$ 10,405,095</b>

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, 2018**

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

<b>Total Fund Balances - Governmental Funds</b>	\$ 6,477,597
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	68,158,437
Deferred loss on refunding of debt is not a financial resource, and therefore, is not reported in the funds.	339,299
Interest expense is not due and payable in the current period and therefore is not recorded in the funds.	(75,817)
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.	(325,022)
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.	<u>(8,716,850)</u>
<b>Total Net Position - Governmental Activities</b>	<u>\$ 65,857,644</u>

**HIGHLAND CITY, UTAH**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES – GOVERNMENTAL FUNDS**  
**For The Year Ended June 30, 2018**

	<b>General Fund</b>	<b>Debt Service</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>				
Taxes	\$ 5,712,686	\$ -	\$ -	\$ 5,712,686
Licenses and permits	609,562	-	-	609,562
Intergovernmental	752,309	-	-	752,309
Impact fees	-	-	760,011	760,011
Charges for services	1,405,915	-	1,412,661	2,818,576
Fines and forfeitures	188,715	-	-	188,715
Interest	43,873	-	61,588	105,461
Miscellaneous	38,714	-	-	38,714
<b>Total Revenues</b>	<b>8,751,774</b>	<b>-</b>	<b>2,234,260</b>	<b>10,986,034</b>
<b>Expenditures:</b>				
Current:				
General government	1,723,688	-	400,829	2,124,517
Public safety	3,207,854	-	-	3,207,854
Streets and public works	1,203,557	-	794,163	1,997,720
Parks and recreation	611,892	-	2,100	613,992
Cemetery	-	-	84,436	84,436
Garbage	760,369	-	-	760,369
Capital outlay	-	-	27,470	27,470
Debt service:				
Principal	-	684,000	-	684,000
Interest	-	202,856	2,100	204,956
<b>Total Expenditures</b>	<b>7,507,360</b>	<b>886,856</b>	<b>1,311,098</b>	<b>9,705,314</b>
Excess (deficiency) of revenues over (under) expenditures	1,244,414	(886,856)	923,162	1,280,720
<b>Other Financing Sources (Uses):</b>				
Sale of capital assets	-	-	126,318	126,318
Transfers in	126,548	887,000	857,368	1,870,916
Transfers out	(1,419,368)	-	(451,548)	(1,870,916)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,292,820)</b>	<b>887,000</b>	<b>532,138</b>	<b>126,318</b>
<b>Net Change in Fund Balances</b>	<b>(48,406)</b>	<b>144</b>	<b>1,455,300</b>	<b>1,407,038</b>
<b>Fund Balances, Beginning</b>	<b>2,653,796</b>	<b>3,618</b>	<b>2,413,145</b>	<b>5,070,559</b>
<b>Fund Balances, Ending</b>	<b>\$ 2,605,390</b>	<b>\$ 3,762</b>	<b>\$ 3,868,445</b>	<b>\$ 6,477,597</b>

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, 2018**

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

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$ 1,407,038
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.	
Capital outlay	405,391
Depreciation expense	(2,611,141)
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.	2,327,010
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.	
Payment of bond principal	684,000
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.	24,381
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	
Accrued interest	7,191
Amortization of deferred loss	(36,252)
Compensated absences	<u>28,942</u>
<b>Changes in net position of governmental activities</b>	<u>\$ 2,236,560</u>

**HIGHLAND CITY, UTAH**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES – BUDGET AND ACTUAL – GENERAL FUND**  
**For The Year Ended June 30, 2018**

	<b>Budgeted Amounts</b>			
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
<b>Revenues:</b>				
Taxes	\$ 5,291,500	\$ 5,679,672	\$ 5,712,686	\$ 33,014
Licenses and permits	554,500	629,521	609,562	(19,959)
Intergovernmental	662,000	768,725	752,309	(16,416)
Charges for services	1,434,001	1,397,189	1,405,915	8,726
Fines and forfeitures	198,000	165,305	188,715	23,410
Interest	17,000	40,000	43,873	3,873
Miscellaneous	54,000	48,000	38,714	(9,286)
<b>Total Revenues</b>	<b>8,211,001</b>	<b>8,728,412</b>	<b>8,751,774</b>	<b>23,362</b>
<b>Expenditures:</b>				
Current:				
General government	1,556,302	1,723,765	1,723,688	77
Public safety	3,207,854	3,222,218	3,207,854	14,364
Streets and public works	977,031	1,274,233	1,203,557	70,676
Parks and recreation	644,129	635,053	611,892	23,161
Cemetery	81,650	-	-	-
Garbage	732,248	706,487	760,369	(53,882)
<b>Total Expenditures</b>	<b>7,199,214</b>	<b>7,561,756</b>	<b>7,507,360</b>	<b>54,396</b>
Excess (deficiency) of revenues over (under) expenditures	1,011,787	1,166,656	1,244,414	77,758
<b>Other Financing Sources (Uses):</b>				
Transfers in	324,109	126,548	126,548	-
Transfers out	(1,465,991)	(1,464,000)	(1,419,368)	44,632
<b>Total Other Financing Sources (Uses)</b>	<b>(1,141,882)</b>	<b>(1,337,452)</b>	<b>(1,292,820)</b>	<b>44,632</b>
<b>Net Change in Fund Balances</b>	<b>\$ (130,095)</b>	<b>\$ (170,796)</b>	<b>(48,406)</b>	<b>\$ 122,390</b>
<b>Fund Balances, Beginning</b>			<b>2,653,796</b>	
<b>Fund Balances, Ending</b>			<b>\$ 2,605,390</b>	

