

KEARNS IMPROVEMENT DISTRICT

**Financial Statements
and
Independent Auditors' Report**

December 31, 2016 and 2015

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**Hansen, Bradshaw, Malmrose & Erickson
CERTIFIED PUBLIC ACCOUNTANTS**

KEARNS IMPROVEMENT DISTRICT

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A Professional Corporation
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KEARNS IMPROVEMENT DISTRICT

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Hansen, Bradshaw, Malmrose & Erickson

A Professional Corporation

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Kearns Improvement District
Kearns, Utah

Report on the Financial Statements

We have audited the accompanying basic financial statements of Kearns Improvement District (the District), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The District's 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Kearns Improvement District, as of December 31, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-9 and the pension schedules on pages 37-38 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2017 on our consideration of Kearns Improvement District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Hansen, Bradshaw, Malmrose & Erickson, P.C.

May 1, 2017

**KEARNS IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

This section of the Kearns Improvement District's (the District) annual financial report presents our analysis of the District's financial performance during the year ended December 31, 2016. We encourage readers to consider the information presented in conjunction with the financial statements and accompanying notes to enhance their understanding of the District's financial activities.

2016 Financial Highlights:

- The assets of the District exceeded its liabilities at December 31, 2016 by \$76,158,087. Of this amount, \$57,554,060 represents capital assets net of related debt and \$8,883,529 represents the District's investment in Central Valley Water Reclamation Facility. The remaining \$9,720,498 consists primarily of operating cash, investment reserves maintained for emergencies, reserves for major repairs and replacements, reserves for capital projects and debt service requirements.
- The District's total net assets increased by \$3,245,082 as operating revenues exceeded operating expenses by \$2,140,666. Additionally, nonoperating revenues exceeded nonoperating expenses by \$823,189 and the District received developer contributed water and sewer lines with a value of \$281,227.
- The District's net capital assets increased by \$5,959,192 due to investments in infrastructure that will enhance the ability of the District to continue to provide safe, quality drinking water and effective sewer service for customers into the future.

Overview of Financial Statements:

This discussion and analysis serves as an introduction to the basic financial statements and required supplementary information. The District maintains only one type of fund, which is an enterprise fund. An enterprise fund is used to account for operations in a manner similar to a private business. District financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States. The District's basic financial statements are comprised of the following four components: 1) statement of net position, 2) statement of revenues, expenses and changes in net position, 3) statement of cash flows, and 4) notes to the financial statements.

Statement of Net Position

The Statement of Net Position shows the assets, liabilities and net position of the District. Assets are divided into current, capital, and other assets to reflect the liquidity of the assets. Capital includes land, buildings, water and sewer infrastructure, vehicles, and machinery used in the District's operations. Current liabilities include all debts and obligations owed by the District to outside creditors, vendors, employees, or banks that are payable within one year. Long-term debt includes debts or obligations owed by the District that are due more than one year from the date of the statement. Net position is shown in three components; (1) the net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. The amount reported as invested in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of the related debt that is associated with the capital assets. Restricted net position consists of amounts restricted in use by independent third parties, enabling laws and legislation, or

**KEARNS IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2016**

other laws and statutes. Unrestricted net position is the residual component and consists of net assets that are not defined as 'net investment in capital assets' or restricted.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the 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 are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Statement of Cash Flows

The Statement of Cash Flows shows a summary of the District's cash receipts and disbursements from operating, financing and investing activities.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the District's financial statements.

Required Supplementary Information

The Government Accounting Standards Board (GASB) released Statement No. 68, Accounting and Financial Reporting for Pensions in June of 2012. The scope of this statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts. This statement is an amendment of GASB Statement No. 27. The included Required Supplementary Information details the District's proportionate share of the net pension liability or asset as well as the District's pension contributions in relation to covered payroll.

**KEARNS IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2016**

Financial Analysis

A summary of the District's Statements of Net Position is presented in the schedule below:

**Kearns Improvement District
Condensed Statements of Net Position**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current assets	\$ 14,722,036	\$ 19,089,708	\$ 22,341,243
Capital assets	72,623,230	66,664,038	61,007,399
Other assets	<u>10,428,509</u>	<u>11,026,369</u>	<u>11,999,144</u>
Total assets	<u>97,773,775</u>	<u>96,780,115</u>	<u>95,347,786</u>
Deferred outflows of resources	<u>894,620</u>	<u>380,523</u>	<u>343,777</u>
Current liabilities	3,736,106	4,236,813	4,864,752
Noncurrent liabilities	<u>18,624,613</u>	<u>19,873,317</u>	<u>21,549,752</u>
Total liabilities	<u>22,360,719</u>	<u>24,110,130</u>	<u>26,414,504</u>
Deferred inflows of resources	<u>149,589</u>	<u>137,503</u>	<u>-</u>
Net investment in capital assets	57,554,060	49,785,645	41,586,761
Unrestricted	<u>18,604,027</u>	<u>23,127,360</u>	<u>27,690,298</u>
Total net position	<u>\$ 76,158,087</u>	<u>\$ 72,913,005</u>	<u>\$ 69,277,059</u>

As can be seen from the previous schedule, assets exceeded liabilities by \$76,158,087 at the end of 2016. The largest portion of the District's net position, \$57,554,060 (75.6%), reflects its net investment in capital assets. 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, \$8,883,529 (11.7%) reflects the District's investment in Central Valley Water Reclamation Facility. The District uses these capital assets and its investment in Central Valley Water Reclamation Facility in its daily operations and, consequently, they are not available for future spending. The remaining \$9,720,498 consists primarily of operating cash and investment reserves maintained for emergencies, major repairs and replacements, and capital projects.

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. Net position increased in 2016 by \$3,245,082.

