

**GRANGER-HUNTER  
IMPROVEMENT DISTRICT**

**FINANCIAL STATEMENTS**

**December 31, 2016**

**GRANGER-HUNTER IMPROVEMENT DISTRICT  
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**Keddington & Christensen, LLC**  
Certified Public Accountants

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Granger-Hunter Improvement District

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Granger-Hunter Improvement District (the District), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the 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 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 Granger-Hunter Improvement District as of December 31, 2016, and the respective change in financial position, and 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 and budgetary comparison information as noted in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient audit evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Budget to Actual Comparison is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Budget to Actual Comparison is the responsibility of management and was derived from and relates 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 Budget to Actual Comparison is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**Other Report Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a separate report dated May 4, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 District's internal control over financial reporting and compliance.

*Keddington & Christensen*

Keddington & Christensen, LLC  
Salt Lake City, Utah  
May 4, 2017

## **GRANGER-HUNTER IMPROVEMENT DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS**

As management of the Granger-Hunter Improvement District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ending December 31, 2016. We encourage readers to consider the financial information presented here in conjunction with the financial statements and accompanying notes which follow this section.

### **Financial Highlights**

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$138,573,692 (net position). Of this amount, \$35,840,072 (unrestricted net assets) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position increased by \$2,962,955. The increase is partially due to developer-contributed water and sewer lines, in the amount of \$1,355,406. The remainder of the change is due primarily to operating revenues increasing by 11.94% (\$2,988,227), due to increased water sales resulting from record hot weather, while operating expenses were held to an increase of only 3.85% (\$1,115,929). Expenses were contained by proactive maintenance (which is typically less expensive than reactive repairs) and aggressive cost containment in other areas, as well as reduction of wage expenses through earlier than expected retirements.
- The District's total long-term debt decreased by \$1,064,270 during the current fiscal year, as represented in Note 4 to the financial statements. No new debts were incurred during 2016.

### **Budgetary Highlights**

During the year there were several amendments to the original budget of the District to account for increased revenues and expenses related to water sales and purchases during the unusually hot summer. Total revenues were somewhat better than budget (by \$619,082), and total expenditures were held significantly below budget (by \$3,620,280). Therefore the District's net position did not deteriorate from the prior year. The following analysis is offered as explanation of variances from budget that were greater than \$200,000.

- Sewer service charges, budgeted at \$10,168,000, were actually \$10,697,462, or \$529,462 over budget due primarily to modest, but better than anticipated, growth within the District. Since sewer charges are primarily a fixed charge, weather does not have adverse effects.
- Impact fee revenues were budgeted at \$800,000. The District received impact fees of \$1,007,556. Impact fee revenue is based on new construction and expansion in the District. Modest growth in the District aided in the additional revenue for the year.
- Salaries and wages were budgeted at \$4,968,316, but actual expenditures were \$4,398,695, a difference of \$569,621 under budget. The difference was largely the result of a few highly paid employees retiring during the year and an aggressive maintenance program resulting in fewer system problems that required overtime pay.
- Employee benefits were budgeted at \$2,967,010, and actual expenditures were \$3,266,805, or \$299,795 over budget. The budget deficit is largely due to the other post-employment benefits retirement purchases for those highly compensated employees who retired this year. While these retirements and benefits resulted in actual expenses exceeding the budget in this category, they did not financially harm the District because reserves for these obligations had already been created.
- Materials and supplies were budgeted at \$721,674, and actual expenditures were \$392,632. The difference is largely due to the District's maintenance program which has reduced breaks and leaks by properly lining and maintaining the District's pipes.
- Central Valley Expense, for processing of wastewater, was budgeted at \$4,742,731 while actual was \$3,066,054, or \$1,676,677 under budget. The District participates with six other entities in

**GRANGER-HUNTER IMPROVEMENT DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

funding the operations of the Central Valley Water Reclamation Facility (CVW). Each entity pays a proportionate share of the CVW operating and capital expenditures. Consistent with the prior year, the construction and maintenance of nutrient removing infrastructure was again delayed due to ongoing negotiations with state and federal entities, and therefore the related expenses were not incurred.

- Equipment and Tools purchases were budgeted at \$617,500, while reported expenditures were only \$22,070, a difference of \$595,430 under budget. This is due to the majority of the budgeted items (approximately \$493,000 of items) being capitalized and therefore reclassified into the capital categories of outlays. We budget on a sources and uses basis in order to be certain we will have the funds needed for the purchases. However, the items are then capitalized if they meet the requirements for such treatment.
- Infrastructure purchases were budgeted at \$13,426,112, and actual expenses totaled \$10,603,644, a difference of \$2,822,468 under budget. Planned work on the 3500 South waterline (\$1,650,000) and the electrical system of Warner wastewater pump station (\$750,000) was delayed until next year, as well as completion of a handful of other smaller projects that were in process or just starting up at year end.

**Overview of the Financial Statements**

The District’s financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States as promulgated by the Governmental Accounting Standards Board (GASB). The District reports as a single enterprise fund. Revenues are recognized when earned and expenses are recognized in the period in which they are incurred. See the notes to the financial statements for a summary of the District’s significant accounting policies.

The *statement of net position* presents information on all of the District’s assets and liabilities, with the difference between the two reported as *total net position*. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the District is improving or deteriorating.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 45,811,007	\$ 49,110,795	\$ 47,687,977
Capital assets, net	<u>104,025,420</u>	<u>98,917,281</u>	<u>99,259,754</u>
Total Assets	<u>149,836,427</u>	<u>148,028,076</u>	<u>146,947,731</u>
Deferred outflows of resources	<u>1,584,893</u>	<u>808,573</u>	<u>733,983</u>
Current liabilities	3,930,683	3,818,661	3,149,366
Long-term liabilities	<u>8,648,939</u>	<u>9,164,388</u>	<u>10,049,022</u>
Total Liabilities	<u>12,579,622</u>	<u>12,983,049</u>	<u>13,198,388</u>
Deferered inflows of resources	<u>268,006</u>	<u>242,863</u>	<u>-</u>
Net investment in capital assets	98,069,420	91,945,281	90,599,938
Restricted	4,664,200	4,535,319	3,889,236
Unrestricted	<u>35,840,072</u>	<u>39,130,137</u>	<u>39,994,152</u>
Total Net Position	<u>\$ 138,573,692</u>	<u>\$ 135,610,737</u>	<u>\$ 134,483,326</u>

**GRANGER-HUNTER IMPROVEMENT DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

The statement of net position includes all of the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position which are categorized as investment in capital assets, restricted, or unrestricted. As can be seen from the schedule above, net position changed from \$135,610,737 to \$138,573,692, an increase of \$2,962,955 at the end of the current year, just over 2% of prior year's total net position. The largest portion of the District's net position, \$104,025,420 (75.1%), reflects its investment in capital assets (e.g., land, buildings, water and sewer system facilities, and equipment). The District uses these capital assets in its daily operations; consequently, they are not available for future spending. An additional portion of the District's net position, \$4,664,200 (3.4%), represents resources that are subject to external restrictions on how they may be used.