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 – DEBT SERVICE FUND**  
**For The Year Ended June 30, 2018**

	<b>Budgeted Amounts</b>			
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
<b>Expenditures:</b>				
Debt service:				
Principal	684,000	684,000	684,000	-
Interest	201,988	202,418	202,856	(438)
<b>Total Expenditures</b>	<b>885,988</b>	<b>886,418</b>	<b>886,856</b>	<b>(438)</b>
Excess (deficiency) of revenues over (under) expenditures	(885,988)	(886,418)	(886,856)	(438)
<b>Other Financing Sources (Uses):</b>				
Transfers in	885,988	887,000	887,000	-
<b>Total Other Financing Sources (Uses)</b>	<b>885,988</b>	<b>887,000</b>	<b>887,000</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>\$ -</b>	<b>\$ 582</b>	<b>144</b>	<b>\$ (438)</b>
<b>Fund Balances, Beginning</b>			<b>3,618</b>	
<b>Fund Balances, Ending</b>			<b>\$ 3,762</b>	

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

**HIGHLAND CITY, UTAH**  
**STATEMENT OF NET POSITION – PROPRIETARY FUNDS**  
**June 30, 2018**

	<b>Business-type Activities - Enterprise Funds</b>					
	<b>Nonmajor</b>				<b>Total</b>	
	<b>Sewer</b>	<b>Pressurized Irrigation</b>	<b>Culinary Water</b>	<b>Storm Sewer</b>		
<b>Assets:</b>						
<b>Current Assets:</b>						
Cash and cash equivalents	\$ 3,345,569	\$ 1,772,205	\$ 2,693,486	\$ 1,152,679	\$ 8,963,939	
Restricted cash and cash equivalents	322,313	529,965	-	-	852,278	
Accounts receivable	16,929	25,295	11,026	4,141	57,391	
<b>Total Current Assets</b>	<b>3,684,811</b>	<b>2,327,465</b>	<b>2,704,512</b>	<b>1,156,820</b>	<b>9,873,608</b>	
<b>Noncurrent Assets:</b>						
Capital assets:						
Water shares	-	22,446,040	1,637,849	-	24,083,889	
Land	26,540	277,450	107,132	123,333	534,455	
Construction in process	-	-	10,833	-	10,833	
Buildings	-	663,667	493,622	-	1,157,289	
Infrastructure	11,181,269	14,559,841	9,251,562	4,101,231	39,093,903	
Machinery and equipment	243,840	193,096	1,418,890	346,635	2,202,461	
Less accumulated depreciation	(4,744,204)	(6,364,079)	(5,366,569)	(1,528,483)	(18,003,335)	
<b>Total Noncurrent Assets</b>	<b>6,707,445</b>	<b>31,776,015</b>	<b>7,553,319</b>	<b>3,042,716</b>	<b>49,079,495</b>	
<b>Total Assets</b>	<b>10,392,256</b>	<b>34,103,480</b>	<b>10,257,831</b>	<b>4,199,536</b>	<b>58,953,103</b>	
<b>Deferred Outflows of Resources</b>						
Deferred outflows relating to pensions	51,805	33,043	44,889	36,084	165,821	
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 10,444,061</b>	<b>\$ 34,136,523</b>	<b>\$ 10,302,720</b>	<b>\$ 4,235,620</b>	<b>\$ 59,118,924</b>	

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, 2018**

	<b>Business-type Activities - Enterprise Funds</b>						
	<b>Nonmajor</b>						
	<b>Sewer</b>	<b>Pressurized Irrigation</b>	<b>Culinary Water</b>	<b>Storm Sewer</b>	<b>Total</b>		
<b>Liabilities:</b>							
<b>Current Liabilities:</b>							
Accounts payable	\$ 149,970	\$ 52,112	\$ 50,146	\$ 36,497	\$ 288,725		
Accrued liabilities	8,309	6,132	6,747	3,878	25,066		
Accrued interest payable	-	28,952	-	-	28,952		
Compensated absences	17,417	8,223	12,276	5,686	43,602		
Notes payable	-	96,786	-	-	96,786		
Bonds payable - current	-	365,000	-	-	365,000		
<b>Total Current Liabilities</b>	<b>175,696</b>	<b>557,205</b>	<b>69,169</b>	<b>46,061</b>	<b>848,131</b>		
<b>Noncurrent Liabilities:</b>							
Compensated absences	22,307	9,897	14,330	10,284	56,818		
Notes payable	-	1,835,834	-	-	1,835,834		
Bonds payable	-	1,207,177	-	-	1,207,177		
Net pension liability	69,197	39,011	55,424	55,429	219,061		
<b>Total Noncurrent Liabilities</b>	<b>91,504</b>	<b>3,091,919</b>	<b>69,754</b>	<b>65,713</b>	<b>3,318,890</b>		
<b>Total Liabilities</b>	<b>267,200</b>	<b>3,649,124</b>	<b>138,923</b>	<b>111,774</b>	<b>4,167,021</b>		
<b>Deferred Inflows of Resources</b>							
Deferred inflows relating to pensions	40,278	27,736	37,207	23,015	128,236		
<b>Net Position:</b>							
Net investment in capital assets	6,707,445	28,271,218	7,553,319	3,042,716	45,574,698		
Restricted for impact fees							
Impact fees	322,313	506,529	-	-	828,842		
Debt service	-	23,436	-	-	23,436		
Unrestricted	3,106,825	1,658,480	2,573,271	1,058,115	8,396,691		
<b>Total Net Position</b>	<b>10,136,583</b>	<b>30,459,663</b>	<b>10,126,590</b>	<b>4,100,831</b>	<b>54,823,667</b>		
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<b>\$ 10,444,061</b>	<b>\$ 34,136,523</b>	<b>\$ 10,302,720</b>	<b>\$ 4,235,620</b>	<b>\$ 59,118,924</b>		