**KEARNS IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2016**

**Kearns Improvement District
Condensed Statements of Revenues, Expenses, and Changes in Net Position**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 14,900,228	\$ 13,714,376	\$ 13,417,460
Operating expenses	<u>(12,759,562)</u>	<u>(11,244,073)</u>	<u>(11,148,154)</u>
Operating income	2,140,666	2,470,303	2,269,306
Nonoperating revenue	2,464,750	2,434,539	2,485,357
Nonoperating expenses	<u>(1,641,561)</u>	<u>(1,588,422)</u>	<u>(1,482,758)</u>
Income before capital contributions	2,963,855	3,316,420	3,271,905
Capital contributions	<u>281,227</u>	<u>319,526</u>	<u>507,171</u>
Change in net position	3,245,082	3,635,946	3,779,076
Net position – beginning of year	<u>72,913,005</u>	<u>69,277,059</u>	<u>65,497,983</u>
Net position – end of year	<u>\$ 76,158,087</u>	<u>\$ 72,913,005</u>	<u>\$ 69,277,059</u>

Net position increased in 2016 by \$3,245,082 compared to increases of \$3,635,946 in 2015 and \$3,779,076 in 2014. Key factors that contributed to this increase include the following:

- Increased operating revenue from 2014 to 2015 due to a Board approved 3% water and sewer fee increase in 2015.
- Operating expenses in 2015 were \$455,201 lower than the budgeted expenses. This decrease was partially due to lower water purchases due as water sales in the early summer were lower than anticipated
- Sewer service revenue in 2015 exceeded budgeted revenue by \$167,798 due to higher average sewer flow than what was expected
- Standby water revenue in 2015 exceeded budgeted revenue by \$12,827 due to lower vacancy rates throughout our District.
- Increased operating revenue from 2015 to 2016 due to a Board approved 2.5% water and sewer fee increase in 2016 and high water sales due to abnormally warm summer weather.

**KEARNS IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2016**

Variance Between Final Budget and Actual Results

Actual results for 2016 reported by the District compare favorably to the 2016 District budget. Operating revenues in 2016 were higher than anticipated as 2016 was a very hot year with high water usage by District customers. Excluding the equity in net loss of joint venture and the capital contributions received from developers, the District performed better than the final (amended) budget by \$250,342.

	2016 Actual	2016 Budget	Difference
Operating revenues	\$ 14,900,228	\$ 14,786,000	\$ 114,228
Operating expenses	<u>(12,759,562)</u>	<u>(12,658,500)</u>	<u>(101,062)</u>
Operating income	2,140,666	2,127,500	13,166
Nonoperating revenue	2,464,750	2,244,000	220,750
Nonoperating expenses	(763,574)	(780,000)	16,426
Equity in net loss of joint venture	<u>(877,987)</u>	<u>-</u>	<u>(877,987)</u>
Income before capital contributions	2,963,855	3,591,500	(627,645)
Capital contributions	<u>281,227</u>	<u>-</u>	<u>281,227</u>
Change in net position	<u>\$ 3,245,082</u>	<u>\$ 3,591,500</u>	<u>\$ (346,418)</u>

- Operating revenues for 2016 were higher than the budgeted amount mainly due to water sales being higher than budgeted as the District experienced a very hot summer.
- Operating expenses were .8% higher than budgeted in 2016 mainly due to higher than anticipated depreciation expense of \$128,831.
- Additionally, various year-end non-cash accruals; including pension expenses, accrued compensated absences and associated payroll taxes, totaling \$132,080 caused operating expenses to be higher than anticipated.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets as of December 31, 2016, amounts to \$72,623,230 (net of accumulated depreciation). This investment in capital assets includes land, buildings, water and sewer systems, and machinery and equipment. The District's investment in capital assets for the current fiscal year increased by 8.9 percent.

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

- Construction of offices & shops (\$3,875,874)
- "Backyard" sewer project construction (\$952,906)
- Construction of 4700 South Sewer Line (\$1,417,056)

**KEARNS IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2016**

- Construction of 5 million gallon tank & 30" water line at office site (\$1,267,702)
- Contributed water and sewer lines from developers (\$281,227)

**Capital Assets
Net of Depreciation**

	2016	2015	2014
Land	\$ 432,311	\$ 432,311	\$ 432,311
Construction in process	4,169,612	5,804,614	-
Buildings and improvements	165,209	186,408	209,371
Water System	28,428,530	23,009,576	23,181,556
Sewer transmission and collection lines	38,744,492	36,649,582	36,512,856
Transportation equipment	558,531	447,445	512,633
Machinery and equipment	99,609	89,124	102,142
Office equipment	<u>24,936</u>	<u>44,978</u>	<u>56,530</u>
 Total	 <u>\$ 72,623,230</u>	 <u>\$ 66,664,038</u>	 <u>\$ 61,007,399</u>

Additional information on the District's capital assets can be found in Note 4.

Long-term debt. At December 31, 2016, the District had total debt of \$18,798,765 (inclusive of current portion). The debt represents bonds secured solely by specified revenue sources and a note payable to Central Valley Water Reclamation Facility. The District's long-term debt decreased by \$2,150,129 compared to the end of 2015 as scheduled debt principal payments were paid during 2016.

The District has no outstanding general obligation debt.

Long-Term Debt

	2016	2015	2014
Revenue bonds	\$ 15,069,170	\$ 16,878,393	\$ 17,958,616
Note Payable - CVWRF	<u>3,729,595</u>	<u>4,070,501</u>	<u>4,401,708</u>
 Total	 <u>\$ 18,798,765</u>	 <u>\$ 20,948,894</u>	 <u>\$ 22,360,324</u>

Additional information on the District's long-term debt can be found in Note 5.

Economic Factors and Next Year's Rates

The District continues to emphasize water conservation in preparation for possible future water shortages due to growth or drought. In 2016, there were relatively small increases to fixed monthly charges and rates were increased by \$0.06, \$0.07, \$0.10 and \$0.14 per thousand gallons, respectively, on the District's four tiers of its graduated water rate table.

**KEARNS IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2016**

The District will continue to evaluate the rate structures necessary to assure fiscal responsibility in meeting its operational needs and the requirements for capital improvements according to its water and sewer master plans. A twenty-five year master plan and a ten year financial plan have been created to assist in this process and an independent rate study was performed in 2010 to identify appropriate increases to meet District operation and capital needs for 2016 and future years.

Request For Information

This financial report is designed to provide taxpayers, customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact the Finance Director of the Kearns Improvement District, PO Box 18608, Kearns, Utah 84118 or by telephone (801) 968-1011.

