

**HIGHLAND CITY, UTAH  
FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2020**



**HIGHLAND CITY**

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## **FINANCIAL SECTION**

**INDEPENDENT AUDITOR'S REPORT**

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

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

**Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the General Fund budgetary comparison schedule, and the aggregate remaining fund information of Highland City, Utah (the City) as of and for the year ended June 30, 2020, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type-activities, the General Fund budgetary comparison schedule, and the aggregate remaining fund information of Highland City, Utah as of June 30, 2020, 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, schedule of contributions, and notes to the required supplementary information, as noted in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards 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 and the schedule of the expenditures of federal awards 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 January 13, 2021 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  
January 13, 2021

**HIGHLAND CITY, UTAH**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For The Year Ended June 30, 2020**

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, 2020.

**Financial Highlights**

The City created one new fund for fiscal year 2020: information technology (IT) internal service fund. The internal service fund was created to manage the costs associated with computer and IT equipment across the departments and funds of the City.

The assets and deferred outflows of resources of Highland City exceeded its liabilities and deferred inflows of resources at June 30, 2020 by \$129,884,698 (net position). Of this amount \$20,382,641 (unrestricted net position) may be used to meet the government's ongoing obligations.

Highland City's total net position increased by \$4,073,301. The majority of the increase was the result of assets contributed to the City from developers, and increases in charges for services.

Highland City's governmental funds reported combined ending fund balances at June 30, 2020 of \$11,351,573, an increase of \$3,896,940 in comparison to the prior year. At June 30, 2020 unrestricted fund balance of the general fund was \$2,660,006, or 33.6% of total general fund expenditures for the year.

**Overview of the Financial Statements**

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

**Government-wide Financial Statements**

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

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

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

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

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

**HIGHLAND CITY, UTAH**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For The Year Ended June 30, 2020**

**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 eleven (11) 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, debt service fund, and capital projects – parks 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 fund to demonstrate compliance with the approved budget amounts.

**Proprietary funds**

Highland City maintains two types of proprietary funds: enterprise funds and an internal service 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. The City created the internal service fund to account for IT services purchased and used throughout the City's departments and funds.

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, and include a separate column for the internal service fund.

**Notes to the Financial Statements**

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

**Other Information**

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

**HIGHLAND CITY, UTAH**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For The Year Ended June 30, 2020**

**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 \$129,884,698 at the close of the fiscal year. The largest portion (82%) 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 2020	Governmental Activities 2019	Business-type Activities 2020	Business-type Activities 2019	Total 2020	Total 2019
Current and other assets	\$ 16,169,221	\$ 12,183,383	\$ 13,445,507	\$ 12,448,936	\$ 29,614,728	\$ 24,632,319
Capital assets	64,560,831	68,010,833	51,406,478	49,840,874	115,967,309	117,851,707
Total Assets	80,730,052	80,194,216	64,851,985	62,289,810	145,582,037	142,484,026
Deferred outflows of resources	415,033	605,573	84,117	166,166	499,150	771,739
Total Assets and Deferred Outflows	\$ 81,145,085	\$ 80,799,789	\$ 64,936,102	\$ 62,455,976	\$146,081,187	\$143,255,765
Current and other liabilities	\$ 2,785,914	\$ 2,778,729	\$ 569,266	\$ 406,655	\$ 3,355,180	\$ 3,185,384
Long-term liabilities	7,631,526	8,688,384	2,873,280	3,490,682	10,504,806	12,179,066
Total Liabilities	10,417,440	11,467,113	3,442,546	3,897,337	13,859,986	15,364,450
Deferred inflows of resources	2,250,271	2,068,153	86,232	11,765	2,336,503	2,079,918
Net Position:						
Net investment in capital assets	57,706,042	60,216,471	48,829,685	46,802,261	106,535,727	107,018,732
Restricted	1,697,839	92,294	1,268,491	1,025,470	2,966,330	1,117,764
Unrestricted	9,073,493	6,955,758	11,309,148	10,719,143	20,382,641	17,674,901
Total Net Position	68,477,374	67,264,523	61,407,324	58,546,874	129,884,698	125,811,397
Total Liabilities, deferred inflows of Resources, and Net Position	\$ 81,145,085	\$ 80,799,789	\$ 64,936,102	\$ 62,455,976	\$146,081,187	\$143,255,765

**HIGHLAND CITY, UTAH**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For The Year Ended June 30, 2020**

	Governmental Activities 2020	Governmental Activities 2019	Business-type Activities 2020	Business-type Activities 2019	Total 2020	Total 2019
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 4,633,850	\$ 3,752,405	\$ 5,865,060	\$ 6,066,844	\$ 10,498,910	\$ 9,819,249
Operating grants and contributions	1,636,889	24,267	-	-	1,636,889	24,267
Capital grants and contributions	1,739,503	4,007,102	1,778,332	2,282,432	3,517,835	6,289,534
General revenues:						
Property and uniform vehicle taxes	2,353,357	2,299,073	-	-	2,353,357	2,299,073
Other Taxes	4,010,672	3,520,143	-	-	4,010,672	3,520,143
Other	248,753	193,680	245,458	283,490	494,211	477,170
Gain (Loss) on disposal of assets	(519,543)	486,640	10,757	14,295	(508,786)	500,935
Total Revenues	<u>14,103,481</u>	<u>14,283,310</u>	<u>7,899,607</u>	<u>8,647,061</u>	<u>22,003,088</u>	<u>22,930,371</u>
<b>Expenses:</b>						
General government	2,805,221	2,358,483	-	-	2,805,221	2,358,483
Public safety	4,371,573	3,675,666	-	-	4,371,573	3,675,666
Streets and public improvements	3,579,912	4,772,101	-	-	3,579,912	4,772,101
Parks and recreation	1,075,016	845,937	-	-	1,075,016	845,937
Cemetery	193,682	160,896	-	-	193,682	160,896
Garbage	795,389	843,248	-	-	795,389	843,248
Interest on long-term debt	177,837	220,100	-	-	177,837	220,100
Water	-	-	1,025,185	1,013,827	1,025,185	1,013,827
Pressurized irrigation	-	-	1,411,249	1,394,696	1,411,249	1,394,696
Storm sewer	-	-	498,826	418,399	498,826	418,399
Sewer	-	-	1,995,897	2,096,932	1,995,897	2,096,932
Total Expenses	<u>12,998,630</u>	<u>12,876,431</u>	<u>4,931,157</u>	<u>4,923,854</u>	<u>17,929,787</u>	<u>17,800,285</u>
Increase (Decrease) in net position before transfers						
Transfers	1,104,851	1,406,879	2,968,450	3,723,207	4,073,301	5,130,086
Transfers	<u>108,000</u>	<u>-</u>	<u>(108,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>1,212,851</u>	<u>1,406,879</u>	<u>2,860,450</u>	<u>3,723,207</u>	<u>4,073,301</u>	<u>5,130,086</u>
Net Position - Beginning	<u>67,264,523</u>	<u>65,857,644</u>	<u>58,546,874</u>	<u>54,823,667</u>	<u>125,811,397</u>	<u>120,681,311</u>
Net Position - Ending	<u>\$ 68,477,374</u>	<u>\$ 67,264,523</u>	<u>\$ 61,407,324</u>	<u>\$ 58,546,874</u>	<u>\$ 129,884,698</u>	<u>\$ 125,811,397</u>

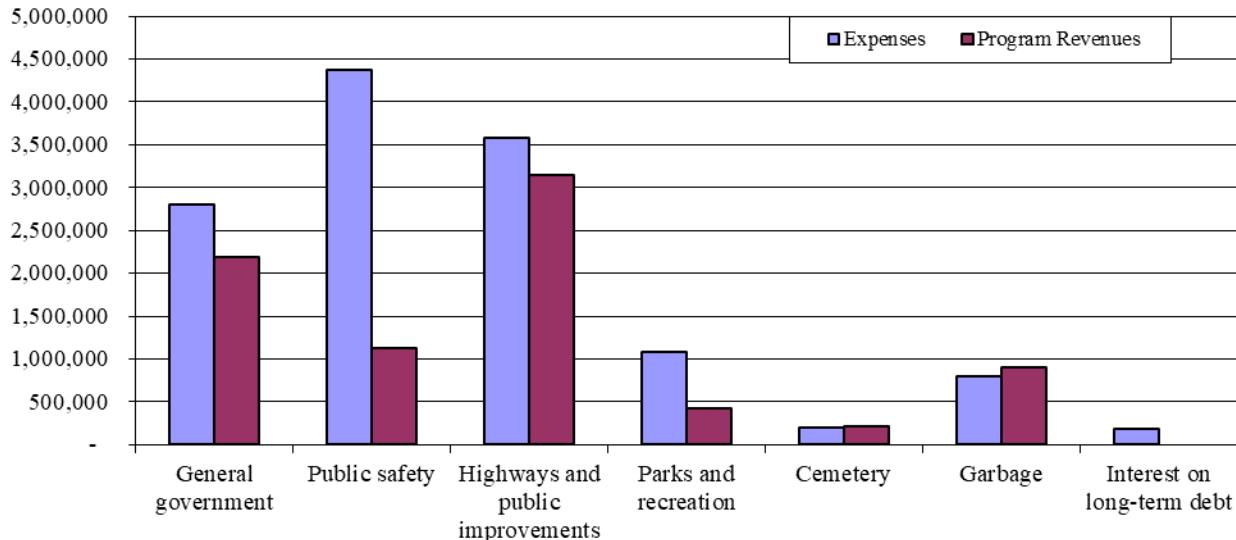
Governmental activities. As noted in the table above, governmental activities increased the City's net position by \$1,212,851. The key element of the increase was assets contributed by developers. Some increases in property and sales tax revenues, also contributed to the overall increase.

Business-type activities. As noted in the table above, business-type activities increased the City's net position by \$2,860,450. The key elements of the increase from the prior year were increases in charges for services, and conservative spending.

**HIGHLAND CITY, UTAH**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For The Year Ended June 30, 2020**

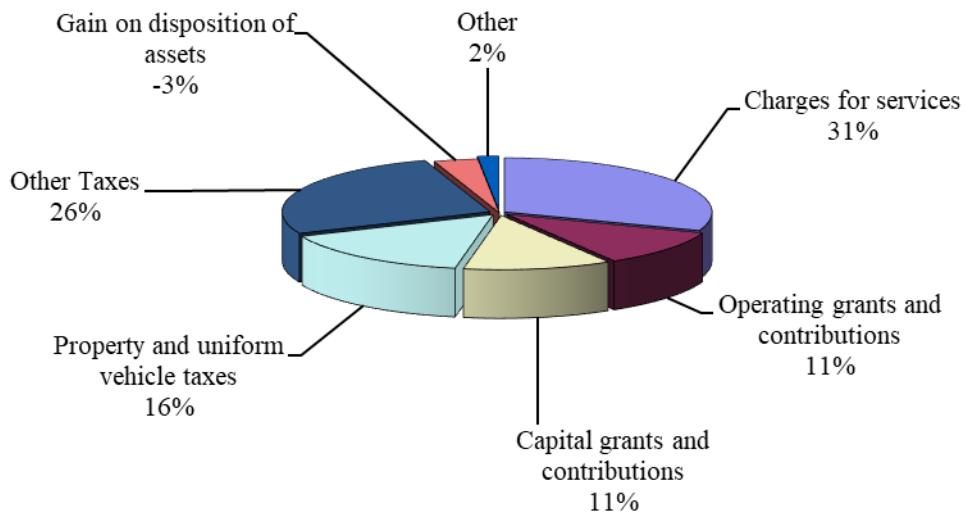
The following chart displays the governmental activities program revenues compared to expenses attributed to the activity.