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, 2018**

	Business-type Activities - Enterprise Funds				
	Sewer	Pressurized Irrigation	Culinary Water	Nonmajor	
				Storm Sewer	Total
<b>Operating Revenues:</b>					
Charges for services	\$ 2,012,982	\$ 2,200,592	\$ 828,579	\$ 531,742	\$ 5,573,895
Intergovernmental	-	18,338	-	-	18,338
Connection fees	352	-	46,564	-	46,916
Miscellaneous	-	-	5,950	-	5,950
<b>Total Operating Revenues</b>	<b>2,013,334</b>	<b>2,218,930</b>	<b>881,093</b>	<b>531,742</b>	<b>5,645,099</b>
<b>Operating Expenses:</b>					
Salaries and benefits	249,348	174,712	197,166	135,851	757,077
Operations	1,494,836	647,645	483,696	152,162	2,778,339
Capital outlay	-	705	-	1,410	2,115
Depreciation	350,107	415,765	315,190	132,023	1,213,085
<b>Total Operating Expenses</b>	<b>2,094,291</b>	<b>1,238,827</b>	<b>996,052</b>	<b>421,446</b>	<b>4,750,616</b>
<b>Operating Income (Loss)</b>	<b>(80,957)</b>	<b>980,103</b>	<b>(114,959)</b>	<b>110,296</b>	<b>894,483</b>
<b>Nonoperating Revenues (Expenses):</b>					
Impact fees	204,339	278,259	-	-	482,598
Interest income	59,258	28,924	43,641	18,026	149,849
Interest expense	-	(119,766)	-	-	(119,766)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>263,597</b>	<b>187,417</b>	<b>43,641</b>	<b>18,026</b>	<b>512,681</b>
<b>Income (Loss) Before Contributions</b>	<b>182,640</b>	<b>1,167,520</b>	<b>(71,318)</b>	<b>128,322</b>	<b>1,407,164</b>
<b>Capital Contributions</b>	<b>776,087</b>	<b>505,576</b>	<b>700,261</b>	<b>824,564</b>	<b>2,806,488</b>
<b>Changes in Net Position</b>	<b>958,727</b>	<b>1,673,096</b>	<b>628,943</b>	<b>952,886</b>	<b>4,213,652</b>
<b>Net Position, Beginning</b>	<b>9,177,856</b>	<b>28,786,567</b>	<b>9,497,647</b>	<b>3,147,945</b>	<b>50,610,015</b>
<b>Net Position, Ending</b>	<b>\$ 10,136,583</b>	<b>\$ 30,459,663</b>	<b>\$ 10,126,590</b>	<b>\$ 4,100,831</b>	<b>\$ 54,823,667</b>

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, 2018**

	<b>Business-type Activities - Enterprise Funds</b>				
	<b>Sewer</b>	<b>Pressurized Irrigation</b>		<b>Water</b>	<b>Nonmajor Storm Sewer</b>
		<b>Pressurized Irrigation</b>	<b>Water</b>		<b>Total</b>
<b>Cash Flows From Operating Activities:</b>					
Cash received from customers	\$ 2,020,664	\$ 2,194,581	\$ 878,599	\$ 530,616	\$ 5,624,460
Cash received from other entities	-	18,338	-	-	18,338
Cash payments to suppliers for goods and services	(1,622,177)	(637,781)	(491,769)	(201,329)	(2,953,056)
Cash payments to employees	(243,066)	(177,904)	(198,495)	(139,342)	(758,807)
<b>Net cash provided (used) by operating activities</b>	<b>155,421</b>	<b>1,397,234</b>	<b>188,335</b>	<b>189,945</b>	<b>1,930,935</b>
<b>Cash Flows From Capital and Related Financing Activities:</b>					
Activities:					
Principal payments on bonds and notes payable	-	(568,159)	-	-	(568,159)
Interest and fees paid on bonds and notes payable	-	(131,934)	-	-	(131,934)
Receipt of impact fees	204,339	278,259	-	-	482,598
Purchase of capital assets	(461,015)	(9,590)	(31,704)	(30,467)	(532,776)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(256,676)</b>	<b>(431,424)</b>	<b>(31,704)</b>	<b>(30,467)</b>	<b>(750,271)</b>
<b>Cash Flows From Investing Activities:</b>					
Interest on investments	59,258	28,924	43,641	18,026	149,849
<b>Net cash provided (used) by investing activities</b>	<b>59,258</b>	<b>28,924</b>	<b>43,641</b>	<b>18,026</b>	<b>149,849</b>
<b>Net Increase (Decrease) In Cash</b>	<b>(41,997)</b>	<b>994,734</b>	<b>200,272</b>	<b>177,504</b>	<b>1,330,513</b>
<b>Cash at Beginning of Year</b>	<b>3,709,879</b>	<b>1,307,436</b>	<b>2,493,214</b>	<b>975,175</b>	<b>8,485,704</b>
<b>Cash at End of Year</b>	<b>\$ 3,667,882</b>	<b>\$ 2,302,170</b>	<b>\$ 2,693,486</b>	<b>\$ 1,152,679</b>	<b>\$ 9,816,217</b>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>					
Operating income (loss)	\$ (80,957)	\$ 980,103	\$ (114,959)	\$ 110,296	\$ 894,483
Adjustments to reconcile operating income (loss) to net cash from (used) by operating activities:					
Depreciation	350,107	415,765	315,190	132,023	1,213,085
(Increase) decrease in assets:					
Accounts receivable	7,330	(6,011)	(2,494)	(1,126)	(2,301)
Deferred outflows relating to pensions	(2,981)	(2,361)	(3,702)	(1,529)	(10,573)
Increase (decrease) in liabilities:					
Accounts payable	(127,341)	10,569	(8,073)	(47,757)	(172,602)
Compensated absences	8,648	(1,277)	1,782	(2,274)	6,879
Net pension liability	(26,256)	(19,020)	(25,222)	(13,335)	(83,833)
Deferred inflows relating to pensions	26,871	19,466	25,813	13,647	85,797
<b>Net cash provided (used) by operating activities</b>	<b>\$ 155,421</b>	<b>\$ 1,397,234</b>	<b>\$ 188,335</b>	<b>\$ 189,945</b>	<b>\$ 1,930,935</b>
<b>Noncash investing, capital, and financing activities:</b>					
Contributions of capital assets	\$ 776,087	\$ 505,576	\$ 700,261	\$ 824,564	\$ 2,806,488
Addition of capital assets due to notes payable	-	22,058	-	-	22,058