While the statement of net position shows the change in financial position, the summary of the District's statement of revenues, expenses, and changes in net position provides information regarding the nature and source of these changes as seen in the following schedule.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 28,014,418	\$ 25,026,191	\$ 24,835,464
Operating expenses	<u>(30,092,700)</u>	<u>(28,976,771)</u>	<u>(27,648,895)</u>
Operating income (loss)	(2,078,282)	(3,950,580)	(2,813,431)
Non-operating revenues, net	5,447,436	5,492,185	4,915,245
Non-operating expenses	<u>(1,761,605)</u>	<u>(1,793,877)</u>	<u>(1,547,889)</u>
Change in net position before capital contributions	1,607,549	(252,272)	553,925
Capital contributions	<u>1,355,406</u>	<u>1,379,683</u>	<u>606,418</u>
Change in net position	2,962,955	1,127,411	1,160,343
Total Net Position:			
Net position at beginning of year	135,610,737	134,483,326	134,968,206
Adjustments to net position	<u>-</u>	<u>-</u>	<u>(1,645,223)</u>
Total Net Position, End of Year	<u>\$ 138,573,692</u>	<u>\$ 135,610,737</u>	<u>\$ 134,483,326</u>

**Capital Asset Activity**

The District's investment in capital assets as of December 31, 2016, amounts to \$104,025,420 (net of accumulated depreciation). The investment in capital assets includes land, buildings, water and sewer system facilities, and machinery and equipment. The District's investment in capital assets for the current fiscal year increased by 5.16% overall.

Major capital asset events during the current fiscal year included the following:

- Construction of new and replacement water lines in multiple locations.
- Continued replacement of old meters with new units which will facilitate remote reading and eventual real-time monitoring.



**GRANGER-HUNTER IMPROVEMENT DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

- Replacement of Pressure Reducing Valve (PRV) stations.
- Continuation of sewer main lining project.
- Water and sewer lines contributed to the District by developers.
- Well 16 pump to waste/drain and pump replacement.
- Replacement of the Montec wastewater pump station and upgrade of East Rec pump station.
- Construction of Chesterfield wastewater pump station forcemain.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Land	\$ 2,921,736	\$ 2,921,736	\$ 2,921,736
Buildings and improvement	3,879,228	4,180,074	4,489,708
Water system	42,614,527	39,854,225	40,332,992
Sewage pumping plant	13,557,139	12,329,210	12,905,181
Sewage collection lines	31,529,292	32,297,165	33,497,094
Transportation equipment	759,808	695,823	746,233
Engineering and other equipment and tools	2,519,033	1,916,563	1,971,147
Office furniture and equipment	22,261	52,235	76,803
Construction in progress	6,222,396	4,670,250	2,318,860
	<u>\$ 104,025,420</u>	<u>\$ 98,917,281</u>	<u>\$ 99,259,754</u>

Debt Administration

At the end of the current fiscal year, the District had total long-term debt of \$7,224,161, including the effects of deferred refunding and unamortized premiums. The debt represents bonds secured solely by specified revenue sources and post-employment liabilities. The liability relating to the District's outstanding bond debt decreased by \$1,016,000. The liability for termination benefits decreased by \$48,270. The combined total of all long-term debt decreased from \$8,288,431 at December 31, 2015 to \$7,224,161 at December 31, 2016, a change of \$1,064,270. The District has no outstanding general obligation debt.

Additional information on the District's long-term debt can be found in Note 4.

Requests for information

This financial report is designed to give its readers a general overview of the District's finances. Questions regarding any information contained in this report or requests for additional information should be addressed to the Controller of the Granger-Hunter Improvement District, 2888 South 3600 West, West Valley City, Utah 84119 or by telephone (801) 968-3551.

## **BASIC FINANCIAL STATEMENTS**

**GRANGER-HUNTER IMPROVEMENT DISTRICT**  
**STATEMENT OF NET POSITION**  
**December 31, 2016**

**Assets**

**Current Assets:**

Unrestricted Cash and cash equivalents	\$	5,606,490
Marketable Securities		13,708,908
Receivables:		
Property taxes		26,938
Accounts receivable, net		2,388,857
Inventory		830,715
Restricted cash and cash equivalents		314,662
Restricted marketable securities		4,349,538
		4,349,538
<b>Total Current Assets</b>		27,226,108

**Non-current Assets:**

Capital Assets - net of depreciation		104,025,420
Net pension asset		140
		140
<b>Total Non-current Assets</b>		104,025,560

**Other Assets:**

Investment in Central Valley Water Reclamation Facility		18,584,759
		18,584,759
<b>Total Other Assets</b>		18,584,759
<b>Total Assets</b>	\$	149,836,427

**Deferred Outflows of Resources**

Deferred loss on early retirement of debt		9,191
Deferred outflows relating to pensions		1,575,702
		1,575,702
<b>Total Deferred Outflows of Resources</b>		1,584,893
<b>Total Assets and Deferred Outflows of Resources</b>	\$	151,421,320

The accompanying notes are an integral part of this statement.

**GRANGER-HUNTER IMPROVEMENT DISTRICT**  
**STATEMENT OF NET POSITION (Continued)**  
**December 31, 2016**

**Liabilities**

**Current Liabilities:**

Accounts payable	\$	2,054,123
Accrued liabilities		716,606
Accrued interest		110,530
Customer water deposits		21,424
Long-term debt due within one year		1,028,000

<b>Total Current Liabilities</b>		3,930,683
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**Non-Current Liabilities:**

Long-term debt due in more than one year		4,928,000
Post employment termination liabilities		1,268,161
Net pension liability		2,452,778

<b>Total Non-Current Liabilities</b>		8,648,939
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**Deferred Inflows of Resources**

Deferred inflows relating to pensions		268,006
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<b>Total Liabilities and Deferred Inflows of Resources</b>		12,847,628
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**Net Position**

Net investment in capital assets		98,069,420
Restricted for capital projects		4,664,200
Unrestricted		35,840,072

<b>Total Net Position</b>		138,573,692
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<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	\$	151,421,320
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The accompanying notes are an integral part of this statement.