**Expenses and Program Revenues - Governmental Activities**



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

**Revenues by Source - Governmental Activities**

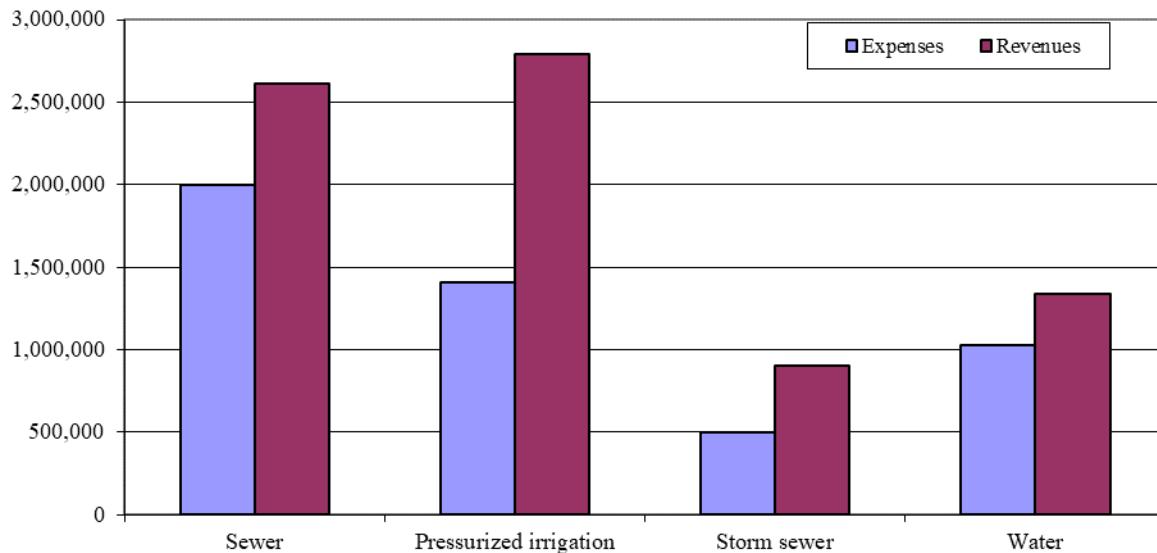


**HIGHLAND CITY, UTAH**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For The Year Ended June 30, 2020**

**Business-type Activities**

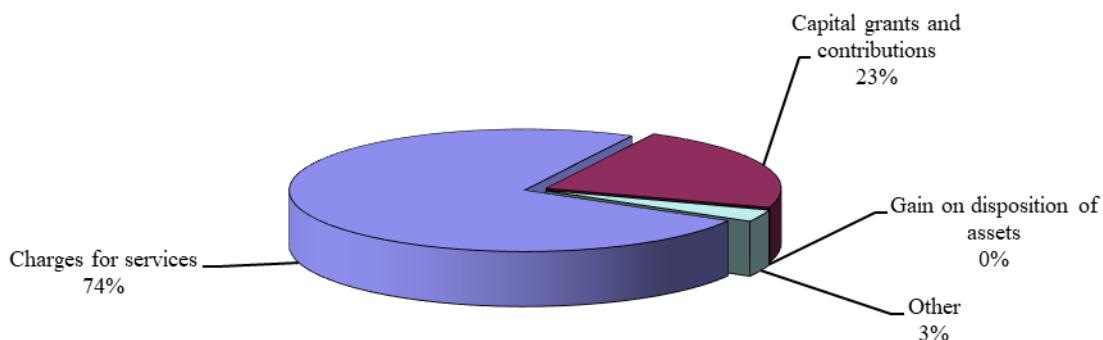
The following chart displays the business-type activities revenues compared to program expenses attributed to the activity. Traditionally business-type activities are self-supporting and the chart depicts the relationship of revenues to expenses.

**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, 2020**

**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, 2020, the City's governmental funds reported combined ending fund balances of \$11,351,573, which was an increase of \$3,896,940 in comparison with the prior year.

The general fund is the main operating fund of the City. At June 30, 2020, unrestricted fund balance of the general fund was \$2,660,006. 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 33.6% 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.

**Sewer fund**-Unrestricted net position at June 30, 2020 amounted to \$4,188,399, an increase of \$575,167 from the previous year. Operating revenues were \$2,084,704 compared to the prior year's \$2,050,746. Operating expenses decreased slightly to \$1,996,735 compared to the prior year expenses of \$2,096,932.

**Pressurized Irrigation fund**-Unrestricted net position at June 30, 2020 amounted to \$3,484,475, an increase of \$489,560 from the previous year. Operating revenues were \$2,314,430, a decrease from prior year's operating revenue of \$2,620,064. Operating expenses were \$1,363,557, an increase from last year's \$1,303,650.

**Culinary Water Fund**-Unrestricted net position at June 30, 2020 amounted to \$2,283,424 a decrease of \$508,301 from the previous year. Operating revenues were \$903,415, an increase from the prior year's \$871,108 operating revenues. Operating expenses were \$1,026,062, which was an increase from the prior year's \$1,013,827 operating expenses.

**Storm sewer fund (nonmajor)**- Unrestricted net position at June 30, 2020 amounted to \$1,349,485 an increase of \$30,214 from the previous year. Operating revenues were \$573,268, an increase from the prior year's \$524,926 and operating expenses of \$499,599 an increase from the prior year's \$418,399 of operating expenses.

**IT internal service fund**- As this is the first year of implementing an internal service fund, there is no comparison information available. Unrestricted net position at June 30, 2020 amounted to \$14,856. Operating revenues were \$20,000, and operating expenses of \$14,856.

**General Fund Budgetary Highlights**

During the fiscal year, the general funds original budgeted expenditures was amended from \$7,789,677 to a final budget total of \$8,063,693, largely as the result of anticipated increases of General Government expenditures related to the Coronavirus Relief Funds that were awarded to the City. Overall the City's general fund was within budgeted expenditures by \$150,324, however, the General Government department was slightly over budget for the fiscal year ended June 30, 2020 as a result of unexpected expenditures near year-end.

**HIGHLAND CITY, UTAH**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For The Year Ended June 30, 2020**

**Capital Assets and Debt Administration**

*Capital Assets.* Highland City's investment in capital assets from governmental and business-type activities as of June 30, 2020 was \$115,967,309 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure, and water stock. The total decrease in the City's investment in capital assets for the current year was \$1,884,398, which is primarily as a result of asset disposals of \$2,504,303 and depreciation of \$4,003,846 offset by contributions from developers and other asset additions during the year.

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

**Highland City's Capital Assets**

	Governmental Activities 2020	Governmental Activities 2019	Business-type Activities 2020	Business-type Activities 2019	Total 2020	Total 2019
Land	\$ 37,029,600	\$ 39,533,903	\$ 534,455	\$ 534,455	\$ 37,564,055	\$ 40,068,358
Buildings	14,385,608	14,080,927	1,157,289	1,157,289	15,542,897	15,238,216
Improvements other than buildings	76,525,787	75,409,787	43,593,332	41,092,347	120,119,119	116,502,134
Machinery and equipment	2,290,487	2,258,079	2,539,598	2,127,840	4,830,085	4,385,919
Construction in progress	581,836	341,129	-	-	581,836	341,129
Water shares	-	-	24,085,035	24,085,035	24,085,035	24,085,035
Total	130,813,318	131,623,825	71,909,709	68,996,966	202,723,027	200,620,791
Less accumulated depreciation	(66,252,487)	(63,612,992)	(20,503,231)	(19,156,092)	(86,755,718)	(82,769,084)
<b>Total Capital Assets</b>	<b>\$ 64,560,831</b>	<b>\$ 68,010,833</b>	<b>\$ 51,406,478</b>	<b>\$ 49,840,874</b>	<b>\$115,967,309</b>	<b>\$117,851,707</b>

Additional information on the City's capital assets is available in Note 6 to the financial statements.

*Long-term debt.* On June 30, 2020 the City had total bonded debt outstanding of \$7,950,000.

**Highland City's Outstanding Debt**

	Governmental Activities 2020	Governmental Activities 2019	Business-type Activities 2020	Business-type Activities 2019	Total 2020	Total 2019
General obligation bonds	\$ -	\$ -	\$ -	\$ 1,201,633	\$ -	\$ 1,201,633
Revenue bonds	7,128,000	7,892,000	822,000	-	7,950,000	7,892,000
Notes payable	-	-	1,754,793	1,836,980	1,754,793	1,836,980
Compensated absences	218,136	205,409	109,854	109,410	327,990	314,819
<b>Total</b>	<b>\$ 7,346,136</b>	<b>\$ 8,097,409</b>	<b>\$ 2,686,647</b>	<b>\$ 3,148,023</b>	<b>\$10,032,783</b>	<b>\$11,245,432</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 \$1,662,648,205, 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, 2020 the City's limitation was \$66,505,928 and the additional limitation was \$133,011,856. The City's general obligation bonds were refunded in fiscal year 2020.

Additional information about the City's long-term debt is available in Note 11 to the financial statements.

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

The fiscal year 2020-2021 budget and rates are based on the forecast that the Utah economy will have been negatively impacted from the global Coronavirus pandemic. Sales tax revenues are budgeted to decrease somewhat as job losses and business closings continue. Permit and fee revenues are expected to increase slightly based on increase in new construction in Highland. A slight increase in debt service expenditures was factored in as a result of the refunding bonds issued in fiscal year 2019-2020. These factors and other factors were considered in preparing the fiscal year 2021 budget.

**HIGHLAND CITY, UTAH**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For The Year Ended June 30, 2020**

**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, 2020**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Cash and cash equivalents	\$ 9,624,692	\$ 12,124,276	\$ 21,748,968
Receivables:			
Accounts	23,833	49,375	73,208
Taxes	2,756,752	-	2,756,752
Internal Balances	(3,365)	3,365	-
Prepaid expenses	813,773	-	813,773
Restricted amounts:			
Cash and cash equivalents	2,819,780	1,268,491	4,088,271
Receivables - B & C road funds	133,756		133,756
Capital Assets:			
Non-depreciable Capital Assets	37,611,436	24,619,490	62,230,926
Depreciable Capital Assets (net)	26,949,395	26,786,988	53,736,383
Net Pension Asset	-	-	-
<b>Total Assets</b>	<b>80,730,052</b>	<b>64,851,985</b>	<b>145,582,037</b>
<b>Deferred Outflows of Resources</b>			
Deferred loss on refunding	273,211	-	273,211
Deferred outflows relating to pensions	141,822	84,117	225,939
<b>Total Deferred Outflows of Resources</b>	<b>415,033</b>	<b>84,117</b>	<b>499,150</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 81,145,085</b>	<b>\$ 64,936,102</b>	<b>\$ 146,081,187</b>
<b>Liabilities:</b>			
Accounts payable	\$ 1,227,143	\$ 520,544	\$ 1,747,687
Accrued liabilities	105,402	30,056	135,458
Accrued interest payable	38,281	18,666	56,947
Developer and customer deposits	746,448	-	746,448
Unearned revenues	545,260	-	545,260
Payable from restricted assets	123,380	-	123,380
Noncurrent Liabilities:			
Due within one year	939,889	544,307	1,484,196
Due in more than one year	6,406,247	2,142,340	8,548,587
Net pension liability	285,390	186,633	472,023
<b>Total Liabilities</b>	<b>10,417,440</b>	<b>3,442,546</b>	<b>13,859,986</b>
<b>Deferred Inflows of Resources</b>			
Unearned property tax revenue	2,058,524	-	2,058,524
Deferred inflows relating to pensions	191,747	86,232	277,979
<b>Total Deferred Inflows of Resources</b>	<b>2,250,271</b>	<b>86,232</b>	<b>2,336,503</b>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>12,667,711</b>	<b>3,528,778</b>	<b>16,196,489</b>
<b>Net Position:</b>			
Net investment in capital assets	57,706,042	48,829,685	106,535,727
Restricted for:			
Debt Service / park construction	-	30,132	30,132
Impact fees	1,396,906	1,238,359	2,635,265
Open space	157,853	-	157,853
Unrestricted	9,073,493	11,309,148	20,382,641
<b>Total Net Position</b>	<b>68,477,374</b>	<b>61,407,324</b>	<b>129,884,698</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<b>\$ 81,145,085</b>	<b>\$ 64,936,102</b>	<b>\$ 146,081,187</b>