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 operations 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.

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 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.

**(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.

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(C) Budgetary Data (Continued)**

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.

**(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*.

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(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:

<u>Assets</u>	<u>Years</u>
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, 2018, 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.

**(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.

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(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, 2018 for the 2018-2019 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 purposes 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, 2018 was \$16,585,573 was measured as a *Level 2*. The City maintained no other investments during the year.

The City's cash and investments are summarized below:

	Fair Value	Carrying Amount	Credit Rating (1)	Weighted Average Years to Maturity (2)
Cash on deposit	\$ 951,342	\$ 729,460	N/A	N/A
Investment (3):				
Utah State Treasurer's Investment Pool	<u>16,585,573</u>	<u>16,522,985</u>	N/A	N/A
Total cash and cash equivalents	<u>\$ 17,536,916</u>	<u>\$ 17,252,445</u>		
Portfolio weighted average maturity				N/A

(1) Ratings are provided where applicable to indicate associated **Credit Risk**. N/A indicates not applicable.

(2) **Interest Rate Risk** is estimated using the weighted average days to maturity.

(3) All investments are considered cash equivalents on the financial statements.

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, 2018, \$701,342 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.

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 2 CASH AND INVESTMENTS (Continued)**

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.

*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, 2018.

*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 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, 2018 were as follows:

	In	Out
<b>Governmental activities</b>		
General Fund	\$ 126,548	\$ 1,419,368
Debt service fund	887,000	-
Nonmajor Governmental Funds	857,368	451,548
Total governmental activities	<hr/> 1,870,916	<hr/> 1,870,916
<b>Total Transfers</b>	<hr/> \$ 1,870,916	<hr/> \$ 1,870,916

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 4 RESTRICTED ASSETS**

Certain assets are restricted to use as follows as of June 30, 2018:

	Amount
<b>Governmental activities</b>	
Construction bonds	\$ 902,800
Park construction	104,558
Road construction	960,540
B & C road	<u>92,294</u>
<b>Total governmental activities</b>	<u>2,060,192</u>
<b>Business-type activities</b>	
Restricted for impact fees	828,842
Debt service	<u>23,436</u>
<b>Total business-type activities</b>	<u>852,278</u>
<b>Total restricted assets</b>	<u><u>\$ 2,912,470</u></u>

**NOTE 5 CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2018, is as follows:

	<u>Balance</u>	<u>Additions/</u>	<u>Deletions/</u>	<u>Balance</u>
	<u>June 30, 2017</u>	<u>Transfers</u>	<u>Transfers</u>	<u>June 30, 2018</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$39,533,903	\$ -	\$ -	\$39,533,903
Construction in progress	236,032	- -	- -	236,032
<b>Total capital assets, not being depreciated</b>	<u>39,769,935</u>	<u>- -</u>	<u>- -</u>	<u>39,769,935</u>
Capital assets, being depreciated:				
Buildings and structures	14,080,927	- -	- -	14,080,927
Improvements and infrastructure	70,669,694	2,367,934	- -	73,037,628
Machinery, equipment and vehicles	1,995,836	364,467	- -	2,360,303
<b>Total capital assets, being depreciated</b>	<u>86,746,457</u>	<u>2,732,401</u>	<u>- -</u>	<u>89,478,858</u>
Less accumulated depreciation for:				
Buildings and structures	(3,535,927)	(354,568)	- -	(3,890,495)
Improvements and infrastructure	(53,120,481)	(2,160,950)	- -	(55,281,431)
Machinery, equipment and vehicles	(1,822,807)	(95,623)	- -	(1,918,430)
<b>Total accumulated depreciation</b>	<u>(58,479,215)</u>	<u>(2,611,141)</u>	<u>- -</u>	<u>(61,090,356)</u>
<b>Total capital assets, net of accumulated depreciation</b>	<u>28,267,242</u>	<u>121,260</u>	<u>- -</u>	<u>28,388,502</u>
<b>Governmental activities capital assets, net</b>	<u><u>\$68,037,177</u></u>	<u><u>\$ 121,260</u></u>	<u><u>\$ -</u></u>	<u><u>\$68,158,437</u></u>

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 5 CAPITAL ASSETS (Continued)**