**GRANGER-HUNTER IMPROVEMENT DISTRICT  
STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET POSITION  
For The Year Ended December 31, 2016**

<b>Operating Revenues</b>	
Metered water sales	\$ 17,043,556
Sewer service charges	10,697,462
Other	<u>273,400</u>
<b>Total Operating Revenues</b>	<u>28,014,418</u>
<b>Operating Expenses</b>	
Direct operation and maintenance	14,312,663
General and administrative	9,032,955
Depreciation	<u>6,747,082</u>
<b>Total Operating Expenses</b>	<u>30,092,700</u>
<b>Operating Income (Loss)</b>	<u>(2,078,282)</u>
<b>Non-Operating Revenues (Expenses)</b>	
Property tax revenue	4,025,887
Impact fees	1,007,556
Interest income	474,221
Interest expense	(147,267)
Donation to other governmental entities	(205,325)
Gain (loss) on disposal of assets	(60,228)
Unrealized loss on marketable securities	(3,474)
Equity in net loss of Central Valley Water Reclamation Facility	<u>(1,405,539)</u>
<b>Total Non-Operating Revenues (Expenses)</b>	<u>3,685,831</u>
<b>Change In Net Position Before Contributed Capital</b>	1,607,549
<b>Contributed Capital</b>	<u>1,355,406</u>
<b>Change In Net Position</b>	2,962,955
<b>Net Position at Beginning of Year</b>	<u>135,610,737</u>
<b>Net Position at End of Year</b>	<u><u>\$ 138,573,692</u></u>

The accompanying notes are an integral part of this statement.

**GRANGER-HUNTER IMPROVEMENT DISTRICT  
STATEMENT OF CASH FLOWS  
For The Year Ended December 31, 2016**

Receipts from customers and users	\$ 27,807,392
Payments to suppliers	(17,742,799)
Payments to employees	<u>(5,894,029)</u>
<b>Net Cash From Operating Activities</b>	<u>4,170,564</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
Property tax receipts	<u>3,872,332</u>
<b>Net Cash From Noncapital Financing Activities</b>	<u>3,872,332</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Impact fees received	1,007,556
Purchase of property and equipment	(10,603,644)
Proceeds from sale of property and equipment	43,600
Principal paid on bonds	(1,016,000)
Interest paid on bonds	<u>(142,045)</u>
<b>Net Cash From Capital and Related Financing Activities</b>	<u>(10,710,533)</u>
<b>Cash Flows From Investing Activity</b>	
Cash from sale of investments	44,483,090
Cash paid for purchase of investments	(42,290,957)
Cash paid for investment in Central Valley Water Reclamation Facility	(1,346,210)
Interest income	<u>474,221</u>
<b>Net Cash From Investing Activity</b>	<u>1,320,144</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(1,347,493)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>7,268,645</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 5,921,152</u></u>
<b>Cash and Cash Equivalents recorded in the Statement of Net Position</b>	
Unrestricted	\$ 5,606,490
Restricted	<u>314,662</u>
	<u><u>\$ 5,921,152</u></u>

The accompanying notes are an integral part of this statement.

**GRANGER-HUNTER IMPROVEMENT DISTRICT**  
**STATEMENT OF CASH FLOWS (Continued)**  
**For The Year Ended December 31, 2016**

**Reconciliation of Operating Loss to Net Cash From Operating Activities:**

Operating Loss	\$ (2,078,282)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation expense	6,747,082
(Increase) Decrease in assets	
Receivables	
Accounts receivable, net	(206,180)
Inventory	(149,676)
Net pension asset	1,446
Deferred outflows	(785,540)
Increase (Decrease) in liabilities	
Accounts payable	278,717
Accrued liabilities	(173,851)
Customer water deposits	(846)
Post employment termination liabilities	(48,270)
Net pension liability	560,821
Deferred Outflows	25,143
<b>Net Cash From Operating Activities</b>	<b><u>\$ 4,170,564</u></b>

**Noncash Investing, Capital, and Financing Activities**

Loss in Central Valley Water Reclamation Facility equity	\$ 1,405,539
Contributed capital sewer lines received valued at	\$ 1,355,406
Deferred charges were amortized in the amount of	\$ 9,220

The accompanying notes are an integral part of this statement.

## **GRANGER-HUNTER IMPROVEMENT DISTRICT NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 SUMMARY OF ACCOUNTING POLICIES**

#### Reporting Entity

Granger-Hunter Improvement District (the District) was established by resolution of the Board of County Commissioners of Salt Lake County in 1950. Salt Lake County has no oversight responsibility over the District. The District is not a component unit of another government as defined by Governmental Accounting Standards Board (GASB) Statement 61, *The Financial Reporting Entity: Omnibus*, since the District is a special district governed by a Board of Trustees which are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units as defined in GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*, which are included in the District's reporting entity.

#### Summary of Significant Accounting Policies

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to government entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing accounting and financial reporting principles. Financial reporting is based upon accounting guidance codified by GASB.

The following is a summary of the more significant policies.

#### Financial Statement Presentation and Basis of Accounting

The District prepares its financial statements on an enterprise fund basis, which is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private businesses, where the intent is that all costs of providing certain goods and services to the general public be financed or recovered primarily through user charges, or where it has been deemed that periodic determination of net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Revenues from operations, investments, and other sources are recorded when earned and expenses are recorded when liabilities are incurred. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property tax revenue and contributed water and sewer lines.

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 and services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers of the system. Operating expenses for the District include the costs of treatment, personnel, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.



**GRANGER-HUNTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

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

Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. All non-restricted amounts are considered to be cash and cash equivalents for cash flow statement purposes.

The Public Treasurers' Investment Fund (PTIF) accounts of the District are stated at amortized cost, which approximates fair value in accordance with GASB No. 72, *Fair Value Measurement and Application*.

Investments

Investments are reported at fair value as prescribed in GASB No. 31.