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, 2020**

Functions/Programs	Program Revenues				Net (Expense) Revenue & Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental Activities:</b>							
General government	\$ 2,805,221	\$ 2,177,335	\$ 10,833	\$ -	\$ (617,053)	\$ -	\$ (617,053)
Public safety	4,371,573	214,431	839,718	75,883	(3,241,541)	-	(3,241,541)
Streets and public works	3,579,912	1,111,578	786,338	1,247,684	(434,312)	-	(434,312)
Parks and recreation	1,075,016	9,998	-	415,936	(649,082)	-	(649,082)
Cemetery	193,682	220,410	-	-	26,728	-	26,728
Garbage	795,389	900,098	-	-	104,709	-	104,709
Interest on long term debt	177,837	-	-	-	(177,837)	-	(177,837)
<b>Total Governmental Activities</b>	<b>12,998,630</b>	<b>4,633,850</b>	<b>1,636,889</b>	<b>1,739,503</b>	<b>(4,988,388)</b>	<b>-</b>	<b>(4,988,388)</b>
<b>Business-type Activities:</b>							
Sewer	1,995,897	2,084,704	-	525,746	-	614,553	614,553
Pressurized irrigation	1,411,249	2,314,430	-	472,281	-	1,375,462	1,375,462
Storm sewer	498,826	562,511	-	342,161	-	405,846	405,846
Water	1,025,185	903,415	-	438,144	-	316,374	316,374
<b>Total Business-type Activities</b>	<b>4,931,157</b>	<b>5,865,060</b>	<b>-</b>	<b>1,778,332</b>	<b>-</b>	<b>2,712,235</b>	<b>2,712,235</b>
<b>Total Government</b>	<b>\$ 17,929,787</b>	<b>\$ 10,498,910</b>	<b>\$ 1,636,889</b>	<b>\$ 3,517,835</b>	<b>(4,988,388)</b>	<b>2,712,235</b>	<b>(2,276,153)</b>
<b>General Revenues:</b>							
Taxes:							
Property				2,184,173	-	2,184,173	
Vehicle				169,184	-	169,184	
Sales				2,988,390	-	2,988,390	
Franchise				1,022,282	-	1,022,282	
Unrestricted investment earnings				218,050	245,458	463,508	
Gain (Loss) on disposal of assets				(519,543)	10,757	(508,786)	
Miscellaneous				30,703	-	30,703	
<b>Transfers</b>				<b>108,000</b>	<b>(108,000)</b>		<b>-</b>
<b>Total General Revenues</b>				<b>6,201,239</b>	<b>148,215</b>	<b>6,349,454</b>	
<b>Changes in Net Position</b>					1,212,851	2,860,450	4,073,301
<b>Net Position, Beginning</b>					<b>67,264,523</b>	<b>58,546,874</b>	<b>125,811,397</b>
<b>Net Position, Ending</b>					<b>\$ 68,477,374</b>	<b>\$ 61,407,324</b>	<b>\$ 129,884,698</b>

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

**HIGHLAND CITY, UTAH**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2020**

	<b>General Fund</b>	<b>Debt Service</b>	<b>Capital Projects Parks</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>					
Cash and cash equivalents	\$ 3,119,688	\$ 10,898	\$ 3,474,464	\$ 3,004,786	\$ 9,609,836
Receivables:				-	
Accounts	12,462	-	-	11,371	23,833
Taxes	2,480,808	-	-	275,944	2,756,752
Prepaid expenses	813,773	-	-	-	813,773
Restricted amounts:					
Cash and cash equivalents	1,299,494	-	104,558	1,415,728	2,819,780
Receivable - B & C roads	133,756	-	-	-	133,756
<b>Total Assets</b>	<b>\$ 7,859,981</b>	<b>\$ 10,898</b>	<b>\$ 3,579,022</b>	<b>\$ 4,707,829</b>	<b>\$ 16,157,730</b>
<b>Liabilities:</b>					
Accounts payable	\$ 1,075,722	\$ -	\$ -	\$ 151,421	\$ 1,227,143
Accrued liabilities	86,334	-	-	19,068	105,402
Developer bonds - payable from restricted	746,448	-	-	-	746,448
Unearned revenue	545,260	-	-	-	545,260
Payable from restricted assets	-	-	104,558	18,822	123,380
<b>Total Liabilities</b>	<b>2,453,764</b>	<b>-</b>	<b>104,558</b>	<b>189,311</b>	<b>2,747,633</b>
<b>Deferred Inflows of Resources</b>					
Unearned property tax revenue	1,789,358	-	-	269,166	2,058,524
<b>Total Deferred Inflows of Resources</b>	<b>1,789,358</b>	<b>-</b>	<b>-</b>	<b>269,166</b>	<b>2,058,524</b>
<b>Fund Balances:</b>					
Nonspendable:					
Prepaid expenses	813,773	-	-	-	813,773
Restricted for:					
Impact fees	-	-	-	1,396,906	1,396,906
B & C roads	143,080	-	-	-	143,080
Assigned to:					
Cemetery	-	-	-	13,992	13,992
Library	-	-	-	37,735	37,735
Debt service	-	10,898	-	-	10,898
Capital projects & open space funds	-	-	3,474,464	2,800,719	6,275,183
Unassigned	2,660,006	-	-	-	2,660,006
<b>Total Fund Balances</b>	<b>3,616,859</b>	<b>10,898</b>	<b>3,474,464</b>	<b>4,249,352</b>	<b>11,351,573</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 7,859,981</b>	<b>\$ 10,898</b>	<b>\$ 3,579,022</b>	<b>\$ 4,707,829</b>	<b>\$ 16,157,730</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, 2020**

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

<b>Total Fund Balances - Governmental Funds</b>	\$ 11,351,573
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	64,560,831
Deferred loss on refunding of debt is not a financial resource, and therefore, is not reported in the funds.	273,211
Interest expense is not due and payable in the current period and therefore is not recorded in the funds.	(38,281)
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.	(335,315)
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.	(7,346,136)
Internal service funds are used by management to charge the cost of IT services to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.	11,491
<b>Total Net Position - Governmental Activities</b>	<u>\$ 68,477,374</u>

**HIGHLAND CITY, UTAH**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES – GOVERNMENTAL FUNDS**  
**For The Year Ended June 30, 2020**

	<b>General Fund</b>	<b>Debt Service</b>	<b>Capital Projects Parks</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>					
Taxes	\$ 6,053,121	\$ -	\$ -	\$ 310,908	\$ 6,364,029
Licenses and permits	579,553	-	-	-	579,553
Intergovernmental	1,626,056	-	-	-	1,626,056
Impact fees	-	-	372,886	300,128	673,014
Charges for services	2,058,671	-	-	1,583,743	3,642,414
Fines and forfeitures	214,431	-	-	12,375	226,806
Contributions from other governments	-	-	-	10,833	10,833
Interest	81,343	-	57,164	79,543	218,050
Miscellaneous	30,703	-	-	-	30,703
<b>Total Revenues</b>	<b>10,643,878</b>	<b>-</b>	<b>430,050</b>	<b>2,297,530</b>	<b>13,371,458</b>
<b>Expenditures:</b>					
Current:					
General government	1,482,967	-	-	1,071,111	2,554,078
Public safety	4,186,949	-	-	-	4,186,949
Streets and public works	804,054	-	-	1,094,736	1,898,790
Parks and recreation	643,736	-	73,728	-	717,464
Cemetery	-	-	-	206,652	206,652
Garbage	795,663	-	-	-	795,663
Capital outlay	-	-	-	231,048	231,048
Debt service:					
Principal	-	799,000	-	-	799,000
Interest	-	172,508	2,100	3,026	177,634
Financing costs	-	28,584	-	-	28,584
<b>Total Expenditures</b>	<b>7,913,369</b>	<b>1,000,092</b>	<b>75,828</b>	<b>2,606,573</b>	<b>11,595,862</b>
Excess (deficiency) of revenues over (under) expenditures	2,730,509	(1,000,092)	354,222	(309,043)	1,775,596
<b>Other Financing Sources (Uses):</b>					
Sale of capital assets	-	-	1,935,494	49,266	1,984,760
Bond proceeds - refunding bonds	-	2,886,000	-	-	2,886,000
Payment to refunded bond escrow agent	-	(2,857,416)	-	-	(2,857,416)
Transfers in	108,000	978,000	-	1,324,000	2,410,000
Transfers out	(1,642,000)	-	(300,000)	(360,000)	(2,302,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,534,000)</b>	<b>1,006,584</b>	<b>1,635,494</b>	<b>1,013,266</b>	<b>2,121,344</b>
<b>Net Change in Fund Balances</b>	<b>1,196,509</b>	<b>6,492</b>	<b>1,989,716</b>	<b>704,223</b>	<b>3,896,940</b>
<b>Fund Balances, Beginning</b>	<b>2,420,350</b>	<b>4,406</b>	<b>1,484,748</b>	<b>3,545,129</b>	<b>7,454,633</b>
<b>Fund Balances, Ending</b>	<b>\$ 3,616,859</b>	<b>\$ 10,898</b>	<b>\$ 3,474,464</b>	<b>\$ 4,249,352</b>	<b>\$ 11,351,573</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, 2020**

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

**Net Change in Fund Balances - Total Governmental Funds**      \$      3,896,940

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	644,514
Depreciation expense	(2,656,702)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.

Net book value of disposals	(2,504,303)
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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.

1,066,489

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	799,000
Issuance of bonds for refunding	(2,886,000)
Deposit of funds to refund debt	2,851,000

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.

(964)

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, amortization of the deferred loss on bond refunding, and change in compensated absences.

Accrued interest	33,949
Amortization of deferred loss	(29,836)
Compensated absences	(12,727)

Internal service funds are used by management to charge the cost of IT services to individual funds. The net revenues of certain activities of internal service funds is reported with governmental activities.