KEARNS IMPROVEMENT DISTRICT
Statements of Net Position
December 31, 2016 and 2015

	2016	2015
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 7,162,350	\$ 11,636,194
Investments	6,453,897	6,375,431
Water, sewer, and other receivables, net	908,396	902,192
Inventories	165,596	145,720
Prepaid expenses and other	31,797	30,171
Total current assets	14,722,036	19,089,708
Noncurrent assets		
Restricted cash and cash equivalents	1,514,372	1,820,699
Net pension asset	58	984
Capital assets, net	72,623,230	66,664,038
Investment in joint venture	8,883,529	9,174,136
Water stock	30,550	30,550
Total noncurrent assets	83,051,739	77,690,407
Total assets	97,773,775	96,780,115
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred outflows related to pensions	894,620	380,523
Total deferred outflows of resources	894,620	380,523

(Continued)

KEARNS IMPROVEMENT DISTRICT
Statements of Net Position (Continued)
December 31, 2016 and 2015

	2016	2015
<u>LIABILITIES</u>		
Liabilities:		
Current liabilities:		
Accounts payable	1,045,219	1,235,203
Accrued and other liabilities	63,345	65,518
Compensated absences	243,014	209,039
Customer deposits	342,628	337,461
Accrued interest on bonds payable	243,871	263,686
Revenue bonds and notes payable - current	1,798,029	2,125,906
Total current liabilities	3,736,106	4,236,813
Noncurrent liabilities:		
Compensated absences	117,824	93,873
Revenue bonds and notes payable	17,000,736	18,822,988
Net pension liability	1,506,053	956,456
Total noncurrent liabilities	18,624,613	19,873,317
Total liabilities	22,360,719	24,110,130
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred inflows related to pensions	149,589	137,503
Total deferred inflows of resources	149,589	137,503
<u>NET POSITION</u>		
Net investment in capital assets	57,554,060	49,785,593
Unrestricted	18,604,027	23,127,412
Total net position	\$ 76,158,087	\$ 72,913,005

The accompanying notes are an integral part of these financial statements.

KEARNS IMPROVEMENT DISTRICT
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2016 and 2015

	2016	2015
Operating revenues:		
Water sales	\$ 9,039,220	\$ 8,028,827
Sewer service charges	5,610,333	5,425,229
Other	250,675	260,320
Total operating revenues	14,900,228	13,714,376
Operating expenses:		
Water purchased	4,255,917	3,656,790
Sewer treatment costs	1,387,417	1,359,048
Salaries and benefits	2,748,783	2,343,799
Repairs and maintenance	688,686	554,404
Other administrative and office costs	1,201,428	1,117,094
Depreciation and amortization	2,477,331	2,212,938
Total operating expenses	12,759,562	11,244,073
Net operating income	2,140,666	2,470,303
Nonoperating revenues (expenses):		
Property taxes	1,590,441	1,587,351
Impact fees	618,608	468,234
Interest income	167,593	144,729
Miscellaneous income	88,108	234,225
Interest expense	(558,339)	(618,167)
Equity in net loss of joint venture	(877,987)	(735,565)
Property taxes disbursed to others	(205,235)	(234,690)
Total nonoperating revenues (expenses)	823,189	846,117
Net income before capital contributions	2,963,855	3,316,420
Capital contributions		
Developer contributed water and sewer lines	281,227	319,526
Change in net position	3,245,082	3,635,946
Net position, beginning of year	72,913,005	69,277,059
Net position, end of year	\$ 76,158,087	\$ 72,913,005

The accompanying notes are an integral part of these financial statements.

KEARNS IMPROVEMENT DISTRICT
Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Receipts from customers and users	\$ 14,872,709	\$ 13,711,249
Payments to vendors and suppliers	(7,744,934)	(7,281,874)
Payments to employees	(2,644,518)	(2,514,512)
Net cash provided by operating activities	4,483,257	3,914,863
Cash flows from noncapital and related financing activities:		
Property tax and fee in lieu collected	1,616,923	1,565,421
Property tax disbursed to other governments	(205,235)	(234,690)
Net cash provided by noncapital and related financing activities	1,411,688	1,330,731
Cash flows from capital and related financing activities:		
Impact fees collected	618,608	468,234
Purchase of capital assets	(8,155,296)	(7,550,051)
Proceeds from sale of capital assets	-	86,754
Issuance of revenue bonds	-	665,000
Principal paid on bonds and notes	(2,125,906)	(2,052,207)
Interest paid on bonds and notes	(602,377)	(640,026)
Net cash used by capital and related financing activities	(10,264,971)	(9,022,296)
Cash flows from investing activities:		
Capital acquisitions in joint venture	(587,380)	(351,229)
Revenue income credit from joint venture	88,108	147,471
Purchase of investments	(4,630,000)	(59,890)
Sale of investments	4,551,534	-
Interest received	167,593	144,729
Net cash provided (used) by investing activities	(410,145)	(118,919)
Decrease in cash and cash equivalents	(4,780,171)	(3,895,621)
Cash and cash equivalents, beginning of year	13,456,893	17,352,514
Cash and cash equivalents, end of year	\$ 8,676,722	\$ 13,456,893

(Continued)

KEARNS IMPROVEMENT DISTRICT
Statements of Cash Flows (Continued)
For the Years Ended December 31, 2016 and 2015

	2016	2015
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,140,666	\$ 2,470,303
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	2,477,331	2,212,938
Net pension adjustment	48,512	(109,096)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Water, sewer, and other receivables	(32,686)	(10,996)
Inventories	(19,876)	38,899
Prepaid expenses	(1,626)	(746)
Increase (decrease) in:		
Accounts payable	(189,984)	824,705
Accrued and other liabilities	(2,173)	(90,172)
Payable to developer	-	(1,462,022)
Compensated absences	57,926	28,555
Customer deposits	5,167	12,495
Net cash provided by operating activities	\$ 4,483,257	\$ 3,914,863
Non-cash investing, capital and financing activities:		
Capital contributions - developers	\$ 281,227	\$ 319,526
Equity in net loss of joint venture	877,987	735,565

The accompanying notes are an integral part of these financial statements.