Restricted Assets

The District maintains accounts which are restricted by state law for use in capital projects. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Inventories

The District's inventories include various items consisting of water meters, replacement parts, and other maintenance related equipment and supplies used in the construction and repair of water and sewer systems. Inventories are valued at the lower of cost or market using the first-in, first-out (FIFO) method. Inventory items are expensed as used.

Capital Assets

Capital Assets are stated at cost and are defined by the District as assets with a cost of \$5,000 or more. Normal maintenance and repair expenses that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The net book value of property sold or otherwise disposed of is removed from the property and accumulated depreciation accounts and the resulting gain or loss is included as non-operating revenues or expenses.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. No interest was capitalized during the current fiscal year.

Depreciation of property and equipment was computed using the straight-line method over the following estimated useful lives:

Sewer and Water Lines	10-60 years
Office Building	10-40 years
Furniture and Fixtures	5-10 years
Automobiles and Trucks	5-10 years
Tools and Equipment	5-10 years

**GRANGER-HUNTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

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

Summary of Significant Accounting Policies (Continued)

Contributed Capital

The District receives title to various water and sewer lines that have been constructed by developers after the District certifies that these lines meet all the required specifications. The District records water and sewer lines at the estimated fair market value at the date of donation, provided by the District's engineers, which are then depreciated under the methods and lives set forth above.

Joint Venture

The District accounts for its interest in a joint venture using the equity method of accounting.

Vacation, Sick Leave and Other Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. All full time employees may carry a maximum of 312 hours accrued vacation time from year to year, and will not be permitted to accrue more than the employee's regular earned vacation time plus three hundred twelve accrued vacation hours from the prior year. All vested vacation benefits shall be paid upon termination of employment by resignation or termination.

Unused sick leave may be carried over from one year to the next. Upon retirement, an employee may elect to apply unused sick leave in one of the following two ways:

1. Receive payment in cash equal to one hundred percent of the value of the employee's accrued and unused sick leave; or
2. Exchange twelve hours of unused sick leave for one month's coverage under the District's group health and dental plan. This benefit is available to the employee and the employee's spouse until they become eligible for Medicare benefits.

In the event of termination other than retirement, unused sick leave will be lost.

Property Tax Revenues

Property tax rates are approved in June of each year by the Board of Trustees for the District. County Assessors assess a value (an approximation of market value) as of January 1 of each year for all real property, to which the property tax rates will apply for assessing property taxes. The property taxes assessed become delinquent after November 30. The District's certified tax rate in Salt Lake County for 2016 was .000606 for operations and maintenance. The District appropriates the entire amount to operations and maintenance. The statutory maximum set by the State for operations and maintenance is .000800.

Budgetary Accounting

The District adopts an annual budget, which is maintained on an accrual basis except for certain capitalizable projects. All annual appropriations lapse at fiscal year-end.

## **GRANGER-HUNTER IMPROVEMENT DISTRICT NOTES TO FINANCIAL STATEMENTS (Continued)**

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

#### Summary of Significant Accounting Policies (Continued)

##### Allowance for Doubtful Accounts

Accounts receivable are stated net of allowance for doubtful accounts of \$50,135. The allowance for doubtful accounts is based on the District's prior collection experience. Uncollected fees are certified to the county and attached as liens on the related real estate where allowable.

##### Cash Bonds from Developers

The District requires developers to post a bond of 110% of the cost of the project. After the District accepts the completed project, the District releases all of the bonds except 10%. The remaining 10% of the posted bond is not released until the warranty period required by the District is met. The District records the total cost of each completed project after it has been satisfactorily completed and accepted. Warranty work done during the warranty period will be performed by the developer or collected from the bond posted by the developer.

##### 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 the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### 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.

##### Deferred Outflows/Inflows of Resources

In addition to assets, 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 will not be recognized as an outflow of resources (expense/expenditure) until then. 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 will not be recognized as an inflow of resources (revenue) until that time.

### **NOTE 2 DEPOSITS AND INVESTMENTS**

The District's deposit and investment policy is to follow the Utah Money Management Act. The District does not have a separate deposit or investment policy that addresses specific types of deposit and investment risks to which the District is exposed.

## **GRANGER-HUNTER IMPROVEMENT DISTRICT NOTES TO FINANCIAL STATEMENTS (Continued)**

### **NOTE 2 DEPOSITS AND INVESTMENTS (Continued)**

The District follows the requirements of the Utah Money Management Act (Act) (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and investment transactions. This law requires the depositing of District funds in a "qualified depository". The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the state commissioner of financial institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

#### Deposits

Cash includes amounts in demand deposits including the portion of the PTIF that is considered as a demand deposit.

*Custodial credit risk – deposits* is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2016, \$5,245,141 of the District's deposit bank balances of \$5,809,803 was uninsured and uncollateralized.

#### Investments

The Money Management Act also governs the scope of securities allowed as appropriate investments for the District and conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

The District's investments are exposed to certain risks as outlined below:

*Custodial credit risk – investments* is the risk that in the event of the failure of a counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk beyond the provisions of the Act. As of December 31, 2016, the District's sweep account balance was uninsured.

*Interest rate risk* is the risk that changes in the interest rates will adversely affect the fair value of an investment. The District's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Act. Title 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years. The fair value of the District's investment in the PTIF is \$4,263,457 with a carrying value of \$4,245,642.

*Credit risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's policy for reducing its exposure to credit risk is to comply with the Act as previously discussed. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories, repurchase agreements, commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors, bankers' acceptances, obligations of the U.S. Treasury and U.S.

**GRANGER-HUNTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

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

government sponsored enterprises, bonds and notes of political subdivisions of the State of Utah, fixed rate corporate obligations and variable rate securities rated “A” or higher by two nationally recognized statistical rating organizations, and shares in a money market fund as defined in the Act.

*Concentration of credit risk* is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The District’s policy for reducing the risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5%-10% depending upon total dollar amount held in the portfolio.

The District invests in certain investments which exceed 5% of the total investments as of December 31, 2016 as noted below:

<u>Issuer</u>	<u>Amount</u>	<u>Percentage</u>
Morgan Stanley	1,708,237	9.5%
Goldman Sachs	1,159,761	6.5%
Citigroup	1,013,335	5.7%
JP Morgan Chase & Co	908,938	5.1%

The District invests in the 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 costs basis. The income, gains, losses, net of administration fees, of the PTIF are allocated to participants on the ratio of the participants’ share to the total funds in the PTIF based on the participants’ 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 from the Utah State Treasurer’s Office. As of December 31, 2016, the Utah Public Treasurer’s Investment Fund was unrated.