11,491

**Changes in net position of governmental activities**

\$ 1,212,851

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

**HIGHLAND CITY, UTAH**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES – BUDGET AND ACTUAL – GENERAL FUND**  
**For The Year Ended June 30, 2020**

	<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	\$ 5,871,078	\$ 5,685,701	\$ 6,053,121	\$ 367,420
Licenses and permits	376,497	506,180	579,553	73,373
Intergovernmental	801,500	816,103	1,626,056	809,953
Charges for services	1,984,323	1,990,438	2,058,671	68,233
Fines and forfeitures	155,000	210,025	214,431	4,406
Interest	50,000	45,914	81,343	35,429
Miscellaneous	20,000	52,257	30,703	(21,554)
<b>Total Revenues</b>	<b>9,258,398</b>	<b>9,306,618</b>	<b>10,643,878</b>	<b>1,337,260</b>
<b>Expenditures:</b>				
Current:				
General government	1,229,243	1,466,214	1,482,967	(16,753)
Public safety	4,186,950	4,186,950	4,186,949	1
Streets and public works	847,568	885,440	804,054	81,386
Parks and recreation	712,188	706,269	643,736	62,533
Garbage	813,728	818,820	795,663	23,157
<b>Total Expenditures</b>	<b>7,789,677</b>	<b>8,063,693</b>	<b>7,913,369</b>	<b>150,324</b>
Excess (deficiency) of revenues over (under) expenditures	1,468,721	1,242,925	2,730,509	1,487,584
<b>Other Financing Sources (Uses):</b>				
Transfers in	138,000	138,000	108,000	(30,000)
Transfers out	(1,681,072)	(1,642,000)	(1,642,000)	-
<b>Total Other Financing Sources (Uses)</b>	<b>(1,543,072)</b>	<b>(1,504,000)</b>	<b>(1,534,000)</b>	<b>(30,000)</b>
<b>Net Change in Fund Balances</b>	<b>\$ (74,351)</b>	<b>\$ (261,075)</b>	<b>1,196,509</b>	<b>\$ 1,457,584</b>
<b>Fund Balance, Beginning</b>			<b>2,420,350</b>	
<b>Fund Balance, Ending</b>			<b>\$ 3,616,859</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, 2020**

	Business-type Activities - Enterprise Funds					Governmental Activities	
	Sewer	Pressurized Irrigation	Culinary Water	Nonmajor		IT Internal Service	
				Storm Sewer	Total		
<b>Assets:</b>							
<b>Current Assets:</b>							
Cash and cash equivalents	\$ 4,473,340	\$ 3,769,811	\$ 2,461,746	\$ 1,419,379	\$ 12,124,276	\$ 14,856	
Restricted cash and cash equivalents	486,057	782,434	-	-	1,268,491	-	
Accounts receivable	18,398	14,711	12,133	4,133	49,375	-	
<b>Total Current Assets</b>	<b>4,977,795</b>	<b>4,566,956</b>	<b>2,473,879</b>	<b>1,423,512</b>	<b>13,442,142</b>	<b>14,856</b>	
<b>Noncurrent Assets:</b>							
Capital assets:							
Nondepreciable							
Water shares	-	22,447,186	1,637,849	-	24,085,035	-	
Land	26,540	277,450	107,132	123,333	534,455	-	
Depreciable							
Buildings	-	663,667	493,622	-	1,157,289	-	
Infrastructure	11,937,901	15,493,173	10,910,966	5,251,292	43,593,332	-	
Machinery and equipment	346,667	295,923	1,582,541	314,467	2,539,598	-	
Less accumulated depreciation	(5,505,501)	(7,218,891)	(6,060,406)	(1,718,433)	(20,503,231)	-	
<b>Total Noncurrent Assets</b>	<b>6,805,607</b>	<b>31,958,508</b>	<b>8,671,704</b>	<b>3,970,659</b>	<b>51,406,478</b>	<b>-</b>	
<b>Total Assets</b>	<b>11,783,402</b>	<b>36,525,464</b>	<b>11,145,583</b>	<b>5,394,171</b>	<b>64,848,620</b>	<b>14,856</b>	
<b>Deferred Outflows of Resources</b>							
Deferred outflows relating to pensions	28,441	12,352	21,786	21,538	84,117	-	
<b>Liabilities:</b>							
<b>Current Liabilities:</b>							
Accounts payable	\$ 198,969	\$ 209,600	\$ 104,899	\$ 7,076	\$ 520,544	\$ -	
Accrued liabilities	9,963	7,353	8,090	4,650	30,056	-	
Accrued interest payable	-	18,666	-	-	18,666	-	
Compensated absences	11,259	14,455	12,647	9,155	47,516	-	
Notes payable	-	86,791	-	-	86,791	-	
Bonds payable - current	-	410,000	-	-	410,000	-	
<b>Total Current Liabilities</b>	<b>220,191</b>	<b>746,865</b>	<b>125,636</b>	<b>20,881</b>	<b>1,113,573</b>	<b>-</b>	
<b>Noncurrent Liabilities:</b>							
Compensated absences	23,589	11,569	15,852	11,328	62,338	-	
Notes payable	-	1,668,002	-	-	1,668,002	-	
Bonds payable	-	412,000	-	-	412,000	-	
Net pension liability	60,733	30,120	46,818	48,962	186,633	-	
<b>Total Noncurrent Liabilities</b>	<b>84,322</b>	<b>2,121,691</b>	<b>62,670</b>	<b>60,290</b>	<b>2,328,973</b>	<b>-</b>	
<b>Total Liabilities</b>	<b>304,513</b>	<b>2,868,556</b>	<b>188,306</b>	<b>81,171</b>	<b>3,442,546</b>	<b>-</b>	
<b>Deferred Inflows of Resources</b>							
Deferred inflows relating to pensions	27,267	20,636	23,935	14,394	86,232	-	
<b>Net Position:</b>							
Net investment in capital assets	6,805,607	29,381,715	8,671,704	3,970,659	48,829,685	-	
Restricted for impact fees	486,057	752,302	-	-	1,238,359	-	
Impact fees	486,057	752,302	-	-	1,238,359	-	
Debt service	-	30,132	-	-	30,132	-	
Unrestricted	4,188,399	3,484,475	2,283,424	1,349,485	11,305,783	14,856	
<b>Total Net Position</b>	<b>\$ 11,480,063</b>	<b>\$ 33,648,624</b>	<b>\$ 10,955,128</b>	<b>\$ 5,320,144</b>	<b>61,403,959</b>	<b>\$ 14,856</b>	
Adjustment to report the cumulative internal balance for the net effect of the activity between the internal service fund and the enterprise funds over time							
						<u>3,365</u>	
Net position of business-type activities						<u>\$ 61,407,324</u>	

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

**HIGHLAND CITY, UTAH**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN**  
**NET POSITION – PROPRIETARY FUNDS**  
**For The Year Ended June 30, 2020**

	Business-type Activities - Enterprise Funds					Governmental Activities	
	Sewer	Pressurized Irrigation	Culinary Water	Nonmajor			
				Storm Sewer	Total		
<b>Operating Revenues:</b>							
Charges for services	\$ 2,084,675	\$ 2,222,657	\$ 845,934	\$ 562,511	\$ 5,715,777	\$ 20,000	
Intergovernmental	-	91,773	-	-	91,773	-	
Connection fees	29	-	50,616	-	50,645	-	
Miscellaneous	-	-	6,865	10,757	17,622	-	
<b>Total Operating Revenues</b>	<b>2,084,704</b>	<b>2,314,430</b>	<b>903,415</b>	<b>573,268</b>	<b>5,875,817</b>	<b>20,000</b>	
<b>Operating Expenses:</b>							
Salaries and benefits	224,728	254,178	247,978	165,156	892,040	-	
Operations	1,385,300	676,357	423,129	161,989	2,646,775	5,144	
Depreciation	386,707	433,022	354,955	172,454	1,347,138	-	
<b>Total Operating Expenses</b>	<b>1,996,735</b>	<b>1,363,557</b>	<b>1,026,062</b>	<b>499,599</b>	<b>4,885,953</b>	<b>5,144</b>	
<b>Operating Income (Loss)</b>	<b>87,969</b>	<b>950,873</b>	<b>(122,647)</b>	<b>73,669</b>	<b>989,864</b>	<b>14,856</b>	
<b>Nonoperating Revenues (Expenses):</b>							
Impact fees	211,179	242,483	-	-	453,662	-	
Interest income	86,330	77,764	55,165	26,199	245,458	-	
Interest expense	-	(48,569)	-	-	(48,569)	-	
<b>Total Nonoperating Revenues (Expenses)</b>	<b>297,509</b>	<b>271,678</b>	<b>55,165</b>	<b>26,199</b>	<b>650,551</b>	<b>-</b>	
<b>Income (Loss) Before Contributions and transfers</b>	<b>385,478</b>	<b>1,222,551</b>	<b>(67,482)</b>	<b>99,868</b>	<b>1,640,415</b>	<b>14,856</b>	
<b>Capital Contributions</b>	<b>314,567</b>	<b>229,798</b>	<b>438,144</b>	<b>342,161</b>	<b>1,324,670</b>	<b>-</b>	
<b>Transfers out</b>	<b>-</b>	<b>(108,000)</b>	<b>-</b>	<b>-</b>	<b>(108,000)</b>	<b>-</b>	
<b>Changes in Net Position</b>	<b>700,045</b>	<b>1,344,349</b>	<b>370,662</b>	<b>442,029</b>	<b>2,857,085</b>	<b>14,856</b>	
<b>Net Position, Beginning</b>	<b>10,780,018</b>	<b>32,304,275</b>	<b>10,584,466</b>	<b>4,878,115</b>		<b>-</b>	
<b>Net Position, Ending</b>	<b>\$ 11,480,063</b>	<b>\$ 33,648,624</b>	<b>\$ 10,955,128</b>	<b>\$ 5,320,144</b>		<b>\$ 14,856</b>	
Adjustment for the net effect of the current year activity between the internal service fund and the enterprise funds.					3,365		
Changes in net position of business-type activities					\$ 2,860,450		

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, 2020**

	Business-type Activities - Enterprise Funds					Governmental Activities
	Nonmajor				Total	IT Internal Service
	Sewer	Pressurized Irrigation	Water	Storm Sewer		
<b>Cash Flows From Operating Activities:</b>						
Cash received from customers	\$ 2,081,946	\$ 2,229,519	\$ 901,180	\$ 572,769	\$ 5,785,414	\$ -
Cash receipts from interfund services provided	-	-	-	-	-	20,000
Cash received from other entities	-	91,773	-	-	91,773	-
Cash payments to suppliers for goods and services	(1,432,467)	(473,441)	(407,826)	(165,134)	(2,478,868)	(5,144)
Cash payments to employees	(222,343)	(252,545)	(247,391)	(163,837)	(886,116)	-
<b>Net cash provided (used) by operating activities</b>	<b>427,136</b>	<b>1,595,306</b>	<b>245,963</b>	<b>243,798</b>	<b>2,512,203</b>	<b>14,856</b>
<b>Cash Flows From Non-Capital Financing Activities:</b>						
Transfers to other funds	-	(108,000)	-	-	(108,000)	-
<b>Net cash provided (used) by non-capital financing activities</b>	<b>-</b>	<b>(108,000)</b>	<b>-</b>	<b>-</b>	<b>(108,000)</b>	<b>-</b>
<b>Cash Flows From Capital and Related Financing Activities:</b>						
Principal payments on bonds and notes payable	-	(1,267,187)	-	-	(1,267,187)	-
Proceeds from bond issuance		822,000			822,000	
Payments						
Interest and fees paid on bonds and notes payable	-	(75,488)	-	-	(75,488)	-
Receipt of impact fees	211,179	242,483	-	-	453,662	-
Proceeds from sale of assets						
Purchase of capital assets	(102,827)	(447,363)	(795,774)	(242,108)	(1,588,072)	-
<b>Net cash provided (used) by capital and related financing activities</b>	<b>108,352</b>	<b>(725,555)</b>	<b>(795,774)</b>	<b>(242,108)</b>	<b>(1,655,085)</b>	<b>-</b>
<b>Cash Flows From Investing Activities:</b>						
Interest on investments	86,330	77,764	55,165	26,199	245,458	-
<b>Net cash provided (used) by investing activities</b>	<b>86,330</b>	<b>77,764</b>	<b>55,165</b>	<b>26,199</b>	<b>245,458</b>	<b>-</b>
<b>Net Increase (Decrease) In Cash</b>	<b>621,818</b>	<b>839,515</b>	<b>(494,646)</b>	<b>27,889</b>	<b>994,576</b>	<b>14,856</b>
<b>Cash at Beginning of Year</b>	<b>4,337,579</b>	<b>3,712,730</b>	<b>2,956,392</b>	<b>1,391,490</b>	<b>12,398,191</b>	<b>-</b>
<b>Cash at End of Year</b>	<b>\$ 4,959,397</b>	<b>\$ 4,552,245</b>	<b>\$ 2,461,746</b>	<b>\$ 1,419,379</b>	<b>\$ 13,392,767</b>	<b>\$ 14,856</b>
<b>As reported on the Statement of Net Position:</b>						
Cash and cash equivalents	\$ 4,473,340	\$ 3,769,811	\$ 2,461,746	\$ 1,419,379	\$ 12,124,276	\$ 14,856
Restricted cash and cash equivalents	486,057	782,434	-	-	1,268,491	-
<b>Total Cash at End of Year</b>	<b>\$ 4,959,397</b>	<b>\$ 4,552,245</b>	<b>\$ 2,461,746</b>	<b>\$ 1,419,379</b>	<b>\$ 13,392,767</b>	<b>\$ 14,856</b>