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

**Governmental activities:**

General government	\$ 180,988
Public Safety	194,062
Streets and Public Works	1,964,048
Parks and recreation	236,627
Cemetery	<u>35,416</u>
<b>Total depreciation expense - governmental activities</b>	<u><u>\$ 2,611,141</u></u>

The Business-type activities property, plant and equipment consist of the following at June 30, 2018:

	<b>Balance</b>	<b>Additions/</b>	<b>Deletions/</b>	<b>Balance</b>
	<b>June 30, 2017</b>	<b>Transfers</b>	<b>Transfers</b>	<b>June 30, 2018</b>
<b>Business-type Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 534,455	\$ -	\$ -	\$ 534,455
Construction in progress	-	10,833	-	10,833
Water Shares	<u>24,061,831</u>	<u>22,058</u>	<u>-</u>	<u>24,083,889</u>
<b>Total capital assets, not being depreciated</b>	<u>24,596,286</u>	<u>32,891</u>	<u>-</u>	<u>24,629,177</u>
Capital assets, being depreciated:				
Buildings and structures	1,157,289	-	-	1,157,289
Improvements and infrastructure	35,885,597	3,208,306	-	39,093,903
Machinery, equipment and vehicles	<u>2,082,330</u>	<u>120,131</u>	<u>-</u>	<u>2,202,461</u>
<b>Total capital assets, being depreciated</b>	<u>39,125,216</u>	<u>3,328,437</u>	<u>-</u>	<u>42,453,653</u>
Less accumulated depreciation for:				
Buildings and structures	(560,623)	(40,121)	-	(600,744)
Improvements and infrastructure	(14,777,684)	(1,107,105)	-	(15,884,789)
Machinery, equipment and vehicles	<u>(1,451,937)</u>	<u>(65,865)</u>	<u>-</u>	<u>(1,517,802)</u>
<b>Total accumulated depreciation</b>	<u>(16,790,244)</u>	<u>(1,213,091)</u>	<u>-</u>	<u>(18,003,335)</u>
<b>Total capital assets, net of accumulated depreciation</b>	<u>22,334,972</u>	<u>2,115,346</u>	<u>-</u>	<u>24,450,318</u>
<b>Business-type activities capital assets, net</b>	<u><u>\$46,931,258</u></u>	<u><u>\$ 2,148,237</u></u>	<u><u>\$ -</u></u>	<u><u>\$49,079,495</u></u>

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

**Business-type activities**

Sewer	\$ 350,107
Pressurized Irrigation	415,771
Storm Drain	132,023
Water	<u>315,190</u>
<b>Total depreciation expense - business-type activities</b>	<u><u>\$ 1,213,091</u></u>

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**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.

**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 \$1,955,913.

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, 2018, 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, 2018.

**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:

	<u>2018</u>
Payments to Lone Peak	
Administrative expenses	\$ 149,005
Member payments for	
Police	1,951,206
Fire / EMS	<u>1,107,643</u>
Total payments to Lone Peak	<u>\$ 3,207,854</u>
Receipts from Lone Peak	
Rent of office space	\$ 266,020
Reimbursement of employee wages	
and office supplies used by Lone Peak	<u>41,036</u>
Total receipts from Lone Peak	<u>\$ 307,056</u>

**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, 2018:

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2018</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Bonds payable					
Revenue bonds	\$ 9,225,000	\$ -	\$ (684,000)	\$ 8,541,000	\$ 649,000
<b>Total bonds payable</b>	<b>9,225,000</b>	<b>-</b>	<b>(684,000)</b>	<b>8,541,000</b>	<b>649,000</b>
Compensated absences	204,792	34,618	(63,562)	175,848	82,401
<b>Governmental activities long-term liabilities</b>	<b>\$ 9,429,792</b>	<b>\$ 34,618</b>	<b>\$ (747,562)</b>	<b>\$ 8,716,848</b>	<b>\$ 731,401</b>

**Governmental Activities:**

**Revenue Bonds**

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. The final payment was made in September 2017.

\$ -

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.

3,571,000

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 resulted in a cash savings of \$345,045, and an economic gain of \$376,357.

4,970,000

Total Tax Revenue Bonds - Governmental Activities

\$ 8,541,000

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 10 LONG-TERM DEBT (Continued)**

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2018</u>	<u>Due Within One Year</u>
<b>Business-type Activities:</b>					
Bonds payable					
General obligation bonds	\$ 1,900,000	\$ -	\$ (350,000)	\$ 1,550,000	\$ 365,000
Plus: unamortized premiums	27,721	-	(5,544)	22,177	-
<b>Total bonds payable</b>	<b>1,927,721</b>	<b>-</b>	<b>(355,544)</b>	<b>1,572,177</b>	<b>365,000</b>
Notes payable	2,128,721	22,058	(218,159)	1,932,620	96,786
Compensated absences	93,541	46,043	(39,164)	100,420	43,602
<b>Business-type activities long-term liabilities</b>	<b>\$ 4,149,983</b>	<b>\$ 68,101</b>	<b>\$ (612,867)</b>	<b>\$ 3,605,217</b>	<b>\$ 505,388</b>

**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.

\$ 1,550,000

Total General Obligation Bonds - Business-type Activities

\$ 1,550,000

**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.

\$ 397,860

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.

1,534,760

Total Notes Payable - Business-type Activities

\$ 1,932,620

**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 \$3,317,964 compared to principal and interest of \$885,987 paid during the year which equals a coverage ratio of 3.74.