*Fair Value of Investments*

The District 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

**GRANGER-HUNTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

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

	12/31/2016	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<b>Investments by fair value level</b>				
Utah State Treasurer's investment pool	\$ 4,245,642	\$ -	\$ 4,263,457	\$ -
Corporate Notes	10,498,530	\$ 10,498,530	\$ -	\$ -
Governmental Notes	7,559,916	\$ 7,559,916	\$ -	\$ -
<b>Total investments by fair value level</b>	<b>\$ 22,304,088</b>	<b>\$ 18,058,446</b>	<b>\$ 4,263,457</b>	<b>\$ -</b>

The fair value of the PTIF investments is measured using the Level 2 inputs as noted above.

The following is a summary of the District's cash and investments as of December 31, 2016:

	Carrying Value	Fair Value Factor	Fair Value	Credit Rating (1)	Weighted Ave. Maturity (Years) (2)
<b>Cash on hand and on deposit:</b>					
Cash on deposit	1,360,848	1	1,360,848	N/A	N/A
Bond Reserves	314,662	1	314,662	N/A	N/A
Utah State Treasurer's investment pool accounts	4,245,642	1.004196	4,263,457	N/A	N/A
<b>Total cash on hand and deposit</b>	<b>\$ 5,921,152</b>		<b>\$ 5,938,967</b>		
<b>Investments</b>					
Corporate Notes	\$ 10,498,530	1	10,498,530	A -	1.37
Governmental Notes	7,559,916	1	7,559,916	AAA	3.29
<b>Total Investments</b>	<b>\$ 18,058,446</b>		<b>\$ 18,058,446</b>		
Portfolio weighted average maturity					2.17

The following is a summary of the District's cash and investments as of December 31, 2016:

	Carrying Amount
As Reported on the Statement of Net Position:	
Unrestricted cash and cash equivalents	\$ 5,606,490
Restricted cash and cash equivalents	314,662
Marketable securities	13,708,908
Restricted marketable securities	4,349,538
<b>Total Cash and Investments</b>	<b>\$ 23,979,598</b>
Components of Cash and Investments:	
Bond Reserves	\$ 314,662
Utah Public Treasurers Fund	4,245,642
Sweep account	1,360,848
U.S. obligations and agencies	7,559,916
Corporate bonds	10,498,530
<b>Total Cash and Investments</b>	<b>\$ 23,979,598</b>

**GRANGER-HUNTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 3 CAPITAL ASSETS**

The following summarizes the District's capital assets for the year ended December 31, 2016:

	<u>Beginning Balance</u>	<u>Additions / Transfers In</u>	<u>Deletions / Transfers Out</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land and water rights	\$ 2,921,736	\$ -	\$ -	\$ 2,921,736
Construction in progress	4,670,250	7,638,561	(6,086,415)	6,222,396
Total Capital Assets not being depreciated	7,591,986	7,638,561	(6,086,415)	9,144,132
Capital assets, being depreciated				
Buildings and improvements	8,694,289	7,375		8,701,664
Water System	78,042,786	5,020,955	(348,706)	82,715,035
Sewage pumping plant	21,025,860	2,268,702	(375,656)	22,918,906
Sewage collection lines	73,104,055	1,652,842		74,756,897
Transportation equipment	3,832,152	448,695	(126,847)	4,154,000
Engineering and other equipment	5,842,408	1,008,335		6,850,743
Furniture and fixtures	647,636		(2,188)	645,448
Total Capital Assets, being depreciated	191,189,186	10,406,904	(853,397)	200,742,693
Less accumulated depreciation				
Buildings and improvements	(4,514,215)	(308,221)		(4,822,436)
Water System	(38,188,561)	(2,157,910)	245,963	(40,100,508)
Sewage pumping plant	(8,696,650)	(1,040,773)	375,656	(9,361,767)
Sewage collection lines	(40,806,890)	(2,420,715)		(43,227,605)
Transportation equipment	(3,136,329)	(383,989)	126,126	(3,394,192)
Engineering and other equipment	(3,925,845)	(405,865)		(4,331,710)
Furniture and fixtures	(595,401)	(29,609)	1,823	(623,187)
Total accumulated depreciation	(99,863,891)	(6,747,082)	749,568	(105,861,405)
Capital Assets, being depreciated, net	91,325,295	3,659,822	(103,829)	94,881,288
Property and Equipment, Net	<u>\$ 98,917,281</u>	<u>\$ 11,298,383</u>	<u>\$ (6,190,244)</u>	<u>\$ 104,025,420</u>

Depreciation expense of \$6,747,082 was charged to Operations/Administrative/Office expense for the year ended December 31, 2016.

**GRANGER-HUNTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 4 LONG-TERM DEBT**

The following is a summary of the changes in long-term debt obligations for the year ended December 31, 2016:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Long-Term Debt</b>					
Revenue Bonds					
2012 Revenue bonds	\$ 5,457,000	\$ -	\$ (261,000)	\$ 5,196,000	\$ 268,000
2014 Revenue bonds	1,515,000	-	(755,000)	760,000	760,000
Plus unamortized premiums	-	-	-	-	-
Total Revenue Bonds	6,972,000	-	(1,016,000)	5,956,000	1,028,000
Termination benefits payable	1,316,431	-	(48,270)	1,268,161	-
<b>Total Long-Term Debt</b>	<u>\$ 8,288,431</u>	<u>\$ -</u>	<u>\$ (1,064,270)</u>	<u>\$ 7,224,161</u>	<u>\$ 1,028,000</u>
<b>Deferred Outflows of Resources</b>					
Deferred loss on early retirement of debt	\$ (18,411)	\$ -	\$ 9,220	\$ (9,191)	\$ -

Total interest expense incurred on long-term debt for the year ended December 31, 2016 was \$147,267, of which none was capitalized.

Revenue bonds consist of the following:

	<u>2016</u>
Water and Sewer Revenue Refunding Bonds, Series 2012, with the State of Utah Department of Environmental Quality, the total of the approved \$6,202,000 bond amount has been drawn through December 31, 2015, interest payable due in annual installments on March 1st, and estimated annual principal installments ranging from \$261,000 to \$389,000, bearing interest at 2.5%, maturing in March 2032.	5,196,000
Water and Sewer Revenue Refunding Bonds, Series 2014, due in semi-annual interest installments ranging from \$3,420 to \$9,860 and annual principal installments ranging from \$755,000 to \$760,000, bearing interest between .80% and .90%, maturing in March 2017.	<u>760,000</u>
Total revenue bonds	<u>\$ 5,956,000</u>



**GRANGER-HUNTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 4 LONG-TERM DEBT (Continued)**

The following summarizes the District's revenue bonds debt service requirements as of December 31, 2016.