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

**HIGHLAND CITY, UTAH**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS (Continued)**  
**For The Year Ended June 30, 2020**

	Business-type Activities - Enterprise Funds						Governmental Activities	
				Nonmajor		Total	IT Internal Service	
	Sewer	Pressurized Irrigation	Water	Storm Sewer				
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>								
Operating income (loss)	\$ 87,969	\$ 950,873	\$ (122,647)	\$ 73,669	\$ 989,864	\$ 14,856		
Adjustments to reconcile operating income (loss) to net cash from (used) by operating activities:								
Depreciation	386,707	433,022	354,955	172,454	1,347,138			-
(Increase) decrease in assets:								
Accounts receivable	(2,758)	6,862	(2,235)	(499)	1,370			-
Deferred outflows relating to pensions	21,523	22,738	21,928	15,860	82,049			-
Increase (decrease) in liabilities:								
Accounts payable	(47,167)	202,916	15,303	(3,145)	167,907			-
Accrued liabilities	1,654	1,221	1,343	772	4,990			-
Compensated absences	603	276	(887)	452	444			-
Net pension liability	(40,930)	(43,238)	(41,699)	(30,159)	(156,026)			-
Deferred inflows relating to pensions	19,535	20,636	19,902	14,394	74,467			-
<b>Net cash provided (used) by operating activities</b>	<b>\$ 427,136</b>	<b>\$ 1,595,306</b>	<b>\$ 245,963</b>	<b>\$ 243,798</b>	<b>\$ 2,512,203</b>	<b>\$ 14,856</b>		
<b>Noncash investing, capital, and financing activities:</b>								
Contributions of capital assets	\$ 314,567	\$ 229,798	\$ 438,144	\$ 342,161	\$ 1,324,670	\$ -		

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 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 *Capital Projects – Parks Fund* accounts for the City's park impact fees and the use of those funds.

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 City reports a single internal service fund.

The *Information Technology (IT) Internal Service Fund* accounts for the City's information technology costs used by the City's various departments and 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

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

Project Funds, Debt Service Fund, and Enterprise Funds. Annual budgets are also adopted for capital projects which may include activities which overlap several fiscal years.

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

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

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

**(D) Tax Revenues**

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

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

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

**(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 balances.

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:

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

**(H) Receivables and Payables**

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

Receivables at June 30, 2020, 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 position. 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 2015 Sales and Franchise Tax Revenue bonds and the 2009 General Obligation 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, 2020 for the 2020-2021 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.

**(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.

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

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

(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.

**(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 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**(A) Excess of Expenditures Over Appropriations**

The following funds incurred expenditures in excess of appropriations in the following amounts for the year ended June 30, 2020:

***Debt Service Fund***

Financing costs	\$ 28,584
Payment to bond escrow agent	2,857,416

***Special Revenue Fund***

Open Space Fund	
General government	107,111

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

**NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)**

***Capital Projects Funds***

Capital Projects - Parks	
Parks and recreation	37,628
Capital Projects - Roads	
Streets and public works	210,614
Capital Projects - Buildings	
Transfers out	25,000
Capital Projects – Town Center	
Transfers out	300,000

**(B) Deficit Fund Equity**

As of June 30, 2020 none of the City's funds had a deficit fund equity.

**NOTE 3 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.

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

**NOTE 3 CASH AND INVESTMENTS (Continued)**

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.

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, 2020 was \$25,250,537 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	\$ 1,145,886	\$ 648,376	N/A	N/A
Investment (3):				
Utah State Treasurer's Investment Pool	<u>25,250,537</u>	<u>25,188,863</u>	N/A	39.84
Total cash and cash equivalents	<u>\$ 26,396,423</u>	<u>\$ 25,837,239</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, 2020, \$895,886 of the City's deposits was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

**NOTE 3 CASH AND INVESTMENTS (Continued)**

*Investments*

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

Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated to participants on the ratio of the participant's share to the total funds in the PTIF based on the participant's average daily balance. The PTIF allocates income and issues statements on a monthly basis. Twice a year, at June 30 and December 31, which are the accounting periods for public entities, the investments are valued at fair value and participants are informed of the fair value valuation factor. Additional information is available at the Utah State Treasurer's Office.

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

*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, 2020.

*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.

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

**NOTE 4 INTERFUND TRANSFERS**

The purpose of the transfers were to provide cash flows and pay operating expenses. Transfers were made among the governmental funds to pay for debt service, and set aside funds for future capital projects. The transfers among the funds for the year ended June 30, 2020 were as follows:

	In	Out
<b>Governmental activities</b>		
General fund	\$ 108,000	\$ 1,642,000
Debt service fund	978,000	-
Capital projects - park fund	-	300,000
Nonmajor governmental funds	<u>1,324,000</u>	<u>360,000</u>
Total governmental activities	<u>2,410,000</u>	<u>2,302,000</u>
<b>Business activities</b>		
Pressurized irrigation	-	108,000
Total business activities	<u>-</u>	<u>108,000</u>
<b>Total Transfers</b>	<u><u>\$ 2,410,000</u></u>	<u><u>\$ 2,410,000</u></u>

**NOTE 5 RESTRICTED ASSETS**

Certain assets are restricted to use as follows as of June 30, 2020:

	Restricted Cash and Cash Equivalents	Restricted Receivables	Total Restricted Assets
<b>Governmental activities</b>			
Construction bonds	\$ 746,448	\$ -	746,448
Coronavirus relief funds	543,722	-	543,722
Exaction fee	18,822	-	18,822
Park construction	104,558	-	104,558
Road construction	1,396,906	-	1,396,906
B & C road	<u>9,324</u>	<u>133,756</u>	<u>143,080</u>
<b>Total governmental activities</b>	<u>2,819,780</u>	<u>133,756</u>	<u>2,953,536</u>
<b>Business-type activities</b>			
Restricted for impact fees	1,238,359	-	1,238,359
Debt service	<u>30,132</u>	<u>-</u>	<u>30,132</u>
<b>Total business-type activities</b>	<u>1,268,491</u>	<u>-</u>	<u>1,268,491</u>
<b>Total restricted assets</b>	<u><u>\$ 4,088,271</u></u>	<u><u>\$ 133,756</u></u>	<u><u>\$ 4,222,027</u></u>

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

**NOTE 6 CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2020, is as follows:

	<u>Balance</u> <u>June 30, 2019</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance</u> <u>June 30, 2020</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$39,533,903	\$ -	\$ (2,504,303)	\$37,029,600
Construction in progress	341,129	240,707	-	581,836
<b>Total capital assets, not being depreciated</b>	<b>39,875,032</b>	<b>240,707</b>	<b>(2,504,303)</b>	<b>37,611,436</b>
Capital assets, being depreciated:				
Buildings and structures	14,080,927	304,681	-	14,385,608
Improvements and infrastructure	75,409,787	1,116,000	-	76,525,787
Machinery, equipment and vehicles	2,258,079	49,615	(17,207)	2,290,487
<b>Total capital assets, being depreciated</b>	<b>91,748,793</b>	<b>1,470,296</b>	<b>(17,207)</b>	<b>93,201,882</b>
Less accumulated depreciation for:				
Buildings and structures	(4,245,062)	(358,911)	-	(4,603,973)
Improvements and infrastructure	(57,499,723)	(2,227,428)	-	(59,727,151)
Machinery, equipment and vehicles	(1,868,207)	(70,363)	17,207	(1,921,363)
<b>Total accumulated depreciation</b>	<b>(63,612,992)</b>	<b>(2,656,702)</b>	<b>17,207</b>	<b>(66,252,487)</b>
<b>Total capital assets, net of accumulated depreciation</b>	<b>28,135,801</b>	<b>(1,186,406)</b>	<b>-</b>	<b>26,949,395</b>
<b>Governmental activities capital assets, net</b>	<b>\$68,010,833</b>	<b>\$ (945,699)</b>	<b>\$ (2,504,303)</b>	<b>\$64,560,831</b>

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

**Governmental activities:**

General government	\$ 156,558
Public Safety	36,084
Streets and Public Works	243,860
Parks and recreation	183,091
Cemetery	<u>2,037,109</u>
<b>Total depreciation expense - governmental activities</b>	<b><u>\$ 2,656,702</u></b>

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

**NOTE 6 CAPITAL ASSETS (Continued)**

The Business-type activities property, plant and equipment consist of the following at June 30, 2020:

	<u>Balance</u> <u>June 30, 2019</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance</u> <u>June 30, 2020</u>
<b>Business-type Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 534,455	\$ -	\$ -	\$ 534,455
Construction in progress	-	-	-	-
Water Shares	<u>24,085,035</u>	<u>-</u>	<u>-</u>	<u>24,085,035</u>
<b>Total capital assets, not being depreciated</b>	<b><u>24,619,490</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>24,619,490</u></b>
Capital assets, being depreciated:				
Buildings and structures	1,157,289	-	-	1,157,289
Improvements and infrastructure	41,092,343	2,500,989	-	43,593,332
Machinery, equipment and vehicles	<u>2,127,839</u>	<u>411,759</u>	<u>-</u>	<u>2,539,598</u>
<b>Total capital assets, being depreciated</b>	<b><u>44,377,471</u></b>	<b><u>2,912,748</u></b>	<b><u>-</u></b>	<b><u>47,290,219</u></b>
Less accumulated depreciation for:				
Buildings and structures	(640,864)	(40,120)	-	(680,984)
Improvements and infrastructure	(17,048,272)	(1,187,148)	-	(18,235,420)
Machinery, equipment and vehicles	<u>(1,466,951)</u>	<u>(119,876)</u>	<u>-</u>	<u>(1,586,827)</u>
<b>Total accumulated depreciation</b>	<b><u>(19,156,087)</u></b>	<b><u>(1,347,144)</u></b>	<b><u>-</u></b>	<b><u>(20,503,231)</u></b>
<b>Total capital assets, net of accumulated depreciation</b>	<b><u>25,221,384</u></b>	<b><u>1,565,604</u></b>	<b><u>-</u></b>	<b><u>26,786,988</u></b>
<b>Business-type activities capital assets, net</b>	<b><u>\$49,840,874</u></b>	<b><u>\$ 1,565,604</u></b>	<b><u>\$ -</u></b>	<b><u>\$51,406,478</u></b>

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

**Business-type activities**

Sewer	\$ 386,707
Pressurized Irrigation	433,022
Storm Drain	172,454
Water	<u>354,961</u>
<b>Total depreciation expense - business-type activities</b>	
	<b><u>\$ 1,347,144</u></b>

**NOTE 7 GRANTS**

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

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

**NOTE 8 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 9 UNEARNED PROPERTY TAXES**

In conjunction with GASB Statement No. 33, “*Accounting and Financial Reporting for Nonexchange Transactions*” the City has accrued property tax receivable and unearned property tax revenue in the General Fund and Library Fund in the amounts of \$1,789,358, and \$269,166 respectively.