The annual debt service requirements to maturity, including principal and interest for the long-term debt, as of June 30, 2018, are as follows:

<b>Year Ending June 30,</b>	<b>Governmental Activities</b>		
	<b>Franchise and Revenue Bonds</b>		
	<b>Principal</b>	<b>Interest</b>	
2019	\$ 649,000	\$ 185,817	
2020	799,000	173,148	
2021	816,000	157,768	
2022	833,000	140,843	
2023	850,000	122,302	
2024-2028	<u>4,594,000</u>	<u>282,630</u>	
	<u><u>\$ 8,541,000</u></u>	<u><u>\$ 1,062,509</u></u>	
<b>Business-type Activities</b>			
<b>Year Ending June 30,</b>	<b>General Obligation Bonds</b>		
	<b>Principal</b>	<b>Interest</b>	
	\$ 365,000	\$ 62,512	
2019	380,000	47,912	
2020	395,000	32,712	
2021	<u>410,000</u>	<u>16,912</u>	
	<u><u>\$ 1,550,000</u></u>	<u><u>\$ 160,048</u></u>	
<b>Business-type Activities</b>			
<b>Year Ending June 30,</b>	<b>Notes Payable</b>		
	<b>Principal</b>	<b>Interest</b>	
	\$ 96,786	\$ 34,600	
2019	97,679	33,041	
2020	99,283	31,441	
2021	104,265	29,804	
2022	106,067	27,997	
2023	559,056	111,317	
2024-2028	611,364	58,992	
2029-2033	<u>258,120</u>	<u>8,205</u>	
	<u><u>\$ 1,932,620</u></u>	<u><u>\$ 335,397</u></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, 2018, \$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](http://www.urs.org).

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 12 RETIREMENT PLANS (Continued)**

**Summary of Benefits by System**

**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 not met may be carried forward to subsequent years.

**Contribution Rate Summary**

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 as of June 30, 2018 are as follows:

Utah Retirement Systems	Employee	Employer	Employer 401(k)
Contributory System			
111 - Local Government Div - Tier 2	N/A	15.11%	1.58%
Noncontributory System			
15 - Local Governmental Div - Tier 1	N/A	18.47%	N/A
Tier 2 DC Only			
211 - Local Government	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, 2018, the employer and employee contributions to the Systems were as follows:

System	Employer Contributions	Employee Contributions
Noncontributory System	\$ 214,531	N/A
Tier 2 Public Employees System	25,881	-
Tier 2 DC Only System	<u>12,667</u>	N/A
Total Contributions	<u>\$ 253,079</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.

***Combined Pension Assets, Liabilities, Expense, and Deferred Outflows and Inflows of Resources Relating to Pensions***

At June 30, 2018, we reported a net pension asset of \$0 and a net pension liability of \$595,182.

	(Measurement Date): December 31, 2017				
	Net Pension Asset	Net Pension Liability	Proportionate Share	Proportionate Share 2016	Change (Decrease)
Noncontributory System	\$ -	\$ 594,019	0.1355806%	0.1344475%	0.0011331%
Tier 2 Public Employees System	-	1,163	0.0131953%	0.0055885%	0.0076068%
Total Net Pension Asset / Liability	<u>\$ -</u>	<u>\$ 595,182</u>			

The net pension asset and liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2017 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.

For the year ended June 30, 2018 we recognized pension expense of \$219,944.

At June 30, 2018 we reported deferred outflows of resources and deferred inflows of resources relating to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 13,294	\$ 37,443
Changes in assumptions	214,935	13,997
Net difference between projected and actual earnings on pension plan investments	128,253	337,505
Changes in proportion and differences between contributions and proportionate share of contributions	6,531	8,006
Contributions subsequent to the measurement date	<u>122,622</u>	-
Total	<u>\$ 485,635</u>	<u>\$ 396,951</u>

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 12 RETIREMENT PLANS (Continued)**

\$122,622 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, 2017.

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
2018	\$ 28,870
2019	47,728
2020	(37,997)
2021	(73,516)
2022	(271)
Thereafter	1,248

Actuarial Assumptions

The total pension liability in the December 31, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 Percent
Salary Increases	3.25 – 9.75 percent, average, including inflation
Investment Rate of Return	6.95 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, 2017 valuation were based on the results of an actuarial experience study for the five year period ending December 31, 2016.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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 and is applied consistently to each defined benefit pension plan. 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 table on the following page:

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 12 RETIREMENT PLANS (Continued)**

Asset Class	Target Allocation	Expected Return Arithmetic Basis		Long-Term expected portfolio real rate of return
		Real Return Arithmetic Basis		
Equity securities	40%	6.15%		2.46%
Debt securities	20%	0.40%		0.08%
Real assets	15%	5.75%		0.86%
Private equity	9%	9.95%		0.90%
Absolute return	16%	2.85%		0.46%
Cash and cash equivalents	0%	0.00%		0.00%
Totals	100%			4.75%
		Inflation		2.50%
		Expected arithmetic nominal return		7.25%

The 6.95% assumed investment rate of return is comprised of an inflation rate of 2.50%, a real return of 4.45% that is net of investment expense.

Discount Rate

The discount rate used to measure the total pension liability was 6.95 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. The discount rate does not use the Municipal Bond Index Rate. The discount rate was reduced to 6.95 percent from 7.20 percent from the prior measurement period.