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,028,000	\$ 133,320	\$ 1,161,320
2018	274,000	123,200	397,200
2019	281,000	116,350	397,350
2020	288,000	109,325	397,325
2021	295,000	102,125	397,125
2022-2026	1,595,000	396,000	1,991,000
2027-2031	1,806,000	186,275	1,992,275
2032	389,000	9,725	398,725
	<u>5,956,000</u>	<u>\$ 1,176,320</u>	<u>\$ 7,132,320</u>
Less deferred amounts on refunding	<u>(9,191)</u>		
Total	<u>\$ 5,946,809</u>		

Advance Refunding

The District issued Water and Sewer Revenue Refunding Bonds, series 2014, in December 2014. The proceeds of the Water and Sewer Revenue Refunding Bonds, series 2014, have been used to refund the Water and Sewer Revenue Refunding Bonds, series 2005. The reacquisition price exceeded the net carrying amount of the old debt (series 2005) by \$27,572. This amount is being amortized over the remaining life of the new debt (series 2014), which is shorter than the life of the refunded debt. The unamortized portion at December 31, 2016 was \$9,191.

The District issued Water and Sewer Revenue Bonds, series 2012, in January 2012. The principal amount of the bond was \$6,202,000.

**NOTE 5 POST-EMPLOYMENT TERMINATION LIABILITIES**

Post-employment Health Care Benefits-Termination Benefits

During 2007, the District began to accrue a post-employment liability for health care benefits to be provided to retired employees who have elected to convert unused sick leave to coverage under the District's group health and accident plan as discussed in Note 1. The liability is determined by multiplying the total number of months of coverage remaining for all retirees by the current insurance rates for medical and dental benefits. As of December 31, 2016 the remaining liability is \$924,914, of which none is current.

Retirement Buyout

During 2007, the District also elected to begin accruing a liability for the potential purchase of future service credit from the Utah Retirement Systems (URS) for qualified employees. To qualify for retirement buyout from URS, an employee must have a minimum of 25 years of

**GRANGER-HUNTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 5 POST-EMPLOYMENT TERMINATION LIABILITIES (Continued)**

eligible service. The District will share in the cost of buyout from 50% to 80% based on an employee's age and years of service. A table found in the District's personnel Rules and Regulations Manual specifies the District's share. The District has 4 eligible employees as of December 31, 2016. Based on calculations obtained using URS's Service Purchase Estimate Calculator and the specified share from the table for each employee, the District has estimated the retirement buyout liability to be \$343,247.

**NOTE 6 RETIREMENT AND BENEFIT PLANS**

Utah Retirement Systems Pension Plan

The Guide to Implementation of GASB Statement 68 on Accounting and Financial Reporting for Pensions issued by GASB states that an employer "may determine its reported pension liability to be as of a date no earlier than the end of its prior fiscal year". To avoid delaying the reporting of the District's financial statements as of and for the year ended December 31, 2016, the District is using the information as of the URS Plan year-end 2015 in the District's December 31, 2016 financial statements, rolled forward for the effects of contributions made during the year in accordance with GASB 68 Accounting and Financial Reporting for Pensions. Therefore, the information in this footnote and in the Required Supplementary Information that follows is as of the URS plan year-end of December 31, 2015.

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:

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

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

**GRANGER-HUNTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 6 RETIREMENT AND BENEFIT PLANS (Continued)**

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

Summary of Benefits by System

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

\* with actuarial reductions

\*\* All post-retiring 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.

Contributions: As a condition of participation in the Systems, employers and/or employees are required to contribute certain percentages of salary and wages as authorized by statute and specified by the 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 December 31, 2016 are as follows:

Utah Retirement Systems	Employee	Employer	Employer 401(k)
<b>Contributory System</b>			
111 - Local Governmental Division Tier 2	N/A	14.91	1.78
<b>Noncontributory System</b>			
15- Local Governmental Division Tier 1	N/A	18.47	N/A
<b>Tier 2 DC Only</b>			
211 - Local Governmental	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.

For fiscal year ended December 31, 2016, the employer and employee contributions to the Systems were as follows:

System	Employer Contributions	Employee Contributions
Noncontributory System	\$ 644,822	N/A
Tier 2 Public Employees System	96,384	-
Total Contributions	\$ 741,206	-

**GRANGER-HUNTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 6 RETIREMENT AND BENEFIT PLANS (Continued)**

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

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

At December 31, 2016, we reported a net pension asset of \$140 and a net pension liability of \$2,452,778.

	(Measurement Date): December 31, 2015				
	Net Pension Asset	Net Pension Liability	Proportionate Share	Proportionate Share December 31, 2014	Change (Decrease)
Noncontributory System	\$ -	\$2,452,778	0.4334689%	0.4357104%	(0.0022415)%
Tier 2 Public Employees System	140	-	0.0639096%	0.0523450%	0.0115646 %
Total Net Pension Asset / Liability	<u>\$ 140</u>	<u>\$2,452,778</u>			

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

For the year ended December 31, 2016, we recognized pension expense of \$543,077.