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, 2020 and are intended to fund operations of fiscal year ending June 30, 2021, the City has recorded both a receivable and deferred inflow of resources of the estimated amount of the total property tax to be levied on October 1, 2020.

**NOTE 10 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:

<b>2020</b>	
<b>Payments to Lone Peak:</b>	
Administrative expenses	\$ 148,665
Grants awarded (Coronavirus Relief Funds)	813,773
Member payments for	
Police	2,186,104
Fire / EMS	<u>1,852,180</u>
Total payments to Lone Peak	<u>\$ 5,000,722</u>
<b>Receipts from Lone Peak:</b>	
Rent of office space	\$ 220,759
Reimbursement of employee wages	
and office supplies used by Lone Peak	<u>42,523</u>
Total receipts from Lone Peak	<u>\$ 263,282</u>

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

**NOTE 11 LONG-TERM DEBT**

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2020:

<b>Governmental Activities:</b>	<b>June 30, 2019</b>	<b>Additions</b>	<b>Retirements</b>	<b>June 30, 2020</b>	<b>Due Within One Year</b>
<i><b>Direct Placement</b></i>					
Revenue Bonds, Series 2015	\$ 3,215,000	\$ -	\$ (3,215,000)	\$ -	\$ -
Revenue Bonds, Series 2016	4,677,000	-	(435,000)	4,242,000	445,000
Revenue Bonds, Series 2020	-	2,886,000	-	2,886,000	395,000
<b>Total bonds payable</b>	<b>7,892,000</b>	<b>2,886,000</b>	<b>(3,650,000)</b>	<b>7,128,000</b>	<b>840,000</b>
<i><b>Other long-term liabilities</b></i>					
Compensated absences	205,409	92,107	(79,380)	218,136	99,889
Net pension liability	590,975	-	(305,585)	285,390	-
<b>Total other long-term liabilities</b>	<b>796,384</b>	<b>92,107</b>	<b>(384,965)</b>	<b>503,526</b>	<b>99,889</b>
<b>Governmental activities long-term liabilities</b>	<b>\$ 8,688,384</b>	<b>\$ 2,978,107</b>	<b>\$ (4,034,965)</b>	<b>\$ 7,631,526</b>	<b>\$ 939,889</b>

**Governmental Activities:**

**Revenue Bonds**

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. These bonds were refunded with the 2020 Sales and Franchise Tax Revenue Bonds.

\$ -

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.

4,242,000

Series 2020 Sales and Franchise Tax Revenue Refunding Bonds, original issue of \$2,886,000, principal due in annual installments beginning September 2020, interest at 1.08% due in semi-annual installments beginning September 2020, with the final payment due September 2026. The bonds were issued to refund the Series 2015 Sales and Franchise Tax Revenue Bonds.

2,886,000

Total Tax Revenue Bonds - Governmental Activities

\$ 7,128,000

During the year, the City issued Series 2020 Sales and Franchise Tax Revenue bonds. The net proceeds of \$2,857,416 (after issuance costs of \$28,584) were used to advance refund the 2015 Sales and Franchise Tax Revenue Bonds with remaining principal of \$2,886,000 and interest rate ranging from 1.00% and 3.30%.

The net proceeds were placed in an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refundable bonds are considered to be defeased, and the related liability for the bonds has been removed from the City's liabilities.

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

**NOTE 11 LONG-TERM DEBT (Continued)**

The advance refunding was done to reduce debt service payments. The refunding decreases the City's debt service payments by \$163,126. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of \$155,164. The deferred loss on refunding of \$107,035 will be amortized over the remaining life of the 2020 Sales and Franchise Tax Revenue Bonds. At June 30, 2020, \$2,851,000 of defeased bonds were outstanding.

All of the City's Sales and Franchise Tax Revenue Bonds (both Governmental and Business-type) are payable solely by a pledge and assignment of their associated revenue sources. Total future sales tax of \$7,128,000 has been pledged through 2028. The current revenue recognized during the period for pledged Franchise and Sales Tax Revenue bonds was \$3,672,462 compared to principal and interest of \$972,148 paid during the year which equals a coverage ratio of 3.78.

The Series 2020 and 2016 Franchise Tax Revenue Refunding bonds contain provisions that in the event of default, the bondholders may force payment of the outstanding bonds whether through legal action or through the appointment of a receiver.

The annual debt service requirements to maturity, including principal and interest for the long-term debt, as of June 30, 2020, are as follows:

Year Ending June 30,	Governmental Activities				
	Sales and Franchise Tax				
	Revenue Bonds				
Principal	Interest				
2021	\$ 840,000	\$ 97,196			
2022	851,000	101,747			
2023	863,000	87,967			
2024	879,000	73,818			
2025	894,000	59,535			
2026-2028	<u>2,801,000</u>	<u>85,156</u>			
	<u><u>\$ 7,128,000</u></u>	<u><u>\$ 505,418</u></u>			
June 30,					
2019		June 30,	Due Within		
		2020			
Additions					
Retirements					
One Year					
Business-type Activities:					
<i>Direct Placement</i>					
Revenue Bonds, Series 2020	\$ -	\$ 822,000	\$ 822,000		
Notes payable	1,836,980	- (82,187)	1,754,793		
			\$ 410,000 86,791		
<i>Other Bonds</i>					
General obligation bonds, Series 2009	1,185,000	- (1,185,000)	- -		
Plus: unamortized premiums	16,633	- (16,633)	- -		
<b>Total bonds and notes payable</b>	<u>3,038,613</u>	<u>822,000</u> <u>(1,283,820)</u>	<u>2,576,793</u> <u>496,791</u>		
<i>Other long-term liabilities</i>					
Compensated absences	109,410	41,927	109,854		
Net pension liability	342,659	- (156,026)	186,633		
<b>Total other long-term liabilities</b>	<u>452,069</u>	<u>41,927</u> <u>(197,509)</u>	<u>296,487</u> <u>47,516</u>		
<b>Business-type activities long-term liabilities</b>					
	<u><u>\$ 3,490,682</u></u>	<u><u>\$ 863,927</u></u>	<u><u>\$ (1,481,329)</u></u>		
			<u><u>\$ 2,873,280</u></u>		
			<u><u>\$ 544,307</u></u>		

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

**NOTE 11 LONG-TERM DEBT (Continued)**

**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. These bonds were refunded with the Series 2020 Sales and Franchise Tax Revenue Refunding Bonds.

\$ \_\_\_\_\_ -  
\$ \_\_\_\_\_ -

Total General Obligation Bonds - Business-type Activities

**Revenue Bonds**

Series 2020 Sales and Franchise Tax Revenue Refunding Bonds, original issue of \$822,000, principal payments due in annual installments beginning September 2020, interest at 1.08% due in semi-annual installments beginning September 2020 with the final payment due September 2021. The bonds were issued to refund the outstanding portion of the 2009 General Obligation Refunding Bonds.

\$ 822,000  
\$ 822,000

Total Revenue Bonds - Business-type Activities

**Notes Payable - Direct Borrowings**

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.

\$ 368,884

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.

1,385,909

Total Notes Payable - Business-type Activities

\$ 1,754,793

The Series 2020 Franchise Tax Revenue Refunding bonds contain provisions that in the event of default, the bondholders may force payment of the outstanding bonds whether through legal action or through the appointment of a receiver.

No remedies for events of default were noted in the agreements for the above notes payables.

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

**NOTE 11 LONG-TERM DEBT (Continued)**

The annual debt service requirements to maturity, including principal and interest for the long-term debt, as of June 30, 2020, are as follows:

<b>Year Ending June 30,</b>	<b>Business-type Activities</b>		
	<b>Sales and Franchise Tax</b>		
	<b>Revenue Bond</b>	<b>Principal</b>	<b>Interest</b>
2021		\$ 410,000	\$ 5,924
2022		412,000	2,225
		<u>\$ 822,000</u>	<u>\$ 8,149</u>

<b>Year Ending June 30,</b>	<b>Business-type Activities</b>		
	<b>Notes Payable - Direct Borrowing</b>		
	<b>Principal</b>	<b>Interest</b>	
2021	\$ 86,791	\$ 26,565	
2022	108,124	25,340	
2023	109,648	23,811	
2024	111,220	22,244	
2025	112,835	20,638	
2026-2030	589,700	77,658	
2031-2035	<u>636,475</u>	<u>30,877</u>	
	<u>\$ 1,754,793</u>	<u>\$ 227,133</u>	

During the year, the City issued Series 2020 Sales and Franchise Tax Revenue bonds. The net proceeds of \$813,964 and \$391,000 of City-provided funds for a total of \$1,204,964 (after issuance costs of \$8,036) were used to advance refund the 2009 General Obligation Bonds with remaining principal of \$1,185,000 and interest rate ranging from 2.75% and 4.125%.

The net proceeds were placed in an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refundable bonds are considered to be defeased, and the related liability for the bonds has been removed from the City's liabilities.

The advance refunding was done to reduce debt service payments. The refunding decreases the City's debt service payments by \$24,475. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of \$14,661. No deferred gain or loss on refunding resulted from this transaction. At June 30, 2020, \$822,000 of defeased bonds are still outstanding.

During fiscal year 2015, the City defeased \$3,970,000 of the 2006 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, 2020, \$2,725,000 of defeased bonds are still outstanding.

During fiscal year 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, 2020, \$3,890,000 of defeased bonds are still outstanding.

No interest was capitalized during the fiscal year ended June 30, 2020. Total interest incurred and charged to expense totaled \$239,624.

Compensated absence balances are liquidated out of the funds from where the employees are allocated.

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

**NOTE 12 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. There have been no significant reductions in insurance coverage, and no settlements or incidents have exceeded the City's insurance coverage in any of the past three fiscal years.

**NOTE 13 PENSION AND 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 system.
- 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/general/publications](http://www.urs.org/general/publications).