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 (5.95 percent) or 1-percentage-point higher (7.95 percent) than the current rate:

System	1% Decrease (5.95%)	Discount Rate (6.95%)	1% Increase (7.95%)
Noncontributory System	\$ 1,606,507	\$ 594,019	\$ (247,814)
Tier 2 Public Employees System	13,698	1,163	(8,503)
Total	\$ 1,620,205	\$ 595,182	\$ (256,317)

Pension Plan Fiduciary Net Position

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

**HIGHLAND CITY, UTAH**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 12 RETIREMENT PLANS (Continued)**

**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:

	2018	2017	2016
401(k) Plan			
Employer Contributions	\$ 207,313	\$ 205,929	\$ 194,213
Employee Contributions	43,608	34,030	28,645
457 Plan			
Employer Contributions	-	31	65
Employee Contributions	32,279	36,428	44,238
Roth IRA Plan			
Employer Contributions	N/A	N/A	N/A
Employee Contributions	19,382	14,991	13,667

**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 by the Towne Center fund.

**REQUIRED SUPPLEMENTAL INFORMATION**

**HIGHLAND CITY**  
**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**UTAH RETIREMENT SYSTEMS**  
**As of December 31, 2017**  
**Last 10 Fiscal Years\***

	Proportion of the net pension liability (asset)	Proportionate share of the net pension liability (asset)	Covered payroll	Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability (asset)
For the year ended December 31,					
Noncontributory Retirement System					
2017	0.1355806%	\$ 594,019	\$ 1,146,754	51.80%	91.9%
2016	0.1344475%	863,317	1,159,548	74.45%	87.3%
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					
2017	0.0131953%	\$ 1,163	\$ 129,115	0.90%	97.4%
2016	0.0055885%	623	45,830	1.36%	95.1%
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**  
**Last 10 Fiscal Years\***

As of fiscal year ended June 30,	Contributions in relation to the contractually required contribution			Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered- employee payroll
	Actuarial Determined Contributions					
<b>Noncontributory System</b>						
2018	\$ 214,531	\$ 214,531		\$ -	\$ 1,161,508	18.47%
2017	208,321	208,321		-	1,127,891	18.47%
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%
<b>Tier 2 Public Employees System*</b>						
2018	\$ 25,881	\$ 25,881		\$ -	\$ 171,285	15.11%
2017	12,716	12,716		-	85,288	14.91%
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%
<b>Tier 2 Public Employees DC Only System*</b>						
2018	\$ 12,667	\$ 12,667		\$ -	\$ 189,347	6.69%
2017	12,219	12,219		-	182,652	6.69%
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 SUPPLMENTAL INFORMATION**  
**For the fiscal Year Ended June 30, 2018**

Changes in Assumptions:

As a result of an experience study conducted as of December 31, 2016, the Board adopted recommended changes to several economic and demographic assumptions that are used in the actuarial valuation. The assumption changes that had the largest impact on the Total Pension Liability (and actuarial accrued liability) include a decrease in the investment return assumption from 7.20% to 6.95%, a reduction in the price inflation assumption from 2.60% to 2.50% (which also resulted in a corresponding decrease in the cost-of-living-adjustment assumption for the funds with a 4.00% annual COLA max), and the adoption of an updated retiree mortality table that is developed using URS's actual retiree mortality experience. There were changes to several other demographic assumptions, but those changes had minimal impact on the Total Pension Liability (and actuarial accrued liability).

## **SUPPLEMENTAL INFORMATION**

**HIGHLAND CITY, UTAH**  
**COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2018**

	Special Revenue				Capital Projects				Town Center		Total Nonmajor Governmental Funds
	Open Space Trust	Cemetery Perpetual Care	Road Fee	Parks Capital Project	Road Capital Project	Building Capital Project	Northwest Annexation	Capital Projects			
<b>Assets:</b>											
Cash and cash equivalents	\$ 270,902	\$ 8,800	\$ 920,923	\$ 1,046,070	\$ 375,043	\$ 237,638	\$ 109,294	\$ 458,470	\$ 3,427,140		
Restricted cash and cash equivalents	-	-	-	104,558	960,540	-	-	-	-		1,065,098
Receivables:											
Accounts	4,550	-	6,063	-	-	-	-	-	-		10,613
<b>Total Assets</b>	<b>\$ 275,452</b>	<b>\$ 8,800</b>	<b>\$ 926,986</b>	<b>\$ 1,150,628</b>	<b>\$ 1,335,583</b>	<b>\$ 237,638</b>	<b>\$ 109,294</b>	<b>\$ 458,470</b>	<b>\$ 4,502,851</b>		
<b>Liabilities:</b>											
Accounts payable	\$ 33,806	\$ 8,800	\$ 367,751	\$ -	\$ 103,589	\$ -	\$ -	\$ -	\$ -		513,946
Accrued liabilities	15,902	-	-	-	-	-	-	-	-		15,902
Payable from restricted assets	-	-	-	104,558	-	-	-	-	-		104,558
<b>Total Liabilities</b>	<b>49,708</b>	<b>8,800</b>	<b>367,751</b>	<b>104,558</b>	<b>103,589</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>		634,406
<b>Fund Balances:</b>											
Restricted for:											
Impact fees	-	-	-	-	960,540	-	-	-	-		960,540
Assigned	225,744	-	559,235	1,046,070	271,454	237,638	109,294	458,470	2,907,905		
Unassigned	-	-	-	-	-	-	-	-	-		-
<b>Total Fund Balances</b>	<b>225,744</b>	<b>-</b>	<b>559,235</b>	<b>1,046,070</b>	<b>1,231,994</b>	<b>237,638</b>	<b>109,294</b>	<b>458,470</b>	<b>3,868,445</b>		
<b>Total Liabilities and Fund Balances</b>	<b>\$ 275,452</b>	<b>\$ 8,800</b>	<b>\$ 926,986</b>	<b>\$ 1,150,628</b>	<b>\$ 1,335,583</b>	<b>\$ 237,638</b>	<b>\$ 109,294</b>	<b>\$ 458,470</b>	<b>\$ 4,502,851</b>		