KEARNS IMPROVEMENT DISTRICT
Notes to the Financial Statements
December 31, 2016 and 2015

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Kearns Improvement District (the District) conform to generally accepted accounting principles as applicable to government units and are in accordance with established State of Utah legal restrictions as promulgated in the Fiscal Procedures Act. The following is a summary of the more significant policies.

Reporting Entity

Kearns Improvement District is a quasi-municipal corporation governed by an elected three-member board. As required by generally accepted accounting principles, these financial statements present the government and all the services and activities provided by the District for which the District is considered to be financially accountable in accordance with the criteria of Statement No. 61 of the Government Accounting Standards Board. The underlying concept of Statement No. 61 is that the financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District is not reported as a component unit of any other entity, and the District has no blended or discretely presented component units.

Measurement Focus and Basis of Accounting

The District is an enterprise fund 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 business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues are recognized when they are earned, expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 District are charges to customers for water and sewer services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources before unrestricted resources.

KEARNS IMPROVEMENT DISTRICT
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash includes cash on hand, demand deposits with banks and other financial institutions, and deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts. District policy allows for the investment of funds with federally insured depositories, investment in the Utah Public Treasurer's Investment Fund (PTIF) and other investments allowed by the State of Utah's Money Management Act. The reported value of the PTIF is approximately the same as the fair value of its shares.

For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Restricted Cash and Cash Equivalents

Certain resources are classified as restricted because their use is limited by an independent third party, enabling legislation, or other laws and statutes. These restrictions may include future debt service payments, unexpended portions of bonds issued, and impact fees.

Investments

Investments consist of debt securities and term deposits with financial institutions. Investments of the District are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

Receivables

Receivables consist of water and sewer billings to customers and property taxes from the County. The utility billings for charged services are billed to customers when meters are read monthly. The District considers a billing to be uncollectible when it is probable that the District will not collect all amounts due according to the billings. The allowance for doubtful accounts is the District's best estimate of the amount of probable losses in the District's existing receivables. The District determines this amount based on past due balances on final billings. Account balances are charged off against the allowance after all means of collection have been exhausted and collection is deemed remote. The allowance for doubtful accounts amounted to \$24,946 and \$19,429 as of December 31, 2016 and 2015, respectively.

Inventories and Prepaid Expenses

The District maintains inventories of water meters and supplies used in the construction and repair of water and sewer lines. The District values inventories at the lower of cost or market using the first-in, first out (FIFO) method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses, using the consumption method.

KEARNS IMPROVEMENT DISTRICT
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water and sewer line), are reported in the financial statements at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The District reports infrastructure assets on a network and subsystem basis. Capital assets are defined by the District as assets with significant value, ones that can be easily moved, and that have an estimated useful life in excess of one year.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized, but expensed as incurred. Major outlays for capital assets and improvements are capitalized as projects are completed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest was capitalized during the two years presented.

Depreciation is computed on the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	10-40
Water system	25-60
Sewer transmission and collection lines	50-60
Transportation equipment	5-7
Machinery and equipment	5-10
Office equipment	5-10

Joint Venture

The District accounts for its interest in Central Valley Water Reclamation Facility, a joint venture, using the equity method of accounting (see note 7).

Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. All vested vacation benefits shall be paid upon termination of employment.

Each December, employees may elect to be paid for 25% of their unused sick leave accumulated for the previous 12 months. The remaining 75% is added to cumulative unused sick leave balance. Upon retirement, an employee may convert up to 1,000 hours of accumulated sick leave into cash or health insurance coverage. Employees may elect to receive either 10% of accumulated sick leave in cash or to apply 25% of their accumulated sick leave towards continued health insurance premiums. The cost of vacation and sick leave is recorded as a liability when earned.

KEARNS IMPROVEMENT DISTRICT
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position 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) until then.

In addition to liabilities, the statement of financial position 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.

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.

Property Tax Revenues

The property taxes of the District are levied, collected and distributed by Salt Lake County as required by Utah State law. Utah statutes establish the process by which taxes are levied and collected. The County Assessor is required to assess property as of January 1st and complete the tax rolls by May 15th. By July 21st the County Auditor is to mail notices of assessed value and tax changes to property owners. A taxpayer may then petition the County Board of Equalization between August 1st and August 15th for a revision of the assessed value. Approved changes in assessed value are made by the County Auditor by November 1st, who also delivers the completed assessment rolls to the County Treasurer on that same date. Tax notices have a due date of November 30th.

Contributed Water and Sewer Lines

The District receives title to various water and sewer lines that have been constructed by developers. The District must certify that all water and sewer lines meet required specifications. Upon certification, the District records the fair value of these contributions as property and the lines are depreciated according to the depreciation policies of the District.

Income Taxes

The District is exempt from all federal and state income taxes as a political division created by Utah State law.

KEARNS IMPROVEMENT DISTRICT
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

Presenting financial statements in conformity with generally accepted accounting principles requires management to make certain estimates concerning assets, liabilities, revenues and expenses. Actual results may vary from these estimates.

Reclassifications

Certain amounts have been reclassified in the 2015 financial statements to conform with the 2016 presentation.

2. DEPOSITS AND INVESTMENTS

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 (UMMA) that relate to the deposit and investment of public funds.

The District follows the requirements of UMMA (*Utah Code*, Title 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of District funds in a qualified depository, which is defined as a 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. UMMA defines types of securities authorized as appropriate investments for the District'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 District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase 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 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 UMMA; and the Utah State Public Treasurers' Investment Fund. The District has complied with the UMMA and rules of the Money Management Council with regard to deposits and investments. The District does not have a separate deposit and investment policy that addresses specific types of deposit and investment risks to which the District is exposed.

KEARNS IMPROVEMENT DISTRICT
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

2. DEPOSITS AND INVESTMENTS (CONTINUED)

The Utah State Treasurer’s Office operates the Public Treasurers’ 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 UMMA. The Act established the Money Management Council which oversees the activities of the State Treasurer and the 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 District measures and records 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: Financial instruments with quoted prices listed on active market exchanges.
- Level 2: Financial instruments lacking unadjusted, quoted prices from active market exchanges, including over-the-counter traded financial instruments. The prices for the financial instruments are determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3: Financial instruments that are not actively traded on a market exchange. This category includes situations where there is little, if any, market activity for the financial instruments. The prices are determined using significant unobservable inputs or valuation techniques. Quoted prices for identical investments in active markets.