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

**NOTE 13 PENSION AND RETIREMENT PLANS (Continued)**

**Summary of Benefits by System**

**Benefits Provided**

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

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%

\* *Actuarial reductions are applied.*

\*\* *All post-retirement cost-of-living adjustments are non-compounding and are based on the original benefit except for 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 Utah State Retirement 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, 2020 are as follows:

Utah Retirement Systems	Employee	Employer	Employer 401(k)
<b>Contributory System</b>			
111 - Local Government Div - Tier 2	N/A	15.66%	1.03%
<b>Noncontributory System</b>			
15 - Local Governmental Div - Tier 1	N/A	18.47%	N/A
<b>Tier 2 DC Only</b>			
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 13 PENSION AND RETIREMENT PLANS (Continued)**

For fiscal year ended June 30, 2020, the employer and employee contributions to the Systems were as follows:

System	Employer Contributions	Employee Contributions
Noncontributory System	\$ 179,819	N/A
Tier 2 Public Employees System	51,938	-
Tier 2 DC Only System	<u>17,442</u>	N/A
Total Contributions	<u>\$ 249,199</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, 2020, we reported a net pension asset of \$0 and a net pension liability of \$472,023.

	(Measurement Date): December 31, 2019				
	Net Pension Asset	Net Pension Liability	Proportionate Share	Proportionate Share 2018	Change (Decrease)
Noncontributory System	\$ -	\$ 466,508	0.1237794%	0.1255408%	-0.0017614%
Tier 2 Public Employees System	-	5,515	0.0245204%	0.0214487%	0.0030717%
Total Net Pension Asset / Liability	\$ -	\$ 472,023			

The net pension asset and liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2018 and rolled-forward using generally accepted actuarial procedures. The proportion of the net pension asset and liability is equal to the ratio of the employer's actual contributions to the Systems during the plan year over the total of all employer contributions to the System during the plan year.

For the year ended June 30, 2020 we recognized pension expense of \$250,472.

At June 30, 2020 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	\$ 43,977	\$ 8,594
Changes in assumptions	51,764	158
Net difference between projected and actual earnings on pension plan investments	-	240,156
Changes in proportion and differences between contributions and proportionate share of contributions	6,017	29,071
Contributions subsequent to the measurement date	<u>124,181</u>	-
Total	<u>\$ 225,939</u>	<u>\$ 277,979</u>

\$124,181 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, 2019.

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

**NOTE 13 PENSION AND RETIREMENT PLANS (Continued)**

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
2020	\$ (33,440)
2021	(62,314)
2022	6,052
2023	(90,811)
2024	576
Thereafter	3,716

***Noncontributory System Pension Expense, and Deferred Outflows and Inflows of Resources***

For the year ended June 30, 2020, we recognized pension expense of \$219,447.

At June 30, 2020 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	\$ 42,434	\$ 6,701
Changes in assumptions	49,409	-
Net difference between projected and actual earnings on pension plan investments	-	235,917
Changes in proportion and differences between contributions and proportionate share of contributions	972	28,776
Contributions subsequent to the measurement date	88,784	-
<b>Total</b>	<b>\$ 181,599</b>	<b>\$ 271,394</b>

\$88,784 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, 2019.

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
2020	\$ (32,872)
2021	(61,828)
2022	5,813
2023	(89,692)
2024	-
Thereafter	-

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

**NOTE 13 PENSION AND RETIREMENT PLANS (Continued)**

***Tier 2 Public Employees System Pension Expense, and Deferred Outflows and Inflows of Resources***

For the year ended June 30, 2020, we recognized pension expense of \$31,025.

At June 30, 2020 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	\$ 1,543	\$ 1,893
Changes in assumptions	2,355	158
Net difference between projected and actual earnings on pension plan investments	-	4,239
Changes in proportion and differences between contributions and proportionate share of contributions	5,045	295
Contributions subsequent to the measurement date	35,397	-
<b>Total</b>	<b>\$ 44,340</b>	<b>\$ 6,585</b>

\$35,397 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, 2019.

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
2020	\$ (568)
2021	(486)
2022	239
2023	(1,120)
2024	576
Thereafter	3,717

***Actuarial Assumptions***

The total pension liability in the December 31, 2019, 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.

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

**NOTE 13 PENSION AND RETIREMENT PLANS (Continued)**

The actuarial assumptions used in the January 1, 2019 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 following table:

Asset Class	Expected Return Arithmetic Basis		
	Target Allocation	Real Return Arithmetic Basis	Long-Term expected portfolio real rate of return
Equity securities	40.00%	6.15%	2.46%
Debt securities	20.00%	0.40%	0.08%
Real assets	15.00%	5.75%	0.86%
Private equity	9.00%	9.95%	0.89%
Absolute return	16.00%	2.85%	0.46%
Cash and cash equivalents	0.00%	0.00%	0.00%
Totals	100.00%		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 remained unchanged at 6.95 percent.

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

**NOTE 13 PENSION AND RETIREMENT PLANS (Continued)**

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

The following presents the proportionate share of the net pension liability calculated using the discount rate of 6.95 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	\$ 1,457,068	\$ 466,508	\$ (359,608)
Tier 2 Public Employees System	47,557	5,515	(26,976)
Total	\$ 1,504,625	\$ 472,023	\$ (386,584)

Pension Plan Fiduciary Net Position

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

***Defined Contribution Savings Plans***

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

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

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

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

	2020	2019	2018
401(k) Plan			
Employer Contributions	\$ 226,075	\$ 211,979	\$ 207,313
Employee Contributions	57,483	49,379	43,608
457 Plan			
Employer Contributions	168	8	-
Employee Contributions	31,315	30,073	32,279
Roth IRA Plan			
Employer Contributions	N/A	N/A	N/A
Employee Contributions	25,168	22,486	19,382

**NOTE 14 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**  
**June 30, 2020**  
**Measurement Date of December 31, 2019**  
**Last 10 Fiscal Years\***

For the year ended December 31,	Proportion of the net pension liability	Proportionate share of the net pension liability	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)
	(asset)	(asset)			
<b>Noncontributory Retirement System</b>					
2019	0.1237794%	\$ 466,508	\$ 1,000,176	46.64%	93.7%
2018	0.1255408%	924,448	1,030,491	89.71%	87.0%
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%
<b>Tier 2 Public Employees Retirement System</b>					
2019	0.0245204%	\$ 5,515	\$ 341,008	1.62%	96.5%
2018	0.0214487%	9,186	249,592	3.68%	90.8%
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 payroll
	Actuarial Determined Contributions					
<b>Noncontributory System</b>						
2020	\$ 179,819	\$ 179,819		\$ -	\$ 999,719	17.99%
2019	182,483	182,483		-	988,035	18.47%
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>						
2020	\$ 51,938	\$ 51,938		\$ -	\$ 331,660	15.66%
2019	51,028	51,028		-	328,367	15.54%
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>						
2020	\$ 17,442	\$ 17,442		\$ -	\$ 260,718	6.69%
2019	14,438	14,438		-	215,812	6.69%
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, 2020**

Changes in Assumptions:

As a result of the passage of SB 129, the retirement rates for members in the Tier 2 Public Safety and Firefighter Hybrid System have been modified to be the same as the assumption used to model the retirement pattern in the Tier I Public Safety and Firefighter Systems, except for a 10% load at first eligibility for unreduced retirement prior to age 65.

## **SUPPLEMENTARY INFORMATION**

**HIGHLAND CITY**  
**COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2020**

	Special Revenue				Capital Projects				Town Center Capital Projects	Total Nonmajor Governmental Funds		
	Open Space	Cemetery Perpetual Care			Road Capital Project	Building Capital Project	Northwest Annexation					
		Road Fee	Library									
<b>Assets:</b>												
Cash and cash equivalents	\$ 213,425	\$ 23,693	\$ 1,270,642	\$ 34,872	\$ 277,222	\$ 891,397	\$ 114,292	\$ 179,243	\$ 3,004,786			
Restricted cash and cash equivalents	-	-	-	-	1,396,906	-	-	18,822	18,822	1,415,728		
<b>Receivables:</b>												
Accounts	4,633	-	6,738	-	-	-	-	-	-	11,371		
Property taxes	-	-	-	275,944	-	-	-	-	-	275,944		
<b>Total Assets</b>	<b>\$ 218,058</b>	<b>\$ 23,693</b>	<b>\$ 1,277,380</b>	<b>\$ 310,816</b>	<b>\$ 1,674,128</b>	<b>\$ 891,397</b>	<b>\$ 114,292</b>	<b>\$ 198,065</b>	<b>\$ 4,707,829</b>			
<b>Liabilities:</b>												
Accounts payable	\$ 41,137	\$ 9,701	\$ 91,230	\$ 3,915	\$ 5,438	\$ -	\$ -	\$ -	\$ -	\$ 151,421		
Accrued liabilities	19,068	-	-	-	-	-	-	-	-	19,068		
Payable from restricted assets	-	-	-	-	-	-	-	18,822	18,822	18,822		
<b>Total Liabilities</b>	<b>60,205</b>	<b>9,701</b>	<b>91,230</b>	<b>3,915</b>	<b>5,438</b>	<b>-</b>	<b>-</b>	<b>18,822</b>	<b>18,822</b>	<b>189,311</b>		
<b>Deferred Inflows of Resources</b>												
Unearned property tax revenue	-	-	-	269,166	-	-	-	-	-	269,166		
<b>Total Deferred Inflows of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>269,166</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>269,166</b>		
<b>Fund Balances:</b>												
Restricted for:												
Impact fees	-	-	-	-	1,396,906	-	-	-	-	1,396,906		
Assigned	157,853	13,992	1,186,150	37,735	271,784	891,397	114,292	179,243	179,243	2,852,446		
Unassigned	-	-	-	-	-	-	-	-	-	-		
<b>Total Fund Balances</b>	<b>157,853</b>	<b>13,992</b>	<b>1,186,150</b>	<b>37,735</b>	<b>1,668,690</b>	<b>891,397</b>	<b>114,292</b>	<b>179,243</b>	<b>179,243</b>	<b>4,249,352</b>		
<b>Total Liabilities, Deferred Inflows, and Fund Balances</b>	<b>\$ 218,058</b>	<b>\$ 23,693</b>	<b>\$ 1,277,380</b>	<b>\$ 310,816</b>	<b>\$ 1,674,128</b>	<b>\$ 891,397</b>	<b>\$ 114,292</b>	<b>\$ 198,065</b>	<b>\$ 4,707,829</b>			

**HIGHLAND CITY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS – NONMAJOR GOVERNMENTAL FUNDS**  
**For The Year Ended June 30, 2020**