**HIGHLAND CITY, UTAH**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN GOVERNMENTAL FUNDS –**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**For The Year Ended June 30, 2018**

	Special Revenue				Capital Projects				Total Nonmajor Governmental Funds	
	Open Space Trust	Cemetery Perpetual Care	Road Fee	Parks Capital Project	Road Capital Project	Building Capital Project	Northwest Annexation	Town Center Capital Projects		
<b>Revenues:</b>										
Charges for services	\$ 283,353	\$ 202,540	\$ 926,768	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,412,661
Impact fees	-	-	-	361,548	287,876	110,587	-	-	-	760,011
Interest income	6,111	-	9,327	19,408	16,140	1,214	1,807	7,581	-	61,588
<b>Total Revenues</b>	<b>289,464</b>	<b>202,540</b>	<b>936,095</b>	<b>380,956</b>	<b>304,016</b>	<b>111,801</b>	<b>1,807</b>	<b>7,581</b>		<b>2,234,260</b>
<b>Expenditures:</b>										
Current:										
General government	400,829	-	-	-	-	-	-	-	-	400,829
Streets and public works	-	-	376,860	-	417,303	-	-	-	-	794,163
Parks and recreation	-	-	-	2,100	-	-	-	-	-	2,100
Cemetery	-	84,436	-	-	-	-	-	-	-	84,436
Capital outlay	-	-	-	27,470	-	-	-	-	-	27,470
Debt service - bond fees	-	-	-	-	-	2,100	-	-	-	2,100
<b>Total Expenditures</b>	<b>400,829</b>	<b>84,436</b>	<b>376,860</b>	<b>29,570</b>	<b>417,303</b>	<b>2,100</b>	<b>-</b>	<b>-</b>		<b>1,311,098</b>
Excess (deficiency) of revenues over (under) expenditures	(111,365)	118,104	559,235	351,386	(113,287)	109,701	1,807	7,581		923,162
<b>Other Financing Sources:</b>										
Sale of capital assets	126,318	-	-	-	-	-	-	-	-	126,318
Transfers in	106,924	8,444	-	25,000	567,000	150,000	-	-	-	857,368
Transfers out	(25,000)	(126,548)	-	(250,000)	-	(50,000)	-	-	-	(451,548)
<b>Total Other Financing Sources</b>	<b>208,242</b>	<b>(118,104)</b>	<b>-</b>	<b>(225,000)</b>	<b>567,000</b>	<b>100,000</b>	<b>-</b>	<b>-</b>		<b>532,138</b>
<b>Net Change in Fund Balances</b>	<b>96,877</b>	<b>-</b>	<b>559,235</b>	<b>126,386</b>	<b>453,713</b>	<b>209,701</b>	<b>1,807</b>	<b>7,581</b>		<b>1,455,300</b>
<b>Fund Balances, Beginning</b>	<b>128,867</b>	<b>-</b>	<b>-</b>	<b>919,684</b>	<b>778,281</b>	<b>27,937</b>	<b>107,487</b>	<b>450,889</b>		<b>2,413,145</b>
<b>Fund Balances, Ending</b>	<b>\$ 225,744</b>	<b>\$ -</b>	<b>\$ 559,235</b>	<b>\$ 1,046,070</b>	<b>\$ 1,231,994</b>	<b>\$ 237,638</b>	<b>\$ 109,294</b>	<b>\$ 458,470</b>		<b>\$ 3,868,445</b>

## **SUPPLEMENTAL REPORTS**



KEDDINGTON & CHRISTENSEN, CPAs

CERTIFIED PUBLIC ACCOUNTANTS

Gary K. Keddington, CPA

Phyl R. Warnock, CPA

Marcus K. Arbuckle, CPA

Steven M. Rowley, 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, 2018, 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 27, 2018.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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 27, 2018



KEDDINGTON & CHRISTENSEN, CPAs

CERTIFIED PUBLIC ACCOUNTANTS

Gary K. Keddington, CPA

Phyl R. Warnock, CPA

Marcus K. Arbuckle, CPA

Steven M. Rowley, CPA

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
AS REQUIRED BY THE STATE COMPLIANCE AUDIT GUIDE**

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

**Report on Compliance**

We have audited Highland City, Utah's (the City) compliance with the applicable state compliance requirements described in the *State Compliance Audit Guide*, issued by the Office of the State Auditor, that could have a direct and material effect on the City for the year ended June 30, 2018.

State compliance requirements were tested for the year ended June 30, 2018 in the following areas:

- Budgetary Compliance
- Fund Balance
- Justice Courts
- Utah Retirement System
- Restricted Taxes and Related Restricted Revenues
- Open and Public Meetings Act
- Treasurer's Bond
- Enterprise Fund Transfers, Reimbursements, Loans, and Services
- Tax Levy Revenue Recognition

***Management's Responsibility***

Management is responsible for compliance with the 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 state 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 state compliance requirements referred to above that could have a direct and material effect on a state compliance requirement 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 for each state compliance requirement referred to above. However, our audit does not provide a legal determination of the City's compliance with those requirements.

***Opinion on Compliance***

In our opinion, Highland City, Utah complied, in all material respects, with the state compliance requirements referred to above for the year ended June 30, 2018.

## **Report on Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the state compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the state compliance requirements referred to above to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with those 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 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 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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

*Keddington & Christensen, LLC*

Salt Lake City, Utah  
December 27, 2018