At December 31, 2016, the District had the following recurring fair value measurements.

Investment Type	12/31/16	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
PTIF	\$ 6,342,766	\$ -	\$ 6,342,766	\$ -
Money Market Funds	53,613	-	53,613	-
U.S. Agency Bonds	1,824,755	1,824,755	-	-
Corporate Bonds	3,737,332	3,737,332	-	-
U.S. Treasuries	838,197	838,197	-	-
Total	<u>\$ 12,796,663</u>	<u>\$ 6,400,284</u>	<u>\$ 6,396,379</u>	<u>\$ -</u>

KEARNS IMPROVEMENT DISTRICT
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

2. DEPOSITS AND INVESTMENTS (CONTINUED)

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

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the District's deposits may not be recovered. As of December 31, 2016, \$2,153,759 of the District's bank balances of \$2,403,759 was uninsured and uncollateralized.

Custodial Credit Risk - Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside party. As of December 31, 2016, the District had investments of \$6,342,766 with the PTIF (\$11,091,212 in 2015). The District also had \$6,453,897 in debt securities investments (\$6,375,431 in 2015) which were held by the investment's counterparty but not in the District's name.

Interest Rate Risk

Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The District has no formal policy relating to specific investment-related interest rate risk. The District manages its exposure by investing mainly in the PTIF and by adhering to the 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 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 days - 15 months or less. The Act further limits the remaining term to maturity on all investments in obligations of the United States Treasury; obligations issued by U.S. government sponsored enterprises; and bonds, notes, and other evidence of indebtedness of political subdivisions of the State to 5 years. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 3 years.

As of December 31, 2016, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities in Years		
		Less than 1	1 to 5	More than 5
PTIF	\$ 6,342,766	\$ 6,342,766	\$ -	\$ -
Money Market Funds	53,613	53,613	-	-
U.S. Agency Bonds	1,824,755	-	1,824,755	-
Corporate Bonds	3,737,332	1,368,350	2,368,983	-
U.S. Treasuries	838,197	303,411	534,785	-
Total	<u>\$ 12,796,663</u>	<u>\$ 8,068,140</u>	<u>\$ 4,728,523</u>	<u>\$ -</u>

KEARNS IMPROVEMENT DISTRICT
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

2. DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The District's policy for limiting the credit risk of investments is to comply with the Money Management Act, as previously discussed. The Act only allows for investment in securities with the lowest risk of default.

As of December 31, 2016, the District had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
PTIF	\$ 6,342,766	\$ -	\$ -	\$ -	\$ 6,342,766
Money Market Funds	53,613	1,422	-	-	52,191
U.S. Agency Bonds	1,824,755	1,824,755	-	-	-
Corporate Bonds	3,737,332	-	351,422	3,385,910	-
U.S. Treasuries	838,197	838,197	-	-	-
Total	\$ 12,796,663	\$ 2,664,374	\$ 351,422	\$ 3,385,910	\$ 6,394,957

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District's policy to reduce this risk is to adhere to the rules of the Money Management Council. The Council's Rule 17 limits investments in a single issuer of commercial paper and corporate obligations to between 5-10% depending upon the total dollar amount held in the District's portfolio at the time of purchase. The District's investment in the PTIF has no concentration of credit risk as the PTIF is an external investment pool managed by the Utah State Treasurer. The District also had no concentration of credit risk in its other investments.

3. RESTRICTED CASH AND CASH EQUIVALENTS

The District's Board of Trustees has adopted certain restrictions pertaining to the issuance of revenue bonds. These resolutions require certain "funds" to be established to account for the District's receipts, disbursements, and bond payments. Such "funds" are restricted accounts within the District's records and are not separate groups of self-balancing accounts. The assets held in these funds are restricted for the purpose stipulated in the resolutions.

KEARNS IMPROVEMENT DISTRICT
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

3. RESTRICTED CASH AND CASH EQUIVALENTS (CONTINUED)

Restricted assets consisted of amounts maintained by bond trustees as required by the various water and sewer revenue bonds as well as unspent funds collected from impact fees. Following is a summary of restricted cash and cash equivalents as of December 31:

	2016	2015
Restricted cash and cash equivalents:		
Revenue bond funds	\$ 1,514,372	\$ 1,820,699

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 432,311	\$ -	\$ -	\$ 432,311
Construction in process	5,804,614	3,875,874	(5,510,876)	4,169,612
Total capital assets, not depreciated	6,236,925	3,875,874	(5,510,876)	4,601,923
Capital assets, being depreciated:				
Buildings and improvements	812,059	-	-	812,059
Water systems	40,519,931	6,517,294	-	47,037,225
Sewer transmission and collection lines	50,141,573	3,231,473	-	53,373,046
Transportation equipment	1,507,818	273,090	(36,266)	1,744,642
Machinery and equipment	721,502	48,043	-	769,545
Office equipment	316,827	1,625	-	318,452
Total capital assets, depreciated	94,019,710	10,071,525	(36,266)	104,054,969
Less: accumulated depreciation for:				
Buildings and improvements	625,651	21,199	-	646,850
Water systems	17,510,355	1,098,340	-	18,608,695
Sewer transmission and collection lines	13,491,991	1,136,563	-	14,628,554
Transportation equipment	1,060,373	162,004	(36,266)	1,186,111
Machinery and equipment	632,378	37,558	-	669,936
Office equipment	271,849	21,667	-	293,516
Total accumulated depreciation	33,592,597	2,477,331	(36,266)	36,033,662
Total capital assets depreciated, net	60,427,113	7,594,194	-	68,021,307
Capital assets, net	\$ 66,664,038	\$ 11,470,068	\$ (5,510,876)	\$ 72,623,230

KEARNS IMPROVEMENT DISTRICT
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

4. CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 432,311		\$ -	\$ 432,311
Construction in process	-	5,804,614	-	5,804,614
Total capital assets, not depreciated	432,311	5,804,614	-	6,236,925
Capital assets, being depreciated:				
Buildings and improvements	812,059		-	812,059
Water systems	39,730,329	789,602	-	40,519,931
Sewer transmission and collection lines	48,999,625	1,141,948	-	50,141,573
Transportation equipment	1,549,793	81,846	(123,821)	1,507,818
Machinery and equipment	727,404	41,298	(47,200)	721,502
Office equipment	306,558	10,269	-	316,827
Total capital assets, depreciated	92,125,768	2,064,963	(171,021)	94,019,710
Less: accumulated depreciation for:				
Buildings and improvements	602,688	22,963	-	625,651
Water systems	16,548,773	961,582	-	17,510,355
Sewer transmission and collection lines	12,486,769	1,005,222	-	13,491,991
Transportation equipment	1,037,160	147,034	(123,821)	1,060,373
Machinery and equipment	625,262	54,316	(47,200)	632,378
Office equipment	250,028	21,821	-	271,849
Total accumulated depreciation	31,550,680	2,212,938	(171,021)	33,592,597
Total capital assets depreciated, net	60,575,088	(147,975)	-	60,427,113
Capital assets, net	\$ 61,007,399	\$ 5,656,639	\$ -	\$ 66,664,038

KEARNS IMPROVEMENT DISTRICT
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

5. LONG-TERM DEBT

Revenue Bonds

The District issues bonds where they pledge income derived from the acquired or constructed assets to pay the debt service.

Revenue bonds outstanding at December 31, 2016 by issue are as follows:

Purpose	Original Issue	Annual Principal	Interest Rates	Installments Begin Date	Maturity Date	Amount
Water and Sewer Revenue Bonds, series 2007	\$9,990,000	\$385,000 to \$685,000	3.87 - 5.00%	5/1/08	5/1/27	\$ 5,300,000
Water and Sewer Revenue Bonds, series 2008	5,065,000	\$250,000 to \$640,000	3.25 - 4.00%	5/1/09	5/1/18	510,000
Water and Sewer Revenue Bonds, series 2009 *	3,825,000	\$191,000 to \$192,000	0.00%	5/1/11	5/1/30	2,679,000
Water and Sewer Revenue Bonds, series 2011 *	7,615,000	\$283,000 to \$498,000	3.00%	5/1/13	5/1/32	<u>6,431,000</u>
Total revenue bonds payable						14,920,000
Less: current maturities						<u>(1,445,000)</u>
Total long-term revenue bonds						<u>\$ 13,475,000</u>

* State of Utah issued bonds (loans to District)

The District is authorized to issue \$7,615,000 of water and sewer revenue bond series 2011 through the State of Utah. During 2015, the District issued the final \$665,000 of these bonds for their backyard sewer project construction.

KEARNS IMPROVEMENT DISTRICT
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

5. LONG-TERM DEBT (CONTINUED)

Revenue Bonds (Continued)

Revenue bond debt service requirements to maturity are as follows:

December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,445,000	\$ 414,761	\$ 1,859,761
2018	1,164,000	370,407	1,534,407
2019	929,000	339,908	1,268,908
2020	949,000	313,568	1,262,568
2021	975,000	286,428	1,261,428
2022 - 2026	5,364,000	979,106	6,343,106
2027 - 2031	3,596,000	295,458	3,891,458
2032	498,000	14,940	512,940
	<u>\$ 14,920,000</u>	<u>\$ 3,014,576</u>	<u>\$ 17,934,576</u>

The District's revenue bonds require net revenues of at least 125% of the forthcoming year's debt service requirements. The District met the net revenue requirements for the years ended December 31, 2016 and 2015.

Notes Payable

During 2005, Central Valley Water Reclamation Facility issued taxable sewer revenue bonds totaling \$35,000,000 to fund the post 1993 ownership of the treatment facility. The bonds bear interest at 3.00%. The District's share of the bonds is \$7,177,751.

During 2006, the Board of Directors agreed to change the usage of the bond proceeds from four secondaries to two and to build the ultraviolet treatment system instead. This change of usage resulted in a change to the respective bond payback amount of the individual entities. The new payback percentages were determined during 2009 once all bond proceeds had been received by the facility. As of December 31, 2016 and 2015, the District's remaining share of the outstanding debt was \$3,729,595 and \$4,070,501, respectively.

KEARNS IMPROVEMENT DISTRICT
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

5. LONG-TERM DEBT (CONTINUED)

Revenue Bonds (Continued)

Annual debt service requirements to maturity for notes payable are as follows:

December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 353,029	\$ 122,133	\$ 475,162
2018	361,273	111,904	473,177
2019	373,396	101,312	474,708
2020	383,095	90,472	473,567
2021	397,157	79,268	476,425
2022 - 2025	1,861,645	215,486	2,077,131
	<u>\$ 3,729,595</u>	<u>\$ 720,575</u>	<u>\$ 4,450,170</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:					
Revenue bonds	\$ 16,705,000	\$ -	\$ (1,785,000)	\$ 14,920,000	\$ 1,445,000
Bond premiums	173,393	-	(24,223)	149,170	-
Total bonds payable	16,878,393	-	(1,809,223)	15,069,170	1,445,000
Notes payable	4,070,501	-	(340,906)	3,729,595	353,029
Compensated absences	302,912	198,296	(140,370)	360,838	243,014
Total long-term liabilities	<u>\$ 21,251,806</u>	<u>\$ 198,296</u>	<u>\$ (2,290,499)</u>	<u>\$ 19,159,603</u>	<u>\$ 2,041,043</u>

Total interest expense incurred on long-term debt for the years ended December 31, 2016 and 2015 were \$582,562 and \$642,390, respectively, of which none was capitalized.

KEARNS IMPROVEMENT DISTRICT
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

6. EMPLOYEE RETIREMENT PLANS

General Information about the Pension Plan

Plan Description

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

Defined Benefit Plans

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

The Tier 2 Public Employees System became effective July 1, 2011. All eligible employees beginning work on or after July 1, 2011, who have no previous service credit with URS, 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 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 East 200 South, Salt Lake City, Utah 84102 or visiting the website: www.urs.org.