At December 31, 2016, we reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 113,572
Changes in assumptions	-	137,543
Net difference between projected and actual earnings on pension plan investments	831,918	-
Changes in proportion and differences between contributions and proportionate share of contributions	2,577	16,891
Contributions subsequent to the measurement date	<u>741,206</u>	<u>-</u>
Total	<u>\$ 1,575,701</u>	<u>\$ 268,006</u>

The \$741,206 reported as deferred outflows of resources related to pensions results from contributions made by us prior to our fiscal year end, but subsequent to the measurement date of December 31, 2015. These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**GRANGER-HUNTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 6 RETIREMENT AND BENEFIT PLANS (Continued)**

Year Ended December 31,	Deferred Outflows (inflow) of Resources
2016	\$ 126,871
2017	126,871
2018	129,283
2019	185,453
2020	(370)
Thereafter	(1,620)
Total	<u>\$ 566,488</u>

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

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

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

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

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 are 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 by the following table:

Asset Class	Expected Return Arithmetic Basis		
	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return
Equity securities	40%	7.06%	2.82%
Debt securities	20%	0.80%	0.16%
Real assets	13%	5.10%	0.66%
Private equity	9%	11.30%	1.02%
Absolute return	18%	3.15%	0.57%
Cash and cash equivalents	0%	0.00%	0.00%
Total	<u>100%</u>		<u>5.23%</u>
	Inflation		<u>2.75%</u>
	Expected Arithmetic Nominal Return		<u>7.98%</u>

**GRANGER-HUNTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 6 RETIREMENT AND BENEFIT PLANS (Continued)**

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

Discount rate: The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from all participating employers will be made at contractually required rates that are actuarially determined and certified by the URS Board. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

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

<u>System</u>	<u>1% Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Noncontributory System	\$ 5,182,476	\$ 2,452,778	\$ 174,027
Tier 2 Public Employee Sestem	\$ 25,584	\$ (140)	\$ (19,636)
Total	\$ 5,208,060	\$ 2,452,638	\$ 154,391

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

**Defined Contribution Savings Plans**

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

The District 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 December 31, were as follows:

**GRANGER-HUNTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 6 RETIREMENT AND BENEFIT PLANS (Continued)**

<b>401(k) Plan*</b>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Employer Contributions	\$ 11,507	\$ 7,442	\$ 4,351
Employee Contributions	-	-	-
<b>457 Plan</b>			
Employer Contributions	\$ 27,707	\$ 15,467	\$ 12,401
Employee Contributions	\$ 39,571	\$ 11,774	\$ 9,325
<b>Roth IRA Plan</b>			
Employer Contributions	N/A	N/A	N/A
Employee Contributions	\$ 225	\$ -	\$ -

*\*The employer paid 401(k) contributions include the totals paid for employees enrolled in the Tier 2 Defined Contribution Plan.*

**NOTE 7 CENTRAL VALLEY WATER RECLAMATION FACILITY**

During 1978, the District entered into a joint venture with four other special districts and two cities. The joint venture was organized to construct and operate a regional sewage treatment facility for the benefit of the seven members. The seven members and their related ownership interest, as of December 31, 2016, are as follows:

	<u>Original Facility</u>	<u>New Expansion</u>	<u>Enhancements</u>	<u>Digesters</u>	<u>Secondaries</u>
Cottonwood Improvement District	19.569%	7.3215%	18.1191%	8.042%	7.1225%
Mt. Olympus Improvement District	25.622%	23.6177%	24.7780%	20.080%	22.6557%
Granger-Hunter Improvement District	21.124%	25.4755%	20.2376%	25.050%	24.9005%
Kearns Improvement District	5.978%	24.0002%	11.2654%	28.435%	25.7112%
Murray City	8.892%	6.8421%	8.0168%	6.280%	6.6882%
South Salt Lake City	6.120%	2.5074%	5.0980%	1.378%	2.5857%
Taylorsville-Bennion Improvement District	12.695%	10.2356%	12.4851%	10.735%	10.3362%
	<u>100.000%</u>	<u>100.0000%</u>	<u>100.0000%</u>	<u>100.000%</u>	<u>100.0000%</u>

The Joint venture is administered by a joint administration board. Each member entity appoints one member to the board, and voting power is not related to ownership. Therefore, each member is equal to another for voting privileges. The joint venture is responsible for adopting a budget and financing its operations, subject to approval by each of the seven members.

The District accounts for its investment in Central Valley Water Reclamation Facility (Central Valley) using the equity method of accounting. Summarized financial information of Central Valley as of December 31, 2016 and for the year then ended is as follows:

**GRANGER-HUNTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 7 CENTRAL VALLEY WATER RECLAMATION FACILITY (Continued)**

	2016	2015
Total assets	\$ 94,591,449	\$ 94,360,234
Total net position	84,359,640	84,358,039
Operating revenues	13,232,689	13,014,341
Change in net position	1,601	(775,865)
The District's interest in:		
Net position	18,584,759	18,644,085
Net loss	59,326	219,736

In prior years the District has recorded its previous proportionate share (21.124%) of the government grants received by Central Valley as an addition to the District's investments in Central Valley and to the District's contributions in aid to construction. All expenses (except depreciation) incurred by Central Valley are billed to its members. Accordingly, the District's equity in net losses of Central Valley annually is billed to the District. The District's equity in net losses of Central Valley annually approximates its share of Central Valley's depreciation expense. Audited statements are available at Central Valley Water Reclamation Facility, 800 West Central Valley Road, Salt Lake City, Utah 84119.

The District incurred the following costs from the joint venture for the year ended December 31, 2016:

Administration	\$ 358,292
Operations and maintenance	2,707,762
Total	\$ 3,066,054

The District owed a balance of \$724,107 to Central Valley as of December 31, 2016 for wastewater treatment. This amount is included in accounts payable in the statement of net position.

**NOTE 8 COMMITMENTS AND CONTINGENCIES**

An agreement has been made with Jordan Valley Water Conservancy District, which provides, in general, that the District will purchase a minimum amount of water each year from the Conservancy District (18,500 acre feet in 2016). During 2016, the District purchased approximately 19,517 acre feet of water, which cost \$9,759,459.

During the year the District entered into contracts for construction of water and sewer facilities. As of December 31, 2016, there was approximately \$1,511,359 outstanding on these contracts.

The District's 2012 series bonds require net revenue of 125% of the current bond principal payments. The District met the net revenue requirement for the year ended December 31, 2016.