	Special Revenue				Capital Projects				Total Nonmajor Governmental Funds	
	Open Space	Cemetery			Road Capital Project	Building Capital Project	Northwest Annexation	Town Center Capital Projects		
		Perpetual Care	Road Fee	Library						
<b>Revenues:</b>										
Taxes	\$ -	\$ -	\$ -	\$ 310,908	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 310,908
Charges for services	291,918	220,330	1,046,335	25,160	-	-	-	-	-	1,583,743
Fines and forfeitures	-	-	-	12,375	-	-	-	-	-	12,375
Impact fees	-	-	-	-	224,245	75,883	-	-	-	300,128
Contributions from other governments	-	-	-	10,833	-	-	-	-	-	10,833
Interest income	8,580	329	21,381	976	30,594	6,582	2,174	8,927	8,927	79,543
<b>Total Revenues</b>	<b>300,498</b>	<b>220,659</b>	<b>1,067,716</b>	<b>360,252</b>	<b>254,839</b>	<b>82,465</b>	<b>2,174</b>	<b>8,927</b>	<b>8,927</b>	<b>2,297,530</b>
<b>Expenditures:</b>										
Current:										
General government	709,602	-	-	361,509	-	-	-	-	-	1,071,111
Streets and public works	-	-	230,122	-	864,614	-	-	-	-	1,094,736
Cemetery	-	206,652	-	-	-	-	-	-	-	206,652
Capital outlay	-	-	-	-	-	231,048	-	-	-	231,048
Debt service - bond fees	-	-	-	-	-	3,026	-	-	-	3,026
<b>Total Expenditures</b>	<b>709,602</b>	<b>206,652</b>	<b>230,122</b>	<b>361,509</b>	<b>864,614</b>	<b>234,074</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,606,573</b>
Excess (deficiency) of revenues over (under) expenditures	(409,104)	14,007	837,594	(1,257)	(609,775)	(151,609)	2,174	8,927	8,927	(309,043)
<b>Other Financing Sources:</b>										
Sale of capital assets	49,266	-	-	-	-	-	-	-	-	49,266
Transfers in	150,000	-	-	-	600,000	574,000	-	-	-	1,324,000
Transfers out	-	-	-	-	-	(60,000)	-	(300,000)	(300,000)	(360,000)
<b>Total Other Financing Sources</b>	<b>199,266</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>600,000</b>	<b>514,000</b>	<b>-</b>	<b>(300,000)</b>	<b>(300,000)</b>	<b>1,013,266</b>
<b>Net Change in Fund Balances</b>	<b>(209,838)</b>	<b>14,007</b>	<b>837,594</b>	<b>(1,257)</b>	<b>(9,775)</b>	<b>362,391</b>	<b>2,174</b>	<b>(291,073)</b>	<b>(291,073)</b>	<b>704,223</b>
<b>Fund Balances, Beginning</b>	<b>367,691</b>	<b>(15)</b>	<b>348,556</b>	<b>38,992</b>	<b>1,678,465</b>	<b>529,006</b>	<b>112,118</b>	<b>470,316</b>	<b>470,316</b>	<b>3,545,129</b>
<b>Fund Balances, Ending</b>	<b>\$ 157,853</b>	<b>\$ 13,992</b>	<b>\$ 1,186,150</b>	<b>\$ 37,735</b>	<b>\$ 1,668,690</b>	<b>\$ 891,397</b>	<b>\$ 114,292</b>	<b>\$ 179,243</b>	<b>\$ 179,243</b>	<b>\$ 4,249,352</b>

## **SUPPLEMENTAL REPORTS**



KEDDINGTON & CHRISTENSEN, CPAs  
CERTIFIED PUBLIC ACCOUNTANTS

**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, the General Fund budgetary comparison schedule, and the aggregate remaining fund information of Highland City Corporation, Utah (the City), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 13, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a material weakness.

**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*.

**City of Highland, Utah's Response to the Finding**

The City's response to the finding identified in our audit is described in the accompanying corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

*Keddington & Christensen, LLC*

Salt Lake City, Utah  
January 13, 2021



**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  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the City Council  
City of Highland, Utah

**Report on Compliance for Each Major Federal Program**

We have audited the City of Highland's (the City) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2020. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of 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 audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City of Highland, Utah complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

**Report on Internal Control over Compliance**

Management of the City, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program 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 type of compliance requirement of a federal program 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 over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Keddington & Christensen, LLC*

Salt Lake City, Utah  
January 13, 2021

**HIGHLAND CITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For The Year Ended June 30, 2020**

**Section I - Summary of Auditor's Results**

***Financial Statements***

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
2. Internal control over financial reporting:	
a. Material weakness(es) identified?	Yes
b. Significant deficiency(ies) identified?	None reported
3. Noncompliance material to financial statements noted?	No

***Federal Awards***

1. Internal control over financial reporting:	
a. Material weakness(es) identified?	No
b. Significant deficiency(ies) identified?	None reported
2. Type of auditor's report issued on compliance for major federal programs:	Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
4. Identification of major federal program:	

<i>CFDA Number</i>	<i>Name of Federal Program or Cluster</i>
21.019	Coronavirus Relief Funds
5. Dollar threshold used to distinguish between type A and type B programs:	\$750,000
6. Auditee qualified as low-risk auditee?	No

**Section II - Financial Statement Findings**

**2020-001: Financial Close and Reporting (Material Weakness)**

**Condition:** During our audit, material adjustments were required to bring the City's financial statements into compliance with generally accepted accounting principles as it relates to governmental entities.

**Criteria:** Utah Code Annotated (UCA) 10-6-107 states: "The accounting records of cities shall be established and maintained, and financial statements prepared from those records in conformance with generally accepted accounting principles..."

**Cause:** As a result of the former finance director leaving prior to the fiscal year-end and the length of time until the new finance director was hired, there was not sufficient time for the new finance director to familiarize himself with the City's accounting system to properly close-out and reconcile the City's financial statements prior to the audit.

**HIGHLAND CITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**For The Year Ended June 30, 2020**

**2020-001: Financial Close and Reporting (Material Weakness) (Continued)**

Effect: Several material audit adjustments were required to be made to correct the financial statements. These adjustments impacted the following significant areas:

- Taxes receivable
- Intergovernmental receivables
- Prepaid expenses
- Accounts payable
- Unearned revenue
- Long-term debt
- Deferred inflows of resources relating to property taxes
- Tax revenues
- Intergovernmental revenues
- Transfers
- Other financing sources and uses

Recommendation: We recommend the City staff prepare reconciliations for all significant balance sheet accounts in preparation of closing out the fiscal year. We also recommend the City implement policies and procedures to ensure that the City's records can be prepared in accordance with generally accepted accounting principles.

**Section III - Federal Award Findings and Questioned Costs**

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*None*

**HIGHLAND CITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended June 30, 2020**

<b>Federal Grantor/Pass-Through Grantor/ Program Title/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Entity Identifying Number</b>	<b>Passed Through to Subrecipients</b>	<b>Total Federal Expenditures</b>
U.S. Department of the Treasury (USDT)				
Utah County Government - Coronavirus Relief Fund	21.019	None	\$ 813,773	\$ 823,614
Total USDT			<u>813,773</u>	<u>823,614</u>
Total Expenditures of Federal Awards			<u>\$ 813,773</u>	<u>\$ 823,614</u>

**Reconciliation of the Schedule of Expenditures of Federal Awards to the Statement  
of Revenues, Expenditures, and Changes in Fund Balance**

Federal grant revenues	\$ 823,614
State and other local grants	<u>802,442</u>
Total intergovernmental revenues	<u>\$ 1,626,056</u>

**HIGHLAND CITY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended June 30, 2020**

**NOTE 1 BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Highland City (the City) for the year ended June 30, 2020. The information in the Schedule is presented in accordance with the requirements of Title 1. U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net fund balance or net position, or cash flows of the City.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE 3 INDIRECT COST RATE**

The City has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.



Highland City  
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Highland, UT 84003  
(801) 756-5751  
[www.highlandcity.org](http://www.highlandcity.org)

### ***Corrective Action Plan – Finding 2020-001 – Financial Close and Reporting***

Person(s) responsible for overseeing corrective action: Nathan Crane (City Administrator) and Tyler Bahr (Finance Director)

We agree with the finding and the recommendation. We will prepare reconciliations for all significant balance sheet accounts in preparation of closing out of fiscal year, and adjust the financials as necessary to make sure the financial information is maintained in accordance with generally accepted accounting principles.

Anticipated completion date: June 2021

**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, for the year ended June 30, 2020.

State compliance requirements were tested for the year ended June 30, 2020 in the following areas:

- Budgetary Compliance
- Fund Balance
- Justice Courts
- Restricted Taxes and Related Restricted Revenues
- Open and Public Meetings Act
- Fraud Risk Assessment
- Cash Management

***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.

***Basis for Qualified Opinion on Budgetary Compliance***

As described in the accompanying schedule of findings and recommendations as required by the *State Compliance Audit Guide*, the City did not comply with the requirements regarding Budgetary Compliance as the City exceeded budgeted expenditures in several funds (see item 2020-004). Compliance with such requirements is necessary, in our opinion to comply with the requirements applicable to Budgetary Compliance.

### ***Qualified Opinion on Budgetary Compliance***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the state compliance requirements referred to above for the year ended June 30, 2020.

### ***Unmodified Opinion on Each of the Other State Compliance Areas***

In our opinion, the City complied, in all material respects, with the other state compliance requirements referred to above for the year ended June 30, 2020.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *State Compliance Audit Guide* and which are described in the schedule of findings and recommendations as required by the *State Compliance Audit Guide* as items 2020-002, and 2020-003. Our opinion on compliance is not modified with respect to these matters.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and recommendations as required by the *State Compliance Guide*. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the 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  
January 13, 2021

**HIGHLAND CITY**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**REQUIRED BY THE STATE COMPLIANCE AUDIT GUIDE**  
**For the Year Ended June 30, 2020**

**2020-002: Open and Public Meetings Act (Significant Deficiency)**

Condition: During our testing of the Open and Public Meetings Act (the Act), it was noted that the May 5, 2020 council meeting minutes was approved on June 2, 2020 but was not uploaded to the Utah Public Notice website until June 9, 2020, which was not within the three business days required by the Act.

Criteria: Utah Code Annotated (the UCA) section 52-4-203(4)(e)(ii) states: “A state public body shall: within three business days after approving written minutes of an open meeting: post to the [Utah Public Notice website] a copy of the approved minutes.”

Cause: Due to an oversight, the City did not upload a copy of the approved meeting minutes to the Utah Public Notice website within the three business day requirement.

Effect: The City was not in compliance with the aforementioned portion of the Act.

Recommendation: We recommend the City develop policies and procedures to ensure that approved meeting minutes are uploaded to the Utah Public Notice website in the required timeframe.

Management’s Response: *We agree with the finding and will increase our efforts to ensure approved minutes are uploaded as required.*

**2020-003: Cash Management – Utah Money Management Act (Significant Deficiency)**

Condition: During our testing of State Compliance, it was noted that the City had not filed their Deposit & Investment (D&I) report with the Money Management Council by the required due date.

Criteria: The UCA section 51-7-15(3)(a) states: “A public treasurer shall file a written report with the [Money Management Council] on or before January 31 and July 31 of each year.”

Cause: Due to an oversight, the City did not file the D&I report with the Money Management Council until after the deadline required by the UCA.

Effect: The City was not in compliance with the aforementioned portion of the Money Management Act.

Recommendation: We recommend the City develop policies and procedures to ensure that the D&I report is filed in a timely manner.

Management’s Response: *We agree with the finding and will improve our efforts to prepare the D&I report and get it submitted before the deadline.*

**HIGHLAND CITY**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**REQUIRED BY THE STATE COMPLIANCE AUDIT GUIDE (Continued)**  
**For the Year Ended June 30, 2020**

**2020-004: Budgetary Compliance (Material Weakness)**

Condition: During our testing of State Compliance, it was noted that the City had expenditures in excess of approved appropriations in the following funds:

- Debt Service
- Capital Projects – Parks
- Open Space
- Capital Projects – Roads
- Capital Projects – Buildings
- Capital Projects – Town Center

Criteria: The UCA section 10-6-123 states: “City officers may not make or incur expenditures...in excess of total appropriations for any department in the budget as adopted or as subsequently amended.”

Cause: Expenditures were not properly monitored and compared to the budget near year-end to determine whether additional budget amendments would be necessary. In some cases, expenditures were unexpected near year-end and budget amendments could not be made in time.

Effect: The City was not in compliance with the aforementioned portion of the UCA.

Recommendation: We recommend the City staff monitor more closely the expenditures of the City and make the appropriate budget amendments as necessary.

Management's Response: *We agree with the finding. We will monitor more closely the expenditures and try to better estimate costs near year-end in order to make the appropriate budget amendments to stay in compliance with the State Code.*