KEARNS IMPROVEMENT DISTRICT
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

6. EMPLOYEE RETIREMENT PLANS (CONTINUED)

Benefits Provided

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

Summary of Benefits by System

System	Final Average Salary	Years of Service Required and/or Age Eligible for Benefit	Benefit Percent Per Year of Service	COLA**
Noncontributory System	Highest 3 years	30 years any age 25 years any age* 20 years age 60* 10 years age 62* 4 years age 65	2.0% per year all years	Up to 4%
Contributory System	Highest 5 years	30 years any age 25 years any age* 20 years age 60* 10 years age 62* 4 years age 65	1.25% per year up to June 1975; 2.00% per year July 1975 to present	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 2.50%

*with actuarial reductions

**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.

Contributions

As a condition of participation in the Systems, employers and/or employees are required to contribute certain percentages of salary and wages as authorized by statute and specified by the URS Board. Contributions are actuarially determined as an amount that, when combined with employee contributions (where applicable) is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability. Contribution rates as of December 31, 2016 are as follows:

Utah Retirement Systems

	Employee	Employer	Employer 401(k)
Contributory System			
11- Local Governmental Division Tier 1	6.00%	14.46%	N/A
111- Local Governmental Division Tier 2	N/A	14.91%	1.780%
Noncontributory System			
15- Local Governmental Division Tier 1	N/A	18.47%	N/A
Tier 2 DC Only			
211 Local Government	N/A	6.69%	10.00%

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

KEARNS IMPROVEMENT DISTRICT
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

6. EMPLOYEE RETIREMENT PLANS (CONTINUED)

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

System	Employer Contributions	Employee Contributions
Noncontributory System	\$ 300,981	N/A
Contributory System	43,334	-
Tier 2 Public Employees System	30,437	-
Tier 2 DC Only System	1,369	N/A
Total Contributions	<u>\$ 376,121</u>	<u>\$ -</u>

Contributions reported are the URS Board approved required contributions by System. Contribution in 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, the District reported a net pension asset of \$58 and a net pension liability of \$1,506,053.

Net Pension Asset	Net Pension Liability	Proportionate Share	Proportionate Share December 31, 2014	Change
\$ -	\$ 1,028,834	0.1818215%	0.1854709%	-0.0036494%
-	477,219	0.6789726%	0.5238382%	0.1551344%
58	-	0.0265604%	0.0324763%	-0.0059159%
<u>\$ 58</u>	<u>\$ 1,506,053</u>			

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

For the year ended December 31, 2016, the District recognized pension expense of \$424,632.

KEARNS IMPROVEMENT DISTRICT
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

6. EMPLOYEE RETIREMENT PLANS (CONTINUED)

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

At December 31, 2016, the 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	\$ -	\$ 72,131
Changes in assumptions	-	60,196
Net difference between projected and actual earnings on pension plan investments	490,774	-
Changes in proportion and differences between contributions and proportionate share of contributions	27,726	17,262
Contributions subsequent to the measurement date	<u>376,120</u>	<u>-</u>
Total	<u>\$ 894,620</u>	<u>\$ 149,589</u>

The \$376,120 reported as deferred outflows of resources related to pensions results from contributions made by the District prior to the fiscal year end, but subsequent to the measurement date of December 31, 2015. These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Deferred Outflows (Inflows) of Resources	
2016	\$	85,306
2017		87,341
2018		87,424
2019		109,782
2020		(171)
Thereafter		(771)

KEARNS IMPROVEMENT DISTRICT
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

6. EMPLOYEE RETIREMENT PLANS (CONTINUED)

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 experiences and mortality tables, based on gender, occupation, and age, as appropriate, with adjustments for future improvement in mortality based on a 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 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 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%
Totals	100%		5.23%
		Inflation	2.75%
		Expected arithmetic nominal return	7.98%

KEARNS IMPROVEMENT DISTRICT
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

6. EMPLOYEE RETIREMENT PLANS (CONTINUED)

Actuarial Assumptions (Continued)

The 7.50 percent assumed investment rate of return is comprised of an inflation rate of 2.75 percent and a real return of 4.75 percent 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 table 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 one percentage-point lower (6.50 percent) or one percentage-point higher (8.50 percent) than the current rate:

System	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Noncontributory System	\$ 2,173,825	\$ 1,028,834	\$ 72,997
Contributory System	840,428	477,219	172,288
Tier 2 Public Employees System	10,633	(58)	(8,161)
Total	<u>\$ 3,024,886</u>	<u>\$ 1,505,995</u>	<u>\$ 237,124</u>

Pension Plan Fiduciary Net Position

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

KEARNS IMPROVEMENT DISTRICT
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

6. EMPLOYEE RETIREMENT PLANS (CONTINUED)

Defined Contribution Savings Plans

The Defined Contribution Savings Plans are administered by the Utah State 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 a 401(k), 457(b), and Roth IRA Defined Contribution Savings Plans with URS. Employee and employer contributions to these plans for the year ended December 31, were as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
401(k) Plan*			
Employer contributions	\$ 103,701	\$ 86,046	\$ 92,425
Employee contributions	89,016	77,262	72,318
457 Plan			
Employer contributions	-	-	-
Employee contributions	5,986	6,078	9,259
Roth IRA Plan			
Employer contributions	N/A	N/A	N/A
Employee contributions	1,703	575	-

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

The District also sponsors an alternative combined defined contribution and deferred retirement plan under Section 401(k) for certain key employees who may elect not to participate in the Utah State Retirement System. During 2016 and 2015, there were no participants in this plan and no contributions were made.

7. CENTRAL VALLEY WATER RECLAMATION FACILITY

During 1981, the District entered into a joint venture with four other special districts and two cities. Central Valley Water Reclamation Facility (Central Valley) was organized to construct and operate a regional sewage treatment facility for the benefit of the seven members. The joint venture is administered by a joint administration board. Each member appoints one member to the board, and voting power is not related to ownership. The joint venture is responsible for adopting a budget and financing its operations, subject to the approval of the Central Valley Board.