**GRANGER-HUNTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 9 RISK MANAGEMENT**

The District is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District has commercial insurance. The District also carries commercial workers' compensation insurance. There were no significant reductions in coverage from the prior year, and settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

**REQUIRED SUPPLEMENTARY INFORMATION**

**GRANGER-HUNTER IMPROVEMENT DISTRICT**  
**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**DECEMBER 31, 2015\***  
**Last 10 Fiscal Years\*\***

For the year ended December 31,	Proportion of the net pension liability (asset)	Proportionate share of the net pension liability (asset)	Covered- employee 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 its covered- employee payroll
<b>Noncontributory System</b>					
2015	0.4334689%	\$ 2,452,778	\$ 3,712,393	66.07%	87.8%
2014	0.4357104%	\$ 1,891,957	\$ 3,741,284	50.60%	90.2%
<b>Tier 2 Public Employees System</b>					
2015	0.0639096%	\$ (140)	\$ 412,991	-0.03%	100.2%
2014	0.0523450%	\$ (1,586)	\$ 256,880	-0.60%	103.5%

*\*Pension figures for 2016 were not available at the time this report was written. The District has reported the most up-to-date information available.*

*\*\* The 10-year schedule will be built prospectively.*

**GRANGER-HUNTER IMPROVEMENT DISTRICT  
SCHEDULE OF CONTRIBUTIONS  
DECEMBER 31, 2016  
Last 10 Fiscal Years\*\***

	As of fiscal year ended December 31,	Actuarial Determined Contributions	Contributions Related to the contractually required contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered employee payroll
Noncontributory System	2014	\$ 669,263	\$ 669,263	\$ -	\$ 3,743,874	17.88%
	2015	685,137	685,137	-	3,758,692	18.23%
	2016	644,822	644,822	-	3,648,277	17.67%
Tier 2 Public Employees System*	2014	\$ 37,121	\$ 37,121	\$ -	\$ 255,873	14.51%
	2015	61,914	61,914	-	414,914	14.92%
	2016	96,384	96,384	-	647,946	14.88%
Tier 2 Public Employees DC Only System*	2014	\$ 150	\$ 150	\$ -	\$ -	0.00%
	2015	38	38	-	562	6.72%
	2016	-	-	-	-	0.00%

\* 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.

**GRANGER-HUNTER IMPROVEMENT DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**For the Year Ended December 31, 2016**

**Changes in assumptions:**

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

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

**SUPPLEMENTARY INFORMATION**

**GRANGER-HUNTER IMPROVEMENT DISTRICT  
BUDGET TO ACTUAL COMPARISON  
Year ended December 31, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues</b>			
Metered water sales	\$ 17,110,000	\$ 17,043,556	\$ (66,444)
Sewer service charges	10,168,000	10,697,462	529,462
Interest income	400,000	474,221	74,221
Property taxes	4,129,000	4,025,887	(103,113)
Engineering	6,000	6,550	550
Impact fees	800,000	1,007,556	207,556
Connection and turn-off fees	80,000	78,539	(1,461)
Inspection	85,000	73,644	(11,356)
Other income	125,000	114,667	(10,333)
<b>Total Revenues</b>	<u>32,903,000</u>	<u>33,522,082</u>	<u>619,082</u>
<b>Expenditures</b>			
Salaries and wages	4,968,316	4,398,695	(569,621)
Employee benefits	2,967,010	3,266,805	299,795
Materials and supplies	724,674	392,632	(332,042)
Postage and mailing	176,000	164,394	(11,606)
Water purchased	9,826,000	9,759,459	(66,541)
Computer system	199,148	188,541	(10,607)
Building maintenance	82,300	72,149	(10,151)
Water quality expense	67,000	79,567	12,567
Bank expenses	184,150	247,169	63,019
Gas and diesel	306,000	196,095	(109,905)
Insurance	378,350	319,165	(59,185)
Utilities	1,024,440	989,378	(35,062)
Telephone	72,100	70,348	(1,752)
Professional fees	260,700	85,423	(175,277)
Seminars and training	107,175	106,232	(943)
Interest expense	147,860	147,267	(593)
Central Valley expense	4,742,731	3,066,054	(1,676,677)
Equipment and tools purchases	617,500	22,070	(595,430)
Contingency	180,000	-	(180,000)
Vehicle Lease	-	36,824	36,824
Safety expense	35,960	31,752	(4,208)
Pension adjustment	-	(198,130)	(198,130)
Miscellaneous	45,751	50,996	5,245
<b>Total Expenditures</b>	<u>27,113,165</u>	<u>23,492,885</u>	<u>(3,620,280)</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>5,789,835</u>	<u>10,029,197</u>	<u>4,239,362</u>
Infrastructure purchases	13,426,112	10,603,644	(2,822,468)
<b>Reconciliation of Excess (Deficiency) of Revenues Over Expenditures to Change in Net Position</b>			
Capital contributions		\$ 10,029,197	
Depreciation		1,355,406	
Equity in net loss of Central Valley		(6,747,082)	
Gain/(Loss) on fixed asset retirement		(1,405,539)	
Change in unrealized loss on investments		(60,228)	
Donation to other entities		(3,474)	
		<u>(205,325)</u>	
<b>Change in Net Position</b>		<u>2,962,955</u>	

**GRANGER-HUNTER IMPROVEMENT DISTRICT**

**SUPPLEMENTAL REPORTS**

**DECEMBER 31, 2016**



**GRANGER-HUNTER IMPROVEMENT DISTRICT  
SUPPLEMENTAL REPORTS  
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**Keddington & Christensen, LLC**  
Certified Public Accountants

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

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

To the Board of Trustees  
Granger-Hunter Improvement District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Granger-Hunter Improvement District (the District) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 4, 2017.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Keddington & Christensen*

Keddington & Christensen, LLC  
Salt Lake City, Utah  
May 4, 2017

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

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

To the Board of Trustees  
Granger-Hunter Improvement District

**Report On Compliance with General State Compliance Requirements**

We have audited Granger-Hunter Improvement District's compliance with the applicable general state compliance requirements described in the *State Compliance Audit Guide*, issued by the Office of the Utah State Auditor that could have a direct and material effect on the District for the year ended December 31, 2016.

General state compliance requirements were tested for the year ended December 31, 2016 in the following areas:

Budgetary Compliance	Fund Balance
Utah Retirement Systems	Open and Public Meetings Act
Treasurer's Bond	Impact Fees

The District did not have any state funding classified as a major program during the year ended December 31, 2016.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on the District's compliance based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and the State Compliance Audit Guide. Those standards and the State Compliance Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the District occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with general state compliance requirements. However, our audit does not provide a legal determination of the District's compliance.

***Opinion on General State Compliance Requirements and Each Major State Program***

In our opinion, Granger-Hunter Improvement District, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the District for the year ended December 31, 2016.

## ***REPORT ON INTERNAL CONTROL OVER COMPLIANCE***

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the compliance requirements that could have a direct and material effect on the District to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with general state compliance requirements and to test and report on internal control over compliance in accordance with the *State Compliance Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District'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 general state compliance requirement on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a general state compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a general state compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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*

Keddington & Christensen, LLC  
Salt Lake City, Utah  
May 4, 2017