KEARNS IMPROVEMENT DISTRICT
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

7. CENTRAL VALLEY WATER RECLAMATION FACILITY (CONTINUED)

The District accounts for its investment in Central Valley using the equity method of accounting. Summarized financial information for Central Valley as of December 31, 2016 and 2015, and for the years then ended are as follows:

	2016	2015
Total assets	\$ 94,591,449	\$ 94,360,234
Total net position	84,359,640	84,358,039
Operating revenue	13,232,689	13,014,341
Change in net position	1,601	(775,865)
The District's interest in:		
Equity	8,883,529	9,174,136
Net loss	(877,987)	(735,565)

The District has recorded in prior years its previous proportionate share (5.978%) of the government grants received by Central Valley as an addition to the District's investments in Central Valley. 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 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 \$1,387,417 and \$1,359,048 in sewage treatment costs from the joint venture for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, unpaid sewage treatment costs billed to the District were \$140,467 and \$131,203, respectively, and are recorded in accounts payable.

8. COMMITMENTS

The District has entered into a long-term contract (perpetual) with the Jordan Valley Water Conservancy District to purchase the rights to a minimum of 7,000 acre feet of water annually. During 2016 and 2015, the District purchased approximately 8,425 and 7,568 acre feet of water at costs of \$4,255,917 and \$3,656,790, respectively.

KEARNS IMPROVEMENT DISTRICT
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

9. RISK MANAGEMENT

The District 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. The District has joined with other public entities in a common risk management and insurance program. The District pays premiums to this risk pool, the Utah Local Governments Trust, for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of specified amounts for certain types of risks. The District is subject to a minimal deductible for claims of the risk pool. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTAL INFORMATION

KEARNS IMPROVEMENT DISTRICT
Schedule of Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years*

	As of December 31,	Proportion of 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
Noncontributory System	2014	0.1854709%	\$ 805,358	\$ 1,570,526	51.30%	90.20%
	2015	0.1818215%	1,028,834	1,550,241	66.37%	87.80%
Contributory System	2014	0.5238382%	\$ 151,098	\$ 280,114	53.90%	90.50%
	2015	0.6789726%	477,219	289,302	164.96%	85.70%
Tier 2 Public Employees System	2014	0.0324763%	\$ (984)	\$ 159,307	-0.60%	103.50%
	2015	0.0265604%	(58)	171,583	-0.03%	100.20%

Note:

* This schedule usually covers the 10 most recent fiscal years; however, this is the information available as of the implementation year of GASB 68.

KEARNS IMPROVEMENT DISTRICT
Schedule of Pension Contributions
Last 10 Fiscal Years*

	As of fiscal year ended June 30,	Actuarial Determined Contributions	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
Noncontributory System	2014	\$ 280,639	\$ 280,639	\$ -	\$ 1,570,526	17.87%
	2015	286,330	286,330	-	1,550,241	18.47%
	2016	300,981	300,981	-	1,629,566	18.47%
Public Safety System	2014	\$ 38,870	\$ 38,870	\$ -	\$ 280,114	13.88%
	2015	41,833	41,833	-	289,302	14.46%
	2016	43,334	43,334	-	299,683	14.46%
Tier 2 Public Employees System*	2014	\$ 23,081	\$ 23,081	\$ -	\$ 159,307	14.49%
	2015	25,608	25,608	-	171,583	14.92%
	2016	30,437	30,437	-	204,136	14.91%
Tier 2 Public Employees DC Only System*	2014	\$ 1,207	\$ 1,207	\$ -	\$ 19,604	6.16%
	2015	1,481	1,481	-	22,103	6.70%
	2016	1,369	1,369	-	20,460	6.69%

Note:

This schedule usually covers the 10 most recent fiscal years; however, this is the information available as of the implementation year of GASB 68.

Contributions as a percentage of covered-employee payroll may be different than the Board certified rate due to rounding or other administrative issues.

* Contributions in Tier 2 include an amortization rate to help fund the unfunded liabilities in the Tier 1 systems. Tier 2 systems were created effective July 1, 2011.

KEARNS IMPROVEMENT DISTRICT
Notes to the Required Supplementary Information
December 31, 2016

1. ACTUARIALLY DETERMINED PENSION CONTRIBUTIONS

Contribution rates include an amount for normal cost, the estimated amount necessary to finance benefits earned by the members during the current year, and an amount for amortization of the unfunded or excess funded actuarial accrued liability over a closed 20-year amortization period. The rates are determined using the entry age actuarial cost method.

Contributions made were in accordance with actuarially computed funding requirements. For contribution rate purposes the actuary evaluates the assets of the plan based on a 5-year smoothed expected return wherein 20 percent of a year's excess or shortfall of expected return is recognized each year for five years.

2. 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 pre-retirement mortality assumption.

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

COMPLIANCE SECTION

Hansen, Bradshaw, Malmrose & Erickson

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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*

Board of Trustees
Kearns Improvement District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Kearns Improvement District as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Kearns Improvement District's basic financial statements, and have issued our report thereon dated May 1, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kearns Improvement 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kearns Improvement District's internal control. Accordingly, we do not express an opinion on the effectiveness of Kearns Improvement 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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 Kearns Improvement 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Hansen, Bradshaw, Malmrose & Erickson, P.C.

May 1, 2017

Hansen, Bradshaw, Malmrose & Erickson

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INDEPENDENT AUDITORS' REPORT AS REQUIRED BY THE STATE COMPLIANCE AUDIT GUIDE ON COMPLIANCE WITH GENERAL STATE COMPLIANCE REQUIREMENTS AND ON INTERNAL CONTROLS OVER COMPLIANCE

Board of Trustees
Kearns Improvement District

Report on Compliance with General State Compliance Requirements

We have audited Kearns Improvement District's ("the District") 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.

The general compliance requirements applicable to the District are identified as follows:

Cash Management	Budgetary Compliance
Utah Retirement Systems	Open and Public Meetings Act
Treasurer's Bond	Tax Levy Revenue Recognition
Special District Board Members	

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on the District's compliance based on our audit of the compliance requirement 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

In our opinion, Kearns 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 requirement 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 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 requirements 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 deficiencies, significant deficiencies, or material weaknesses. 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.

Purpose of This Report

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.

Hansen, Bradshaw, Malmrose & Erickson, P.C.

May 1, 2017

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